

MEMO

TO: The Board of Directors

FROM: Diane Ellis
Director, Division of Insurance and Research

DATE: November 17, 2020

RE: Notice of Proposed Rulemaking on Assessments, Amendments to Address the Temporary Deposit Insurance Assessment Effects of the Optional Regulatory Capital Transitions for Implementing the Current Expected Credit Losses Methodology

RECOMMENDATION

Staff recommends that the FDIC Board of Directors (the Board) adopt and authorize publication of the attached notice of proposed rulemaking (NPR or proposal) with a 30-day comment period. The NPR would amend the risk-based deposit insurance assessment system applicable to all large insured depository institutions (IDIs), including highly complex IDIs, to address the temporary deposit insurance assessment effects resulting from certain optional regulatory capital transition provisions relating to the implementation of the current expected credit losses (CECL) methodology.

The proposal would amend the assessment regulations to remove the double counting of a specified portion of the CECL transitional amount or the modified CECL transition amount, as applicable (collectively, the CECL transitional amounts), in certain financial measures that are calculated using the sum of Tier 1 capital and reserves and that are used to determine assessment rates for large and highly complex IDIs. The proposal also would adjust the calculation of the loss severity measure to remove the double counting of a specified portion of the CECL transitional amounts for a large or highly complex IDI. This proposal would not affect regulatory capital or the regulatory capital relief provided in the form of transition provisions that allow banking organizations to phase in the effects of CECL on their regulatory capital ratios.

BACKGROUND

Deposit Insurance Assessments

The FDIC charges all IDIs an assessment amount for deposit insurance equal to the IDI's deposit insurance assessment base multiplied by its risk-based assessment rate.¹ An IDI's assessment base and assessment rate are determined each quarter based on supervisory ratings and information collected in the Consolidated Reports of Condition and Income (Call Report) or the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002), as appropriate. Generally, an IDI's assessment base equals

¹ See 12 CFR 327.3(b)(1).

Concur:

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its average consolidated total assets minus its average tangible equity.²

An IDI's assessment rate is calculated using different methods based on whether the IDI is a small, large, or highly complex bank.³ Large and highly complex banks are assessed using a scorecard approach that combines CAMELS ratings and certain forward-looking financial measures to assess the risk that a large or highly complex bank poses to the Deposit Insurance Fund (DIF).⁴

The FDIC is required by statute to set deposit insurance assessments based on risk, and staff's objective in setting forth this proposal is to ensure that banks are assessed in a manner that is fair and accurate. The primary objective of this proposal is to remove a double counting issue in several financial measures used to determine deposit insurance assessments for large and highly complex banks, which could result in a deposit insurance assessment rate for a large or highly complex bank that does not accurately reflect the bank's risk to the DIF, all else equal. Specifically, staff is proposing to amend the assessment regulations to remove the double counting of a specified portion of the CECL transitional amounts, in certain financial measures used to determine deposit insurance assessments for large and highly complex banks.

The Current Expected Credit Losses Methodology

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments*.⁵ The ASU resulted in significant changes to credit loss accounting under U.S. generally accepted accounting principles (GAAP). The revisions to credit loss accounting under GAAP included the introduction of CECL, which replaces the incurred loss methodology for financial assets measured at amortized cost. For these assets, CECL requires banking organizations to recognize lifetime expected credit losses and to incorporate reasonable and supportable forecasts in developing the estimate of lifetime expected credit losses, while also maintaining the current requirement that banking organizations consider past events and current conditions. CECL allowances cover a broader range of financial assets than the allowance for loan and lease losses (ALLL) under the incurred loss methodology.

The 2019 CECL Rule

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. A banking organization's implementation of CECL will affect its retained earnings, deferred tax assets (DTAs), allowances, and, as a result, its regulatory capital ratios.

² See 12 CFR 327.5.

³ As used in this proposed rule, the term "insured depository institution" is synonymous with "bank" and has the same meaning as it is used in section 3(c)(2) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. 1813(c)(2). For assessment purposes, a large bank is generally defined as an institution with \$10 billion or more in total assets, a small bank is generally defined as an institution with less than \$10 billion in total assets, and a highly complex bank is generally defined as an institution that has \$50 billion or more in total assets and is controlled by a parent holding company that has \$500 billion or more in total assets, or is a processing bank or trust company. See 12 CFR 327.8(e)-(g).

