Reserve funds would be kept within the amount authorized in the Order.

A review of historical information and preliminary information pertaining to the upcoming fiscal period indicates that the average grower price range for the 2019–2020 season should be approximately $1,598–$3,081 per ton of Washington sweet cherries. Therefore, the estimated assessment revenue for the 2019–2020 fiscal period as a percentage of total grower revenue would be between 0.007 and 0.013 percent.

The Committee's meetings are widely publicized throughout the Washington sweet cherry industry. All interested persons are invited to attend the meetings and participate in Committee deliberations on all issues. Like all Committee meetings, the May 8, 2019, meeting was a public meeting and all entities, both large and small, were able to express views on this issue. Interested persons are invited to submit comments on this proposed rule, including the regulatory and information collection impacts of this action on small businesses.

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35), the Order's information collection requirements have been previously approved by the OMB and assigned OMB No. 0581–0189, Fruit Crops. No changes in those requirements would be necessary because of this action. Should any changes become necessary, they would be submitted to OMB for approval.

This proposed rule would not impose any additional reporting or recordkeeping requirements on either small or large Washington sweet cherry handlers. As with all Federal marketing order programs, reports and forms are periodically reviewed to reduce information requirements and duplication by industry and public sector agencies.

AMS is committed to complying with the E-Government Act, to promote the use of the internet and other information technologies to provide increased opportunities for citizen access to Government information and services, and for other purposes.

USDA has not identified any relevant Federal rules that duplicate, overlap, or conflict with this proposed rule.

A small business guide on complying with fruit, vegetable, and specialty crop marketing agreements and orders may be viewed at: *http://www.ams.usda.gov/rules-regulations/moa/small-businesses.* Any questions about the compliance guide should be sent to Richard Lower at the previously mentioned address in the **FOR FURTHER INFORMATION CONTACT** section.

List of Subjects in 7 CFR Part 923

Cherries, Marketing agreements, Reporting and recordkeeping requirements.

For the reasons set forth in the preamble, 7 CFR part 923 is proposed to be amended as follows:

PART 923—MARKETING ORDER REGULATING THE HANDLING OF SWEET CHERRIES GROWN IN DESIGNATED COUNTIES IN WASHINGTON

■ 1. The authority citation for 7 CFR part 923 continues to read as follows:

Authority: 7 U.S.C. 601–674.

§ 923.236 [Amended]

■ 2. Amend § 923.236 is as follows:

On and after April 1, 2019, an assessment rate of $0.20 per ton is established for the Washington Cherry Marketing Committee.

Dated: September 17, 2019.

Bruce Summers,

Administrator, Agricultural Marketing Service.

[FR Doc. 2019–20451 Filed 9–20–19; 8:45 am]

BILLING CODE 3410–02–P

FARM CREDIT ADMINISTRATION

12 CFR Parts 611, 615, 620, 621, 628 and 630

RIN 3052–AD36

Implementation of the Current Expected Credit Losses Methodology for Allowances, Related Adjustments to the Tier 1/Tier 2 Capital Rule, and Conforming Amendments

AGENCY: Farm Credit Administration.

ACTION: Proposed rule.

SUMMARY: The Farm Credit Administration (FCA, we, or our) is inviting public comment on a proposal to address changes to our capital and other regulations, including certain regulatory disclosure requirements, in response to recent changes in the U.S. generally accepted accounting principles (U.S. GAAP).

DATES: You may send us comments on or before November 22, 2019.

ADDRESSES: For accuracy and efficiency reasons, please submit comments by email or through the FCA's website. We do not accept comments submitted by facsimile (fax), as faxes are difficult for us to process in compliance with section 508 of the Rehabilitation Act. Please do not submit your comment multiple times via different methods. You may submit comments by any of the following methods:

- *Email:* Send us an email at *reg-comm@fca.gov.*
- *FCA Website: http://www.fca.gov.* Click inside the "I want to . . ." field near the top of the page; select "comment on a pending regulation" from the dropdown menu; and click "Go."
- *Federal eRulemaking Portal: http://www.regulations.gov.* Follow the instructions for submitting comments.
- *Mail:* Barry F. Mardock, Acting Director, Office of Regulatory Policy, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102–5090.

