September 12, 2019

Mr. Shayne Kuhaneck
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2019-750 – Effective Dates

Dear Mr. Kuhaneck:

The Office of the Comptroller of the Currency (OCC) appreciates the opportunity to comment on the Exposure Draft, Effective Dates (Exposure Draft), issued by the Financial Accounting Standards Board (FASB).

The OCC continues to support the FASB’s move from an incurred loss methodology to an expected loss methodology for measuring credit losses, such as the current expected credit loss (CECL) methodology. The earlier recognition of credit losses is consistent with our mission to ensure the institutions we supervise operate in a safe and sound manner.

The OCC’s responses, below, to selected Questions for Respondents within the Exposure Draft focus on the issues most relevant to the institutions we supervise.

Question 4
The OCC supports robust implementation of CECL. To the extent the proposed delay is necessary to achieve that end, we support a change in CECL’s effective date.

We encourage the FASB to promote robust implementation of CECL throughout the extended implementation period by continuing its national outreach and education efforts. The OCC will continue to work alongside the FASB in these efforts.

Question 7
The OCC believes Accounting Standards Updates (ASU) should be adopted for interim periods in the same year the ASUs are adopted for annual reporting. While we understand the FASB’s intent is burden relief, requiring adoption of an ASU for interim reporting periods subsequent to when the ASU is adopted for annual reporting purposes would have the opposite effect for the institutions we supervise.
As an example of additional burden, prior to ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses (ASU 2018-19), a calendar year-end bank would have been required to report under two sets of accounting principles during the year of adoption. The bank would have prepared its call report in the first three quarters under the incurred loss methodology and the fourth quarter call report under CECL. Because the call report includes quarter-to-date and year-to-date information, the bank would have been required to estimate its allowances and provisions for credit losses under both CECL and the incurred loss methodology throughout the year of adoption.

We have included an excerpt from the interagency Frequently Asked Questions on the New Accounting Standard on Financial Instruments—Credit Losses (as originally issued¹ September 6, 2017, prior to ASU 2018-19) to demonstrate this reporting burden and complexity.

This additional burden is alleviated when institutions adopt ASUs in the first interim reporting period of the year the ASU is adopted for annual reporting.

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We appreciate your consideration of our comments and welcome a further discussion with you on our views.

Sincerely,

Sydney S. Menefee
Deputy Comptroller and Chief Accountant
Office of the Comptroller of the Currency

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¹ The Frequently Asked Questions on the New Accounting Standard on Financial Instruments—Credit Losses are issued by the OCC, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and National Credit Union Administration.
34. For an institution with a calendar fiscal year that is not a PBE, how and when should the new credit losses standard be incorporated into the institution’s Call Report? [September 2017]

For an institution that is not a PBE, the new credit losses standard is effective for fiscal years beginning after December 15, 2020, and for interim period financial statements for fiscal years beginning after December 15, 2021, unless the institution elects to early adopt the new credit losses standard.

This response applies to an institution with a calendar fiscal year that is not a PBE and has not elected early adoption.

An institution with a calendar year fiscal year that is not a PBE must continue to apply current U.S. GAAP (i.e., the incurred-loss methodology) in its financial statements and regulatory reports (e.g., the Call Report) for March 31, 2021; June 30, 2021; and September 30, 2021. This means that the Call Reports for the first three calendar quarters of 2021 for such an institution will not reflect any adjustments for the new credit losses standard.

The institution must first apply the new credit losses standard in its financial statements and regulatory reports (e.g., the Call Report) for the period ending December 31, 2021. Although the effect of adopting the new credit losses standard will first be reported in the fourth quarter 2021 Call Report, the amount of the adjustments resulting from the adoption of the standard must be measured as of the beginning of the fiscal year, i.e., as of January 1, 2021.

To record the impact of initially applying the new credit losses standard when preparing its fourth quarter 2021 Call Report:

- The institution must estimate its allowances for credit losses on loans HFI, HTM debt securities, and other on-balance-sheet financial assets within the scope of ASC 326-20, and its liabilities for credit losses on off-balance-sheet credit exposures within the scope of ASC 326-20 by applying the new credit losses standard to these assets and exposures as of January 1, 2021.\(^{47}\)

\(^{47}\)The new credit losses accounting standard’s CECL methodology applies to all financial instruments carried at amortized cost (including loans HFI and HTM debt securities, as well as trade and reinsurance receivables and receivables that relate to repurchase agreements and securities lending agreements), a lessor’s net investments in leases, and off-balance-sheet credit exposures not accounted for as insurance (including loan commitments, standby
Credit Losses FAQs

- The institution must then calculate the difference between its allowances and liabilities for credit losses measured in accordance with the new credit losses standard as of January 1, 2021, and the allowances and liabilities for these exposures reported on its Call Report balance sheet as of December 31, 2020, that were measured based on U.S. GAAP in effect on that date (i.e., the incurred loss methodology). The sum of these differences, net of applicable income taxes, is the “cumulative-effect adjustment” as of the effective date of the new credit losses standard.
- The cumulative-effect adjustment is recognized as an adjustment to the beginning balance of retained earnings as of January 1, 2021.48

Additionally, the following is one acceptable approach for reflecting the credit loss expenses for the entire calendar year measured in accordance with the new credit losses standard when the institution prepares its fourth quarter 2021 Call Report:

- The institution, in effect, will reverse its provision for loan and lease losses, any other-than-temporary impairments on debt securities, and any provision for credit losses on off-balance-sheet credit exposures recognized during the first nine months of 2021 under the incurred loss methodology (i.e., January 1, 2021, through September 30, 2021).49
- The institution must then estimate, based on the new credit losses standard, its allowances and liabilities for credit losses on financial assets within the scope of the standard as of December 31, 2021.
- The amounts necessary to adjust the balances of the allowances and liabilities for credit losses to the year-end 2021 estimated amounts should be reported as credit loss expenses in the Call Report income statement for December 31, 2021. The amount reported should take into consideration the initially estimated balances in these accounts as of January 1, 2021, as measured under the new credit losses standard. The amount should also incorporate the activity (e.g., charge-offs and recoveries) affecting these accounts during the entire calendar year.

Similarly, the Call Report balance sheet for December 31, 2021, should reflect the allowances and liabilities for credit losses estimated in accordance with the new credit losses standard as of that date.

48 AFS and HTM debt securities on which other-than-temporary impairment had been recognized prior to the effective date of the new credit losses standard will transition to the new credit losses standard on a prospective basis with respect to such impairment (i.e., with no cumulative-effect adjustment for prior other-than-temporary impairment recognized as an adjustment to the beginning balance of retained earnings as of January 1, 2021). Financial assets classified as PCD will also transition to the new credit losses standard on a prospective basis. Refer to the response to question 5.

49 The loan and lease charge-offs and recoveries during the first nine months of 2021 would be the same under the incurred loss methodology and the CECL methodology.

50 Provisions for credit losses on off-balance-sheet credit exposures are included as other noninterest expense in the Call Report income statement.
When the effect of adopting the new credit losses standard as of January 1, 2021, is reported in the Call Report for the fourth quarter of 2021, the Call Reports for the first three quarters of 2021 should not be amended to reflect the implementation of the standard.