⁴ See 12 CFR 327.16(b); see also 76 FR 10672 (Feb. 25, 2011) and 77 FR 66000 (Oct. 31, 2012).

⁵ ASU 2016-13 covers measurement of credit losses on financial instruments and includes three subtopics within Topic 326: (i) Subtopic 326-10 Financial Instruments—Credit Losses—Overall; (ii) Subtopic 326-20: Financial Instruments—Credit Losses—Measured at Amortized Cost; and (iii) Subtopic 326-30: Financial Instruments—Credit Losses—Available-for-Sale Debt Securities.

In recognition of the potential for the implementation of CECL to affect regulatory capital ratios, on February 14, 2019, the FDIC, the Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (Board) (collectively, the agencies) issued a final rule that revised certain regulations, including the agencies' regulatory capital regulations (capital rule),⁶ to account for the aforementioned changes to credit loss accounting under GAAP, including CECL (2019 CECL rule).⁷ The 2019 CECL rule includes a transition provision that allows banking organizations to phase in over a three-year period the day-one adverse effects of CECL on their regulatory capital ratios.

The 2020 CECL Rule

As part of the efforts to address the disruption of economic activity in the United States caused by the spread of coronavirus disease 2019 (COVID-19), on March 31, 2020, the agencies adopted a second CECL transition provision through an interim final rule.⁸ The agencies subsequently adopted a final rule (2020 CECL rule) on September 30, 2020, that is consistent with the interim final rule, with some clarifications and adjustments related to the calculation of the transition and the eligibility criteria for using the 2020 CECL transition provision.⁹ The 2020 CECL rule provides banking organizations that adopt CECL for purposes of GAAP (as in effect January 1, 2020), for a fiscal year that begins during the 2020 calendar year, the option to delay for up to two years an estimate of CECL's effect on regulatory capital, followed by a three-year transition period (*i.e.*, a five-year transition period in total).¹⁰ The 2020 CECL rule does not replace the three-year transition provision in the 2019 CECL rule, which remains available to any banking organization at the time that it adopts CECL.¹¹

Double Counting of a Specified Portion of the CECL Transitional Amounts in Certain Financial Measures Used to Determine Assessments for Large and Highly Complex Banks

Certain financial measures that are used to determine assessment rates for large and highly complex banks are calculated using both Tier 1 capital and reserves. Tier 1 capital is reported in Call Report Schedule RC-R, Part I, item 26, and for banks that elect either the three-year transition provision contained in the 2019 CECL rule or the five-year transition provision contained in the 2020 CECL rule, Tier 1 capital includes (due to adjustments to the amount of retained earnings reported on the balance sheet) the applicable portion of the CECL transitional amount (or the modified CECL transitional amount). For deposit insurance assessment purposes, reserves are calculated using the amount reported in Call Report Schedule RC, item 4.c, "Allowance for loan and lease losses." For all banks that have adopted CECL, this Schedule RC line item reflects the allowance

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

⁷ 84 FR 4222 (Feb. 14, 2019).

⁸ 85 FR 17723 (Mar. 31, 2020).

⁹ See 85 FR 61577 (Sept. 30, 2020).

¹⁰ A banking organization that is required to adopt CECL under GAAP in the 2020 calendar year, but chooses to delay use of CECL for regulatory reporting in accordance with section 4014 of the Coronavirus Aid Relief, and Economic Security Act (CARES Act), is also eligible for the 2020 CECL transition provision. The CARES Act (Public Law 116-136, 4014, 134 Stat. 281 (March 27, 2020)) provides banking organizations optional temporary relief from complying with CECL ending on the earlier of (1) the termination date of the current national emergency, declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) concerning COVID-19, or (2) December 31, 2020. If a banking organization chooses to revert to the incurred loss methodology pursuant to the CARES Act in any quarter in 2020, the banking organization would not apply any transitional amounts in that quarter but would be allowed to apply the transitional amounts in subsequent quarters when the banking organization resumes use of CECL.