You may review copies of all comments we receive at our office in McLean, Virginia, or on our website at *http://www.fca.gov.* We will show your comments as submitted, but for technical reasons we may omit items such as logos and special characters. Identifying information that you provide, such as phone numbers and addresses, will be publicly available. However, we will attempt to remove email addresses to help reduce internet spam.

To read comments online, go to *www.fca.gov,* click inside the "I want to . . ." field near the top of the page; select "find comments on a pending regulation" from the dropdown menu; and click "Go." This will take you to the Comment Letters page where you can select the regulation for which you would like to read the public comments.

FOR FURTHER INFORMATION CONTACT:

Ryan Leist, Senior Accountant, Office of Regulatory Policy, (703) 883–4223, TTY (703) 883–4056; or

Jeremy R. Edelstein, Associate Director, Finance and Capital Markets Team, Office of Regulatory Policy, (703) 883–4497, TTY (703) 883–4056; or

Jennifer Cohn, Senior Counsel, Office of General Counsel, (720) 213–0440, TTY (703) 883–4056.

SUPPLEMENTARY INFORMATION:

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I. Introduction

A. Objectives of the Proposed Rule

The objectives of the proposed rule are to:

- Ensure that the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. GAAP; and
- Ensure that conforming amendments to other regulations accurately reference credit losses.

B. Overview of Changes to U.S. Generally Accepted Accounting Principles

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016–13, Topic 326, Financial Instruments—Credit Losses,[1] which revises the accounting for credit losses under U.S. GAAP. In pertinent part, ASU No. 2016–13:

- Introduces the current expected credit losses methodology (CECL), which replaces the incurred loss methodology for financial assets measured at amortized cost;
- Introduces the term purchased credit deteriorated (PCD) assets, which replaces the term purchased credit impaired (PCI) assets;
- Modifies the treatment of credit losses on available-for-sale (AFS) debt securities; and
- Requires certain disclosures of credit quality indicators by year of origination (or vintage). The new accounting standard for credit losses will apply to all System institutions.[2]

CECL differs from the incurred loss methodology in several key respects. CECL requires System institutions to recognize lifetime expected credit losses for financial assets measured at amortized cost, not just those credit losses that have been incurred as of the reporting date. CECL also requires the incorporation of reasonable and supportable forecasts in developing an estimate of lifetime expected credit losses, while maintaining the current requirement for System institutions to consider past events and current conditions. Furthermore, the probable threshold for recognition of allowances in accordance with the incurred loss methodology is removed under CECL. Estimating expected credit losses over the life of an asset under CECL, including consideration of reasonable and supportable forecasts, results in earlier recognition of credit losses than under the existing incurred loss methodology.

In addition, CECL replaces multiple impairment approaches in existing U.S. GAAP. CECL allowances will cover a broader range of financial assets than allowance for loan losses (ALL) under the incurred loss methodology. Under the incurred loss methodology, in general, ALL covers credit losses on loans held for investment and lease financing receivables, with additional allowances for certain other extensions of credit and allowances for credit losses on certain off-balance sheet credit exposures (with the latter allowances presented as a liability).[3] These exposures will be within the scope of CECL. In addition, CECL covers credit losses on held-to-maturity (HTM) debt securities.

As mentioned above, ASU No. 2016–13 also introduces PCD assets as a replacement for PCI assets. The PCD asset definition covers a broader range of assets than the PCI asset definition. CECL requires System institutions to estimate and record credit loss allowances for a PCD asset at the time of purchase. The credit loss allowance is then added to the purchase price to determine the amortized cost basis of the asset for financial reporting purposes. Post-acquisition increases in credit loss allowances on PCD assets will be established through a charge to earnings. This is different from the current treatment of PCI assets, for which System institutions are not permitted to estimate and recognize credit loss allowances at the time of purchase. Rather, in general, credit loss allowances for PCI assets are estimated after the purchase only if there is deterioration in the expected cash flows from the assets.[4]

ASU No. 2016–13 also introduces new requirements for Available-For-Sale (AFS) debt securities. The new accounting standard requires that a System institution recognize credit losses on individual AFS debt securities through credit loss allowances, rather than through direct write-downs, as is currently required under U.S. GAAP. AFS debt securities will continue to be measured at fair value, with changes in fair value not related to credit losses recognized in other comprehensive income. Credit loss allowances on an AFS debt security are limited to the amount by which the security's fair value is less than its amortized cost.

