March 24, 2023

**DATE:**

**MEMORANDUM TO:** The Board of Directors

**FROM:** Doreen R. Eberley
Director, Division of Risk Management Supervision

**SUBJECT:** Interagency Policy Statement on Allowances for Credit Losses (Revised March 2023)

## RECOMMENDATION AND SUMMARY

Staff recommends that the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) authorize publication in the *Federal Register* of the attached Interagency Policy Statement on Allowances for Credit Losses – Revised March 2023 (revised interagency policy statement). The staffs of the FDIC, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency (collectively, the banking agencies), and the National Credit Union Administration (NCUA) (collectively, the agencies) have prepared this revised interagency policy statement in response to changes in the accounting for troubled debt restructurings (TDRs) under U.S. generally accepted accounting principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). These accounting changes are set forth in FASB Accounting Standards Update No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, (ASU 2022-02), which amended Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses* (ASC Topic 326).

## DISCUSSION

Concur:

Harrel Pettway
General Counsel

Section 37(a) of the Federal Deposit Insurance Act (FDI Act) (12 U.S.C. 1831n(a)) states that, in general, the accounting principles applicable to the Consolidated Reports of Condition and Income (Call Reports), required to be filed with the banking agencies, "shall be uniform and consistent with generally accepted accounting principles." In June 2016, ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) introduced the current expected credit losses (CECL) methodology, which replaced the former incurred loss methodology in U.S. GAAP. The FASB has codified these changes, including subsequent amendments, in ASC Topic 326.

In May 2020, the agencies issued supervisory guidance addressing the allowance for credit losses (ACL) as determined under CECL (original interagency policy statement).[1] On March 31, 2022, the FASB issued ASU 2022-02 amending ASC Topic 326 and eliminating the TDR recognition and measurement guidance for entities that have adopted ASC Topic 326 (i.e. implemented CECL). Instead of identifying and accounting for TDRs separately from other loan modifications, all loans modified by an institution that has adopted CECL would be accounted for in accordance with ASC 310-20-35, *Receivables–Nonrefundable Fees and Other Costs – Subsequent Measurement*, as amended by ASU 2022-02. The majority of FDIC-supervised institutions will have adopted CECL by March 31, 2023.

At the time the agencies adopted the original interagency policy statement, FASB's recognition and measurement accounting guidance for TDRs by creditors was still in effect, and the original interagency policy statement included references to TDRs. To maintain conformance with U.S. GAAP, following the issuance of ASU 2022-02, the agencies are

[1] The original interagency policy statement was published in the Federal Register on June 1, 2020. See 85 Fed Reg. 32991 (June 1, 2020).

revising the original interagency policy statement to remove all references to TDRs and are correcting a citation in footnote 4 of the guidance. No other changes are being made to the original interagency policy statement.

**CONCLUSION**

FDIC staff recommends that the Board authorize publication in the *Federal Register* of the attached revised interagency policy statement.

<u>Staff Contacts</u>:

*RMS*

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