¹¹ See 85 FR 61578 (Sept. 30, 2020).

for credit losses on loans and leases. The issue of double counting arises in certain financial measures used to determine assessment rates for large and highly complex banks that are calculated using both Tier 1 capital and reserves because the allowance for credit losses on loans and leases is included during the transition period in both reserves and, as a portion of the CECL or modified CECL transitional amount, Tier 1 capital.

For banks that elect either the three-year transition provision contained in the 2019 CECL rule or the five-year transition provision contained in the 2020 CECL rule, the CECL transitional amounts, as defined in section 301 of the regulatory capital rules, additionally include the effect on retained earnings, net of tax effect, of establishing allowances for credit losses in accordance with the CECL methodology on held-to-maturity (HTM) debt securities, other financial assets measured at amortized cost, and off-balance sheet credit exposures as of the beginning of the fiscal year of adoption.¹² The applicable portions of the CECL transitional amounts attributable to allowances for credit losses on HTM debt securities, other financial assets measured at amortized cost, and off-balance sheet credit exposures are included in Tier 1 capital only and are not double counted with reserves for deposit insurance assessment purposes.

The CECL effective dates assigned by ASU 2016-13 as most recently amended by ASU No. 2019-10, the optional temporary relief from complying with CECL afforded by the CARES Act, and the transitions under the 2019 CECL rule and 2020 CECL rule, provide that all banks will have completely reflected in regulatory capital the day-one effects of CECL (plus, if applicable, an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, during the first two years of CECL adoption) by December 31, 2026. As a result, and as discussed below, the proposed amendments to the deposit insurance assessment system and any changes to reporting requirements pursuant to this proposal would be required only while the temporary regulatory capital relief is reflected in the regulatory reports of banks.

DISCUSSION OF THE PROPOSAL

Summary

Staff recommends that the FDIC, under its general rulemaking authority in Section 9 (Tenth) of the FDI Act, and its specific authority under Section 7 of the FDI Act to establish a risk-based assessment system and set assessments, issue this proposal that would adjust the calculation of certain measures used in the scorecard for determining deposit insurance assessment rates for large and highly complex banks to remove the applicable portions of the CECL transitional amounts added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment under the transition provisions provided for under the 2019 and 2020 CECL rules.

Under the proposal, in certain scorecard measures which are calculated using the sum of Tier 1 capital and reserves, the FDIC would remove a specified portion of the CECL transitional amounts added back to retained earnings, for purposes of determining deposit insurance assessment rates. In addition, the FDIC would adjust the calculation of the loss severity measure to remove the double counting of a specified portion of the CECL transitional amounts for a large or highly complex bank.

This proposal would amend the deposit insurance system applicable to large and highly complex banks only, and would not affect regulatory capital or the regulatory capital relief provided under the 2019 CECL rule or

¹² For banks electing the 2020 CECL rule, the CECL transitional amounts also include the change during the first two years of the transition period in reported adjusted allowances for credit losses (AACL) for HTM debt securities, other financial assets measured at amortized cost, and off-balance sheet credit exposures relative to the balances of these AACLs as of the beginning of the fiscal year of CECL adoption, multiplied by 25 percent.

2020 CECL rule.¹³ The FDIC would continue the application of the transition provisions provided for under the 2019 and 2020 CECL rules to the Tier 1 leverage ratio used in determining deposit insurance assessment rates for all IDIs.

Temporary changes to the Call Report forms and instructions would be required to implement the proposed amendments to the assessment system to remove the double counting. These changes would be effectuated in coordination with the other member entities of the Federal Financial Institutions Examination Council (FFIEC).¹⁴ Any changes to regulatory reporting requirements pursuant to this proposal would be required only while the regulatory capital relief is reflected in the regulatory reports of banks.

Adjustments to Certain Measures Used in the Scorecard Approach for Determining Assessments for Large and Highly Complex Banks

Staff recommends that the FDIC adjust the calculations of certain financial measures used to determine deposit insurance assessment rates for large and highly complex banks to remove the applicable portions of the CECL transitional amounts added to retained earnings and attributable to the allowance for credit losses on loans and leases held for investment. Staff recommends the removal of this part of the CECL transitional amounts because, for large and highly complex banks that have adopted CECL, the measure of reserves used in the scorecard is the allowance for credit losses on loans and leases.