Upon adoption of CECL, a System institution will record a one-time adjustment to its credit loss allowances as of the beginning of its fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowances required under the incurred loss methodology and the amount of credit loss allowances required under CECL. Except for PCD assets, the adjustment to credit loss allowances would be recognized with offsetting entries to deferred tax assets (DTAs), if appropriate, and to the fiscal year's beginning retained earnings.

The effective date of ASU No. 2016–13 varies for different banking organizations. For banking organizations that are public business entities (PBE) but not SEC filers (as defined in U.S. GAAP),[5] ASU No. 2016–13 will become effective for the first fiscal year beginning after December 15, 2020, including interim periods within that fiscal year. The Federal Farm Credit Banks Funding Corporation (Funding Corporation) meets the definition of a

[1] ASU No. 2016–13 introduces ASC Topic 326, which covers measurement of credit losses on financial instruments and includes three subtopics: (i) Subtopic 10: Financial Instruments—Credit Losses—Overall; (ii) Subtopic 20: Financial Instruments—Credit Losses—Measured at Amortized Cost; and (iii) Subtopic 30: Financial Instruments—Credit Losses—Available-for-Sale Debt Securities.

[2] FCA regulation § 628.2 defines System institution, for capital rule purposes, as a System bank, an association, Farm Credit Leasing Services Corporation, and any other FCA-chartered institution that we determine should be subject to our capital rules. FCA issued an Informational Memorandum on September 1, 2016, New Accounting Standard on Financial Instruments—Credit Losses, which provided initial information on CECL.

[3] ''Other extensions of credit'' includes trade and reinsurance receivables, and receivables that relate to repurchase agreements and securities lending agreements. ''Off-balance sheet credit exposures'' includes off-balance sheet credit exposures not accounted for as insurance, such as loan commitments, standby letters of credit, and financial guarantees. We note that credit losses for off-balance sheet credit exposures that are unconditionally cancellable by the issuer are not recognized under CECL.

[4] The System currently holds limited PCI assets, which have generally been acquired through business combinations. We do not believe the amount of PCD assets in the System after the adoption of CECL will be materially different.

[5] A public business entity (PBE) that is not an SEC filer includes: (1) An entity that has issued securities that are traded, listed, or quoted on an over-the-counter market, or (2) an entity that has issued one or more securities that are not subject to contractual restrictions on transfer and is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available periodically. For further information on the definition of a PBE, refer to ASU No. 2013–12, Definition of a Public Business Entity, issued in December 2013.

PBE,[6] and it is our understanding that all System institutions will implement the new standard for purposes of System-wide combined financial statements for the quarter ending March 31, 2021.

C. Regulatory Capital

Changes necessitated by CECL to a System institution's retained earnings, DTAs, and allowances will affect its regulatory capital ratios.[7] Specifically, retained earnings are a key component of a System institution's common equity tier 1 (CET1) capital. An increase in a System institution's allowances, including those estimated under CECL, generally will reduce the institution's earnings or retained earnings, and therefore its CET1 capital.[8]

Depending on the nature of the difference, DTAs arising from temporary differences (temporary difference DTAs) are included in a System's institution's risk-weighted assets or are deducted from CET1 capital.[9] Increases in allowances generally give rise to increases in temporary difference DTAs that will partially offset the reduction in earnings or retained earnings.[10] Under § 628.20(d)(3), the ALL is included in a System institution's tier 2 capital up to 1.25 percent of its standardized total risk-weighted assets not including any amount of the ALL.[11]

II. Description of the Proposed Rule

To address the forthcoming implementation of changes to U.S. GAAP resulting from the FASB's issuance of ASU No. 2016–13 and to improve consistency between our capital rules and U.S. GAAP, we propose to amend our capital rules to identify which credit loss allowances under the new accounting standard are eligible for inclusion in a System institution's regulatory capital.[12] In particular, FCA is proposing to add adjusted allowances for credit losses (AACL) as a newly defined term in the capital rules. AACL would include credit loss allowances related to financial assets, except for allowances for PCD assets and AFS debt securities.[13] AACL would be eligible for inclusion in a System institution's tier 2 capital subject to the current limit for including ALL in tier 2 capital under the capital rules.

