



441 G St. N.W.
Washington, DC 20548

B-330929

April 15, 2019

The Honorable Michael Crapo
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; Federal Deposit Insurance Corporation: Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Amendments to Other Regulations*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; and Federal Deposit Insurance Corporation (collectively, the agencies) entitled "Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Amendments to Other Regulations" (RINs: 1557-AE32; 7100-AF04; 3064-AE74). We received the rule on April 1, 2019. It was published in the *Federal Register* as a final rule on February 14, 2019. 84 Fed. Reg. 4222. The final rule is effective on July 1, 2019. 84 Fed. Reg. 11,879.¹

The final rule addresses changes to credit loss accounting under U.S. generally accepted accounting principles, including banking organizations' implementation of the current expected credit losses methodology (CECL). The final rule provides banking organizations the option to phase in over a 3-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. In addition, the final rule revises the agencies' regulatory capital rule, stress testing rules, and regulatory disclosure requirements to reflect CECL, and makes conforming amendments to other regulations that reference credit loss allowances.

¹ The final rule originally had an effective date of April 1, 2019. That date was delayed to July 1, 2019, and the delay was published in the *Federal Register* at the stated citation.

Enclosed is our assessment of the agencies' compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Janet Temko-Blinder, Assistant General Counsel, at (202) 512-7104.

signed

Shirley A. Jones
Managing Associate General Counsel

Enclosure

cc: M. Andy Jiminez
Director, Office of Legislative Affairs
Federal Deposit Insurance Corporation

Shaquita Merritt
Program Specialist, Chief Counsel's Office
Office of the Comptroller of the Currency
Department of the Treasury

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
DEPARTMENT OF THE TREASURY,
OFFICE OF THE COMPTROLLER OF THE CURRENCY;
FEDERAL RESERVE SYSTEM;
FEDERAL DEPOSIT INSURANCE CORPORATION
ENTITLED
“REGULATORY CAPITAL RULE: IMPLEMENTATION AND TRANSITION
OF THE CURRENT EXPECTED CREDIT LOSSES METHODOLOGY FOR
ALLOWANCES AND RELATED ADJUSTMENTS TO THE
REGULATORY CAPITAL RULE AND CONFORMING AMENDMENTS
TO OTHER REGULATIONS”
(RINs: 1557-AE32; 7100-AF04; 3064-AE74)

(i) Cost-benefit analysis

The Department of the Treasury, Office of the Comptroller of the Currency (OCC); Federal Reserve System (the Board); Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) stated the implementation of current expected credit losses methodology (CECL) under the rule will likely affect banking organizations’ retained earnings, deferred tax assets, and allowances, and, as a result, its regulatory capital ratios. The agencies stated retained earnings are a key component of a banking organization’s common equity tier 1 capital (CET1). They also stated an increase in a banking organization’s allowances, including those estimated under CECL, generally will reduce the banking organization’s earnings or retained earnings, and therefore its CET1 capital.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

The agencies certified the rule will not have a significant economic impact on a substantial number of small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

OCC stated the final rule would not result in expenditures by state, local, and tribal governments, or the private sector, of \$100 million or more in any one year.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 *et seq.*

The agencies issued a notice of proposed rulemaking on May 14, 2018. 83 Fed. Reg. 22,312. The agencies received 25 comment letters from banking organizations, trade associations, public interest groups, and individuals.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

The agencies stated the final rule contains a collection of information as defined by the Act. OCC and FDIC submitted the collection to the Office of Management and Budget (OMB) for approval. The Board reviewed the collection under authority delegated to it by OMB.

OCC estimated the collection would impose 1,088 burden hours for initial setup and 66,017 burden hours for ongoing compliance for entities under its jurisdiction. The Board estimated the collection would impose 1,136 burden hours for initial setup and 78,591 burden hours for ongoing compliance for entities under its jurisdiction. FDIC estimated the collection would impose 1,136 burden hours for initial setup and 130,806 burden hours for ongoing compliance for entities under its jurisdiction.

Statutory authorization for the rule

The agencies stated they promulgated the final rule under the same statutory provisions relied upon in the original regulations which the current final rule amends. These provisions are largely various sections of titles 12 and 15, United States Code.

Executive Order No. 12,866 (Regulatory Planning and Review)

The agencies did not discuss the Order in the final rule.

Executive Order No. 13,132 (Federalism)

The agencies did not discuss the Order in the final rule.