This amount, which would be reported in a new line item in Schedule RC-O, would be removed from scorecard measures that are calculated using the sum of Tier 1 capital and reserves, as described in more detail below. Staff also recommends that the FDIC adjust the calculation of the loss severity measure to remove the double counting of the applicable portions of the CECL transitional amounts added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment for large and highly complex banks.

While staff recognizes that by the anticipated effective date of any final rule promulgated by this proposal, numerous large and highly complex banks will have implemented CECL and many will have elected the transition provided under either the 2019 CECL rule or 2020 CECL rule, staff is not recommending retroactive adjustments to prior quarterly assessments.

1. Credit Quality Measure

The score for the credit quality measure, applicable to large and highly complex banks, is the greater of (1) the ratio of criticized and classified items to Tier 1 capital and reserves score or (2) the ratio of underperforming assets to Tier 1 capital and reserves score.¹⁵ The double counting results in lower ratios and a credit quality measure that reflects less risk than a bank actually poses to the DIF. Staff recommends that the FDIC adjust the denominator, Tier 1 capital and reserves, used in both ratios by removing the applicable portions of the CECL transitional amounts added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment.

2. Concentration Measure

¹³ See 12 CFR part 3 (OCC); 12 CFR part 217 (Board); 12 CFR part 324 (FDIC). See also 84 FR 4222 (Feb. 14, 2019) and 85 FR 61577 (Sept. 30, 2020).

¹⁴ As discussed in the section on the Paperwork Reduction Act below, the FDIC will submit a request for one additional temporary item on the Call Report (FFIEC 031 and FFIEC 041 only) to make the proposed adjustments described below.

¹⁵ See 12 CFR 327.16(b)(ii)(A)(2)(iv).

For large banks, the concentration measure is the higher of (1) the ratio of higher-risk assets to Tier 1 capital and reserves or (2) the growth-adjusted portfolio concentration measure. The growth-adjusted portfolio concentration measure includes the ratio of concentration levels for several loan portfolios to Tier 1 capital and reserves.

For highly complex banks, the concentration measure is the highest of three measures: (1) the ratio of higher-risk assets to Tier 1 capital and reserves, (2) the ratio of top 20 counterparty exposures to Tier 1 capital and reserves, or (3) the ratio of the largest counterparty exposure to Tier 1 capital and reserves.¹⁶

The double counting results in lower ratios and a concentration measure that reflects less risk than a bank actually poses to the DIF. Staff recommends that the FDIC adjust the denominator, Tier 1 capital and reserves, used in each of these ratios by removing the applicable portions of the CECL transitional amounts added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment.

3. Loss Severity Measure

The loss severity measure estimates the relative magnitude of potential losses to the DIF in the event of an IDI's failure.¹⁷ In calculating this measure, the FDIC applies a standardized set of assumptions based on historical failures regarding liability runoffs and the recovery value of asset categories to simulate possible losses to the FDIC, reducing capital and assets until the Tier 1 leverage ratio declines to 2 percent. The double counting results in a greater reduction of assets during the capital reduction phase and therefore a lower resolution value of assets at the time of failure, which in turn results in a higher loss severity measure that reflects more risk than a bank actually poses to the DIF. Staff recommends that the FDIC adjust the calculation of the capital adjustment in the loss severity measure to remove the double counting of the applicable portion of the CECL transitional amounts added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment for both large and highly complex banks.

