OCC Bulletin 2020-49| May 8, 2020

Current Expected Credit Losses: Final Interagency Policy Statement on Allowances for Credit Losses

Summary

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration today issued the "Interagency Policy Statement on Allowances for Credit Losses."

This bulletin rescinds OCC Bulletin 2019-48, "Current Expected Credit Losses: Notice and Request for Comment on Proposed Interagency Policy Statement on Allowances for Credit Losses."

Note for Community Banks

The "Interagency Policy Statement on Allowances for Credit Losses" applies to all OCC-supervised banks,[1] consistent with each bank's current expected credit loss (CECL) methodology effective date.

To

Chief Executive Officers of All National Banks, Federal Savings Associations, and Federal Branches and Agencies; Department and Division Heads; All Examining Personnel; and Other Interested Parties

Highlights

The "Interagency Policy Statement on Allowances for Credit Losses"

- explains the measurement of allowances for credit losses under the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," as well as the updates issued since June 2016 (collectively, FASB ASC Topic 326).[2]
- describes the

- design, documentation, and validation of CECL methodologies.
- maintenance of appropriate allowances for credit losses under the new accounting standard.
- responsibilities of boards of directors and management.
- responsibilities of examiners when reviewing the allowances for credit losses.

Background

FASB ASC Topic 326 replaces the incurred loss methodology for financial assets measured at amortized cost and off-balance-sheet credit exposures with the CECL methodology. FASB ASC Topic 326 also modifies the accounting for impairment of available-for-sale debt securities.

Because of the change in accounting standards, the federal financial regulatory agencies revised the existing policies for the allowance for loan and lease losses. The “Interagency Policy Statement on Allowances for Credit Losses” will replace the following when FASB ASC Topic 326 becomes effective for each bank:

- OCC Bulletin 2006-47, “Allowance for Loan and Lease Losses (ALLL): Guidance and Frequently Asked Questions (FAQs) on the ALLL.”
- OCC Bulletin 2001-37, “Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions: ALLL Methodologies and Documentation.”

FASB ASC Topic 326 is effective beginning in 2020 for public business entities that meet the definition of a Securities Exchange Commission (SEC) filer, except for entities that are eligible to be small reporting companies as defined by the SEC. The effective date for all other banks is 2023. Until FASB ASC Topic 326 becomes effective for a bank, it must continue to follow current U.S. generally accepted accounting principles on impairment and the allowance for loan and lease losses. The bank should continue to refer to OCC Bulletin 2006-47 and OCC

Bulletin 2001-37 until the applicable effective date of FASB ASC Topic 326.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. Section 4014 of the CARES Act permits an optional delay in implementing FASB ASC Topic 326 until the earlier of

- the date when the coronavirus disease (COVID-19) national emergency is declared over by the President, or
- December 31, 2020.

Further Information

Please contact Amanda Freedle, Senior Accounting Policy Advisor, Office of the Chief Accountant, at (202) 649-6280.

Grovetta N. Gardineer
Senior Deputy Comptroller for Bank Supervision Policy

Related Link

- "Interagency Policy Statement on Allowances for Credit Losses" (PDF)

---

[1]The term "banks" refers to national banks and federal savings associations. Federal branches and agencies of foreign banking organizations may choose to, but are not required to, maintain allowances for credit losses on a branch or agency level.

[2]ASC stands for Accounting Standards Codification.