American Bankers Association
Building Success. Together.

Joshua Stein
Vice President –Accounting and Financial Management
202-663-5318

May 15, 2020

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

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20249

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

Via email

Re: Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances (Docket OCC-2020-0010; FRB Docket No. R-1708)

To Whom It May Concern:

The American Bankers Association (ABA[1]) appreciates the opportunity to comment on the Interim Final Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances (IFR). The IFR recognizes that the implementation of Accounting Standards Update 2016-13 ("CECL", which is now effective for many of the nation's banks) has significant implications for bank capital, especially during a time of financial stress, such the current time, which is caused by COVID-19. As a result, the Federal banking agencies, are proposing to delay a portion of the regulatory capital impact of CECL implementation for two years and then phase-in that impact into a bank's regulatory capital level over three years.

More specifically, building on the 2019 rule that deferred and phased in over three years the regulatory capital impact of CECL implementation at the effective date, the IFR adds back 25% of the difference between the "day one" CECL allowance (the balance recorded on the effective date) and the end-of-period CECL allowance into regulatory capital for the two year period preceding the phase-in (the total transition period, therefore, being five years). The IFR indicates this 25% scaling multiplier is largely based on the median after-tax incremental allowances that larger banks had announced in public disclosures prior to the CECL effective date. With this in mind, ABA observes that those incremental allowances were based on a forecasts of a benign

[1] The American Bankers Association is the voice of the nation's $18 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard more than $14 trillion in deposits, and extend $10.4 trillion in loans.

economy (which existed on January 1, 2020), with little expectation of economic stress. As emphasized in previous ABA comment letters,[2] CECL estimates in a stressed economic environment will likely be far more than 25% greater than incurred loss estimates.

Further, as confirmed by publicly-announced first quarter financial results, loss rate estimates for consumer lending products under CECL will be far more volatile than for commercial products in times of economic stress.[3] The accompanying impact on deployable capital throughout an economic cycle will change the cost and availability of each of the products. The IFR's 25% across-the-board scaling multiplier may, therefore, have unintended consequences. By not compensating for this disproportionate impact, CECL implementation will adversely affect the availability of credit to consumer borrowers – particularly lower and moderate income borrowers and especially during economic downturns – to the benefit of commercial borrowers.

With this in mind, the December 2019 Appropriations package mandates that the Department of the Treasury conduct a study on the need for changes to regulatory capital requirements necessitated by CECL. The agencies should use this study as a basis to assess the appropriateness of the across-the-board 25% scaling multiplier within the five year transition period. Longer term, however, the agencies should consider how regulatory capital requirements can be adjusted to ensure a banking system that effectively serves both consumer and commercial borrowers. ABA believes that this requires a 100% add-back of incremental CECL allowances (calculated as the difference from "day one" CECL allowance) into CET1 regulatory capital (as opposed to the 25% scaling multiplier) for the duration of the transition relief period or until a long-term solution is determined.

ABA appreciates the opportunity to share this feedback. Thank you for considering our comments. If you need additional information or have questions, please contact me (jstein@aba.com; 202-663-5318).

Sincerely,

Joshua Stein

---

[2] For example, see July 12, 2018 ABA letter at https://www.aba.com/advocacy/policy-analysis/cecl-capital-transition

[3] This was initially emphasized in ABA's CECL Snapshot, which reflected CECL estimates provided by banks in May 2019 by lending product, for both benign and stressed economic environments. See https://www.aba.com/news-research/research-analysis/aba-snapshot-of-banks-cecl-estimates