October 18, 2019

Mr. Barry F. Mardock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

RE: Proposed Rule—Implementation of the Current Expected Credit Losses Methodology for Allowances, Related Adjustments to the Tier 1/Tier 2 Capital Rule, and Conforming Amendments—RIN 3052-AD36/Federal Register 84, No. 184 (September 23, 2019)

Capital Farm Credit appreciates the opportunity to comment on the proposed rule addressing the implementation of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No 2016-13, Topic 326, Financial Instruments-Credit Losses (CECL) which revises the accounting for credit losses pursuant to accounting principles generally accepted in the United States (GAAP) that was published on September 23, 2019.

We support "Adjusted Allowances for Credit Losses" as a newly-defined term and the modification of the definition of "carrying value". Additionally, we agree that the existing limit on the inclusion of the allowance in tier 2 capital of 1.25 percent of risk-weighted assets remains appropriate.

However, FCA should adopt an optional transition period for the day-one impact CECL may have on institutions' regulatory capital to align more closely with the approach taken by the other federal banking regulators. While FCA has noted the general expectation that all institutions will be sufficiently capitalized to absorb the day-one impact, that belief is not supported by firm estimates. Although many institutions have preliminarily concluded the impact will not significantly diminish capital levels, few are far enough along in their implementations to draw a final conclusion. Further, economic and other conditions between now and the implementation date could change, resulting in either lower capital levels or greater impacts of CECL implementation. In the absence of an optional transition period, we encourage the FCA to clearly state in the final rule that it will work with entities on an individual basis to provide regulatory in the event there is a significant impact to an individual entity's regulatory ratios.

The FCA's proposed rule changes part 620.5 and 630.20 by including the following language:

> The proposal would amend the analysis requirement for consistency with ASU No. 2016-13, which requires an analysis of the allowance for credit losses by year of origination (vintage year) and the allowance be supported by reasonable and supportable forecasts.

While the ASU does require disclosure of the loan portfolio and credit quality by vintage year, it does not require the disclosure of the allowance for credit losses by vintage year. We recommend that the rules require System institutions to follow GAAP and not introduce specific disclosure requirements that may result in regulatory disclosures being in conflict with those found in GAAP. This would also allow the regulations to remain consistent with any subsequent changes in GAAP.

In addition, we request that FCA exclude any day-one impact from the year-over-year change in CET1 referred to in 628.20(f)(5)(ii). We believe this is appropriate so as not to hinder an entity's ability to make capital distributions, including the payment of patronage.

Finally, we call attention to the FASB's recent proposal to modify the effective date of CECL for certain entities, which, by definition, include System entities. We recommend that a specific effective date be removed from the FCA's proposed rule and be replaced with a more generic reference to the effective date required by GAAP.

We thank FCA for this opportunity, and we appreciate the ability to provide input on proposed regulatory changes. Please contact us if you have any questions.

Sincerely,

Jennifer N. Thompson
SVP of Compliance