The proposal also would provide a separate capital treatment for allowances associated with AFS debt securities and PCD assets that would apply to System institutions upon adoption of ASU 2016–13; revise regulatory disclosure requirements that would apply to System banks following their adoption of CECL;[14] and make conforming amendments to the FCA's other regulations that refer to credit loss allowances to reflect the implementation of ASU No. 2016–13.

Our capital rules are similar to the standardized approach capital rules that the Federal banking regulatory agencies (FBRAs)[15] adopted for the banking organizations they regulate, while taking into account the cooperative structure and the organization of the System. The FBRAs published a CECL rule in February 2019.[16] Our proposal is very similar to the FBRAs' rule.[17]

A. Proposed Revisions to the Capital Rules To Reflect the Change in U.S. GAAP

1. Introduction of Adjusted Allowances for Credit Losses as a Newly Defined Term

FCA is proposing to revise the capital rules to reflect the revised accounting standard for credit losses under U.S. GAAP as it relates to System institutions' calculation of regulatory capital ratios. Under the proposal, the new capital term AACL, rather than ALL, would apply to all System institutions. Consistent with the treatment of ALL under FCA's capital rules, amounts of AACL would be eligible for inclusion in an institution's tier 2 capital up to 1.25 percent of the institution's standardized total risk-weighted assets not including any amount of the AACL.

CECL allowances cover a broader range of financial assets than ALL under the incurred loss methodology. Under the capital rules, ALL includes valuation allowances that have been established through a charge against earnings to cover estimated credit losses on loans or other extensions of credit as determined in accordance with U.S. GAAP. Under CECL, credit loss allowances represent an accounting valuation account, measured as the difference between the financial assets' amortized cost basis and the amount expected to be collected on the financial assets (*i.e.,* lifetime credit losses). Thus, AACL would include allowances for expected credit losses on HTM debt securities and lessors' net investments in leases that have been established to reduce these assets to amounts expected to be collected, as determined in accordance with U.S. GAAP. AACL also would include allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance, as determined in accordance with U.S. GAAP. As described below, however, credit loss allowances related to AFS debt securities and PCD assets would not be included in the definition of AACL.

2. Definition of Carrying Value

FCA is proposing to revise the regulatory definition of carrying value under the capital rules to provide that, for all assets other than AFS debt securities and PCD assets, the carrying value is not reduced by any associated credit loss allowance.

i. Available-for-Sale Debt Securities

Current accounting standards require a System institution to make an individual assessment of each of its AFS

[6] The Funding Corporation is the fiscal agent and disclosure agent for the System. The Funding Corporation is responsible for issuing and marketing debt securities to finance the System's loans, leases, and operations and for preparing and producing the System's financial results.

[7] These capital ratios are specified in FCA regulation § 628.10.

[8] However, allowances recognized on PCD assets upon adoption of CECL and upon later purchases of PCD assets generally would not reduce the System institution's earnings, retained earnings, or CET1 capital.

[9] DTAs arising from temporary differences in relation to net operating loss carrybacks are risk-weighted at 100 percent under § 628.32(l)(3). DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of deferred tax liabilities in accordance with § 628.22(e), are deducted from CET1 capital under § 628.22(a)(3). All other DTAs are risk-weighted at 100 percent under § 628.32(l)(5). DTAs are immaterial at most System institutions.

[10] See Accounting Standards Codification Topic 740, ''Income Taxes.''

[11] Under § 628.2, any amount of ALL greater than the 1.25 percent limit is deducted from standardized total risk-weighted assets.

[12] Note that § 621.3 requires institutions to prepare financial statements in accordance with GAAP, except as otherwise directed by statutory and regulatory requirements.

[13] This exclusion of credit loss allowances on PCD assets and AFS debt securities is what differentiates AACL from the term allowance for credit losses (ACL), which is used by the FASB in ASU 2016–13 and which applies to both financial assets and AFS debt securities. Consistent with the proposal and as described in the following sections, the AACL definition includes only those allowances that have been charged against earnings or retained earnings.

[14] Section 628.63 requires System banks to disclose items such as capital structure, capital adequacy, credit risk, and credit risk mitigation.

[15] The FBRAs are the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation.