Proposed Regulatory Reporting

In calculating certain financial measures used to determine assessment rates for large and highly complex banks, staff recommends that the FDIC remove a specified portion of the transitional amount added to retained earnings under the transitions provided for under the 2019 or 2020 CECL rules. Specifically, in certain measures used in the scorecard approach for determining assessments for large and highly complex banks, staff recommends that the FDIC remove the applicable portion of the CECL transitional amount (or modified CECL transitional amount) added to retained earnings for regulatory capital purposes, attributable to the allowance for credit losses on loans and leases held for investment. However, large and highly complex banks that have elected a CECL transition provision do not currently report these specific portions of the CECL transitional amounts in the Call Report. Thus, implementing the proposed amendments to the risk-based deposit insurance assessment system applicable to large and highly complex banks would require a new, temporary line item and corresponding changes to the FFIEC 031 and FFIEC 041 versions of the Call Report and the related instructions. These reporting changes would be proposed and effectuated in coordination with the other member entities of the Federal Financial Institutions Examination Council (FFIEC). As previously described, any changes to reporting requirements for large and highly complex banks pursuant to this proposal would be required only while the temporary relief is reflected in banks' regulatory reports.

¹⁶ See Appendix A to subpart A of 12 CFR 327.

¹⁷ Appendix D to subpart A of 12 CFR 327 describes the calculation of the loss severity measure.

EXPECTED EFFECTS

The proposed rule would remove the applicable portions of the CECL transitional amounts added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment from certain financial measures used in the scorecards that determine deposit insurance assessment rates for large and highly complex banks. Absent the proposed rule, this amount would be temporarily double counted and could result in a deposit insurance assessment rate for a large or highly complex bank that does not accurately reflect the bank's risk to the DIF, all else equal. Staff estimates that the majority of large and highly complex banks are currently paying a lower rate as a direct result of the double counting, however, staff also estimates that a few banks are currently paying a higher rate than they otherwise would pay if the issue of double counting is corrected. Staff estimates that the rate these latter banks are paying is higher by only a *de minimis* amount, and occurs where the double counting on the loss severity measure more than offsets the effect of double counting on the other scorecard measures that are calculated using the sum of Tier 1 capital and reserves.

Based on FDIC data as of June 30, 2020, staff estimates that this double counting could be resulting in approximately \$55 million in annual foregone assessment revenue, or 0.048 percent of the DIF balance as of that date. Staff expects this amount to increase in the near-term as additional large and highly complex banks adopt CECL, to the extent those large and highly complex banks elect to apply a transition. This amount also may increase in the near term as large and highly complex banks electing the 2020 CECL rule include in their modified CECL transitional amounts an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, during the first two years of CECL adoption. As of June 30, 2020, staff estimates that 101 of 138 large and highly complex banks had implemented CECL, and that 94 had elected a transition provided under either the 2019 CECL rule or the 2020 CECL rule. As banks phase out the transitional amount over time, the assessment effect also would decline. As described previously, the optional temporary relief from CECL afforded by the CARES Act and the transitions provided for under the 2019 CECL rule and 2020 CECL rule provide that all banks will have completely reflected in regulatory capital the day-one effects of CECL (plus, if applicable, an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, during the first two years of CECL adoption) by December 31, 2026, thereby eliminating the double counting effects from the scorecard for large and highly complex banks. These above estimates are subject to uncertainty given differing CECL implementation dates and the option for large and highly complex banks to choose between the transitions offered under the 2019 CECL rule or the 2020 CECL rule, or to recognize the full impact of CECL on regulatory capital upon implementation.

The proposed rule could pose some additional regulatory costs for large and highly complex banks that elect a transition under either the 2019 CECL rule or the 2020 CECL rule associated with changes to internal systems or processes, or changes to reporting requirements. It is staff's understanding that banks already calculate the portion of the CECL transitional amount (or modified CECL transitional amount) added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment, for internal purposes. As such, staff anticipates that the proposed addition of this temporary item to the Call Report would not impose significant additional burden and any additional costs are likely to be *de minimis*.

ALTERNATIVES CONSIDERED

Staff considered the reasonable and possible alternatives described below but rejected these alternatives because staff believes the current proposal would adjust for double counting of the applicable portion of the CECL transitional amounts attributable to allowances for credit losses on loans and leases held for investment in certain financial measures used to determine deposit insurance assessment rates for large and

highly complex banks in the most appropriate, accurate, and straightforward manner. The FDIC is required by statute to set deposit insurance assessments based on risk, and staff's objective in setting forth the current proposal is to ensure that banks are assessed in a manner that is fair and accurate.

