May 13, 2020

Chief Counsel's Office
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide comments on the interim final rule, Regulatory Capital Rule: Revised Transition of the

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

Current Expected Credit Losses Methodology for Allowances. The OCC, Federal Reserve, and FDIC are issuing this interim final rule to amend the 2019 final rule issued by the agencies that provided a transition option allowing banking organizations to phase in the cumulative effect of the current expected credit losses (CECL) accounting standard for regulatory capital purposes over a three-year period.

In the original final rule, the day-one cumulative impact on regulatory capital of adopting CECL would be phased in over the three years after the organization's adoption date of January 1, 2020 or January 1, 2023[2]. With this interim final rule, an additional option is granted to banking organizations that are required to adopt CECL on January 1, 2020 allowing them to replace the three-year transition period with a five-year transition period. Under the five-year transition scenario, the entire impact of CECL in regulatory capital would be deferred for two years with the three-year transition period commencing at the end of the two-year delay.

In order to complete the optional five-year transition, the agencies are utilizing a quarterly 25 percent scaling factor to approximate the additional impact of CECL over the two-year deferment period. The banking organization would start by calculating it's CECL transition amount on January 1, 2020 that represents the cumulative effect reduction to retained earnings. It would reverse that amount from the allowance for credit losses, net of the deferred tax asset, resulting in an increase in common equity tier 1 capital. Each quarter the banking organization would calculate its change in the allowance for credit losses under CECL and reverse 25% of the CECL provision, along with the original cumulative effect transition, to approximate what the provision would be under the incurred loss method. This process is repeated for the next eight quarters (two years). Once the two-year deferment period ends, the cumulative amount of quarterly scaling adjustments and the cumulative effect of adopting CECL would be recognized in regulatory capital over the remaining three years. Each year would see a 25% phase-in amount of the cumulative CECL impact until the transition is fully recognized. In 2022, 25% of the previous deferment is recognized in capital and 75% is deferred. In 2023, 2024, and 2025 an additional 25% of the deferment is recognized in capital until the full amount of the deferment is recognized.

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[2] In October 2019 FASB approved a proposal to revise the implementation of CECL for certain entities. With the October revision, public business entities that meet the definition of an SEC filer, excluding those that meet the SEC's definition of smaller reporting companies, would be required to adopt CECL for fiscal years beginning after December 15, 2019. All other entities would be required to adopt CECL for fiscal years beginning after December 15, 2022. The SEC defines a smaller reporting company as one with a public float of less than $250 million or one with less than $100 million in annual revenues and either (i) no public float or (ii) public float of less than $700 million.

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Note that any banking organization that elects to utilize the CECL deferment option permitted under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) would not apply the transition amounts for any quarter until the banking organization returns to the use of CECL. Those banking organizations would apply the transition adjustments once they return to the use of CECL but would not receive an extension of the transition period. This exception is needed because under the CARES Act, banks that would otherwise be required to adopt CECL on January 1, 2020 have the option to defer the adoption of CECL until the earlier of (i) the date that COVID-19 national emergency is terminated and (ii) December, 31, 2020.

ICBA thanks the banking agencies for taking quick action to address the regulatory concerns and risks posed by CECL for community banks that would be required to adopt the accounting standard in 2020. The agencies have provided a transition framework that provides relief to the larger community banks that are adopting CECL at a time of great economic uncertainty with many open questions about the impact of COVID-19 on consumer purchasing power, asset credit quality, economic outlook for the nation's recovery, and the risks of reappearing and future pandemics. **This is why ICBA is asking both FASB and all banking regulators to defer the implementation of CECL for banks of all sizes at their option until 2025.**

The economic harm caused by coronavirus, along with the uncertainty of when financial markets will return to a level that reflects the normal course of business is not immediately clear. Without providing an extended delay to CECL adoption that removes the harm that could be experienced with the ongoing uncertainty, regulators could create an environment of fear among community banks that may choose not to lend to creditworthy individuals and businesses in their communities because of the balance sheet deterioration that could result from a normally prudent lending arrangement. Community banks could be forced to maintain loan portfolios that fit a certain credit profile that minimizes the volatility caused by a CECL model, rather than loan portfolios that reflect the credit needs of the community. Now is not the time for regulators to change accounting standards.

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ICBA appreciates the opportunity to comment on this interim final rule and request for comment. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 821-4364 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
First Vice President, Accounting and Capital Policy