NYS SOCIETY OF CPAs
NYSSCPA

July 6, 2018

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

By e-mail: regs.comments@occ.treas.gov

Re: Proposed Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses (CECL) Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations

(Docket ID OCC-2018-0009)

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned proposed rule.

The NYSSCPA's Banking Committee deliberated the proposed rule and prepared the attached comments. If you would like additional discussion with us, please contact Jeremy R. Goss, Chair of the Banking Committee, at (212) 624-5295, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Jan C. Herringer
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

RE: PROPOSED REGULATORY CAPITAL RULES: IMPLEMENTATION AND TRANSITION OF THE CURRENT EXPECTED CREDIT LOSSES (CECL) METHODOLOGY FOR ALLOWANCES AND RELATED ADJUSTMENTS TO THE REGULATORY CAPITAL RULES AND CONFORMING AMENDMENTS TO OTHER REGULATIONS

(Docket ID OCC-2018-0009)

July 6, 2018

Principal Drafter

Matthew T. Clohessy

New York State Society of Certified Public Accountants

Comments on

Proposed Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses (CECL) Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations

(Docket ID OCC-2018-0009)

General Comments

We welcome the opportunity to respond to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) joint invitation to comment on the Proposed Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses (CECL) Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations (the Proposal).

Overall, we support the proposed rulemaking to allow financial institutions the option to phase in the day-one adverse effects on regulatory capital that may result from the adoption of the new CECL methodology for allowances.

Specific Comments

We have several comments in response to Question 2 of the specific questions included in the proposal, as follows:

Question 2: The agencies are requesting comment on whether the definition of ACL is appropriate for determining the amount of allowances that may be included in a banking organization's tier 2 capital and whether the approach to AFS debt securities and PCD assets is appropriate. What, if any, alternatives with respect to the treatment of ACL, AFS debt securities, and PCD assets should the agencies consider and what are the associated advantages and disadvantages of such alternatives?

We agree with the Proposal’s guiding principles that including Tier 2 capital allowances that have not been charged against earnings would diminish the quality of regulatory capital, and that the initial Allowance for Loan and Lease Losses (ALLL) amount for a Purchase Credit Deteriorated (PCD) asset should therefore be excluded from the Tier 2 capital calculation.

Under the current Proposal, although post-acquisition incremental ALLL needs on PCD assets are charged against earnings, they are disallowed from inclusion in the Tier 2 capital calculations. The Proposal has cited that the agencies are concerned that a bifurcated approach could create undue complexity and burden for banking organizations when determining the amount of credit loss allowances for PCD assets eligible for inclusion in Tier 2 capital.

Institutions with material PCD balances, whether through a large merger or acquisition, or through the acquisition of many smaller institutions, may recognize benefits that outweigh the costs of determining the amount of credit loss allowances for PCD assets eligible for inclusion in Tier 2 capital.

In instances where a banking organization's PCD balance is material in size, incremental ALLL needs driven by subsequent deterioration of the PCD portfolio, or increased ALLL reserve needs forecasted by ALLL estimation processes, can result in acquiring institutions having to recognize a material decrease in earnings through provision expenses, without an offset to capital calculations as they would be able to do with non-acquired assets.

These impacts would be especially pronounced when economic downturns occur and incremental ALLL needs are driven by both quantitative factors associated with lower credit grade ratings on customers due to reduced performance or financial health, and qualitative factors driven by stressed economic forecasts that are considered through the reasonable and supportable forecast period.

Under stressed scenarios where conditions may result in many institutions experiencing rapidly declining credit quality and capital positions, the exclusion of PCD asset driven incremental ALLL from capital calculations could negatively affect bank's decisions in acquiring distressed institutions.

Therefore, we recommend that the agencies consider establishing a threshold whereby if the aggregate PCD balances of an organization are above a materiality threshold, such as a certain percentage of the combined organization's loan and lease balance, then bifurcation is either allowed or required while PCD balances remain above the established materiality threshold.

The potential disadvantage of this threshold approach would be that an analysis would be required at acquisition and while a PCD portfolio exists on the balance sheet to determine if the materiality threshold is breached.

However, the outweighing advantage of this threshold approach is that it would afford financial institutions the ability to more consistently reflect their capital position in light of material charges against earnings for purposes of maintaining adequate ACL reserves regardless of whether those material charges are driven by originated or acquired loans. Maintaining consistency in the principles for how reserves charged against earnings are recognized in the capital calculation would reduce the risk of unintended consequences due to inconsistent treatment of reserves recognized through an earnings charge.