Staff considered leaving in place the current assessment regulations, but rejected this alternative because the applicable portions of the CECL transitional amounts would be automatically and fully included in both retained earnings as reported for regulatory capital purposes (affecting Tier 1 capital) and reserves, resulting in double counting of the applicable portions of these transitional amounts attributable to allowances for credit losses on loans and leases held for investment in certain financial measures that are used to determine deposit insurance assessment rates for large and highly complex banks. As a result, a large or highly complex bank could pay a deposit insurance assessment rate that does not accurately reflect the bank's risk to the DIF, all else equal. Furthermore, this double counting could result in inequitable deposit insurance assessments, as a large or highly complex bank that has not yet implemented CECL or that does not utilize a transition provision could pay a higher or lower assessment rate than a bank that has implemented CECL and utilizes a transition provision, even if both banks pose equal risk to the DIF. Based on data as of June 30, 2020, the DIF is receiving approximately \$55 million less annual income than it would have received but for the double counting of parts of the CECL transitional amounts in the scorecard.

A second alternative staff considered was to use a proxy measure based on existing data items on the Call Report to remove the effect of double counting on a large or highly complex bank's deposit insurance assessments. Specifically, staff could use the difference between retained earnings reported on Schedule RC (item 26.a) and Schedule RC-R (Part I, item 2) to approximate the amount double counted. This proxy, however, would provide an estimate of the applicable portion of the full CECL transitional amount (or modified CECL transitional amount) rather than the applicable portion of the CECL transitional amount (or modified CECL transitional amount) added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment, which is the amount the current proposal would remove from certain financial measures used to determine deposit insurance assessment rates for large and highly complex banks. This proxy would include the CECL transitional amounts attributable to establishing allowances for credit losses under CECL on loans and leases held for investment through a charge against retained earnings as of the adoption date of CECL as well as the amounts attributable to establishing, in the same manner as of the same date, allowances for credit losses under CECL on HTM debt securities, other financial assets measured at amortized cost, and off-balance sheet credit exposures.

Since the proxy could result in the FDIC reducing Tier 1 capital and reserves by an amount that is greater than the amount double counted, it could harm banks with large reserves for HTM debt securities, other financial assets measured at amortized cost, and off-balance sheet credit exposures by inflating such a bank's credit quality and concentration measures in the scorecards for large and highly complex banks. As a result, the proxy could result in the FDIC applying an adjustment amount that is different from the actual applicable portion of a bank's CECL transitional amount (or modified CECL transitional amount) that was added to retained earnings for regulatory capital purposes and is attributable to the allowance for credit losses on loans and leases held for investment. Thus, applying such an adjustment amount could result in a deposit insurance assessment rate that does not accurately reflect a large or highly complex bank's risk to the DIF, all else equal. The amount by which the proxy measure might differ from the applicable portion of a bank's CECL transitional amount (or modified CECL transitional amount) added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for investment would vary by bank. While this amount may not be significant in most cases, staff expects that using the proxy would generally result in higher assessments for most banks.

Furthermore, as described above, it is staff's understanding that banks already calculate the applicable portion of the CECL transitional amount (or modified CECL transitional amount) added to retained earnings for regulatory capital purposes and attributable to the allowance for credit losses on loans and leases held for

investment, for internal purposes, and as such, staff anticipates that the proposed addition of this temporary item to the Call Report would not impose significant additional burden.

On balance, staff believes the current proposal would adjust for double counting of the applicable portions of the CECL transitional amounts in certain financial measures used to determine deposit insurance assessment rates for large and highly complex banks in the most appropriate, accurate, and straightforward manner.

COMMENT PERIOD, EFFECTIVE DATE, AND APPLICATION DATE

Staff recommends issuing this proposal with a 30-day comment period. Staff expects to issue a final rule with an effective date of April 1, 2021, and applicable to the second quarterly assessment period of 2021 (i.e. April 1 – June 30, 2021). The 30-day comment period, along with the expected effective date and the proposed application date, would ensure that the temporary effects of the double counting of the applicable portions of the CECL transitional amounts in select financial measures used in the scorecard approach for determining deposit insurance assessment for large and highly complex banks are corrected, beginning with the second quarterly assessment period of 2021.

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