Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-20-2018
April 17, 2018

Regulatory Capital Rule:
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

Summary: The federal banking agencies are jointly issuing the attached Notice of Proposed Rulemaking to amend their capital rules in response to forthcoming changes to U.S. generally accepted accounting principles set forth in Accounting Standards Update No. 2016-13, Topic 326, Financial Instruments—Credit Losses (ASU 2016-13). ASU 2016-13 introduces the current expected credit losses methodology (CECL).

Statement of Applicability to Institutions with Total Assets Under $1 Billion: This Financial Institution Letter (FIL) is applicable to all institutions. An estimation tool is available to help community banking organizations evaluate the potential impact of the proposal on their regulatory capital ratios, this resource is available at www.fdic.gov/regulations/capital/index.html

Distribution:
FDIC-Supervised Banks (Commercial and Savings) and FDIC-Supervised Savings Associations

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:
Capital Adequacy of FDIC-Supervised Institutions, 12 CFR Part 324 (Regulatory Capital Rules);
FIL-39-2016, June 17, 2016, Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses

Attachments:
Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule

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Note:
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Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights:

The Proposed Rule would:

- Add allowance for credit losses (ACL), as a newly defined term in the capital rules, for banking organizations upon their adoption of CECL. ACL identifies those credit loss allowances that may be included in tier 2 capital up to the current limit. The agencies are defining ACL to be generally consistent with the scope of credit loss allowances on assets and other exposures covered under CECL. For example, the definition of ACL includes allowances for held-to-maturity debt securities.

- Revise the definition of carrying value to maintain the current treatment of credit losses on available-for-sale (AFS) debt securities. For credit losses on an AFS debt security, ASU 2016-13 requires a credit loss allowance rather than a direct write-down. Under the proposed rule, a banking organization would risk weight the carrying value of an AFS debt security, which has been reduced by any associated credit loss allowance.

- Provide an optional three-year transition arrangement that allows institutions to phase in any adverse day-one regulatory capital effects of CECL adoption on retained earnings, deferred tax assets, ACL, and average total consolidated assets.

- Amend the definition of eligible credit reserves consistent with the changes to the definition of ACL for banking organizations subject to the advanced approaches.

- Revise disclosure requirements for certain banking organizations.

National Call:

- The agencies are planning to host a National Banker Call in May 2018. Details to follow.