[16] 84 FR 4222 (February 14, 2019).

[17] FCA staff met with System representatives during the development of this rule to seek their input on certain issues. The questions discussed were similar to the questions asked in the preamble to the FBRA's proposed CECL rule. (83 FR 22312, May 14, 2018). We considered this input in developing this proposal.

debt securities and take a direct write-down for credit losses when such a security is other-than-temporarily impaired. The amount of the write-down is charged against earnings, which reduces CET1 capital and also results in a reduction in the same amount of the carrying value of the AFS debt security. ASU No. 2016–13 revises the accounting for credit impairment of AFS debt securities by requiring System institutions to determine whether a decline in fair value below an AFS debt security's amortized cost resulted from a credit loss, and to record any such credit impairment through earnings with a corresponding allowance. Similar to the current regulatory treatment of credit-related losses for other-than-temporary impairment, under the proposal, all credit losses recognized on AFS debt securities would flow through to CET1 capital and reduce the carrying value of the AFS debt security. Since the carrying value of an AFS debt security is its fair value, which would reflect any credit impairment, credit loss allowances for AFS debt securities required under the new accounting standard would not be eligible for inclusion in a System institution's tier 2 capital.

ii. Purchased Credit Deteriorated Assets

Under the new accounting standard, PCD assets are acquired individual financial assets (or acquired groups of financial assets with shared risk characteristics) that, as of the date of acquisition and as determined by an acquirer's assessment, have experienced a more-than-insignificant deterioration in credit quality since origination. The new accounting standard will require a System institution to estimate expected credit losses that are embedded in the purchase price of a PCD asset and recognize these amounts as an allowance as of the date of acquisition. As such, the initial allowance amount for a PCD asset recorded on a System institution's balance sheet will not be established through a charge to earnings. Post-acquisition increases in allowances for PCD assets will be established through a charge against earnings.

Including in tier 2 capital allowances that have not been charged against earnings would diminish the quality of regulatory capital. Accordingly, FCA is proposing to maintain the requirement that valuation allowances be charged against earnings in order to be eligible for inclusion in tier 2 capital. FCA is also clarifying that valuation allowances that are charged to retained earnings in accordance with U.S. GAAP (*i.e.,* the allowances required at CECL adoption) are eligible for inclusion in tier 2 capital.

As in the FBRAs' final rule, FCA is not proposing to allow System institutions to bifurcate PCD allowances to include post-acquisition allowances in the definition of AACL; we are concerned that a bifurcated approach could create undue complexity and burden for System institutions when determining the amount of credit loss allowances for PCD assets eligible for inclusion in tier 2 capital. In addition, System institutions have very little, if any, allowances for PCI assets and, as discussed above, this will not change with the change to PCD assets. Therefore, the proposal excludes all PCD allowances from being included in tier 2 capital.[18] The proposal also revises the definition of carrying value such that for PCD assets the carrying value is calculated net of allowances. This treatment of PCD assets would, in effect, reduce a System institution's standardized total risk-weighted assets, similar to the proposed treatment for credit loss allowances for AFS debt securities.

3. Additional Considerations

As in the FBRAs' final rule, FCA is not proposing to change the limit of 1.25 percent of risk-weighted assets governing the amount of AACL eligible for inclusion in tier 2 capital. Should this limit be finalized as proposed, FCA intends to monitor the effects of this limit on regulatory capital and System institution lending practices. This ongoing monitoring will include the review of data, including data provided by System institutions, and will assist FCA in determining whether a further change to the capital rules' treatment of AACL might be warranted. To the extent FCA determines that further revisions to the capital rules are necessary, we would seek comment through a separate proposal.

In addition, unlike the FBRAs, FCA is not proposing a phase-in of the day-one effects of CECL on regulatory capital ratios. The FBRAs included an optional three-year transition period for banking organizations to reduce the potential day-one adverse effects that CECL may have on a banking organization's regulatory capital ratios. The FBRAs included this transition period because of concerns that some banking organizations might face difficulties in capital planning because of uncertainty about the economic environment at the time of CECL adoption.[19]

The FBRAs will use a banking organization's regulatory capital ratios, as adjusted by the transition provision, to determine whether the organization is in compliance with its regulatory capital requirements (including capital buffer and prompt corrective action (PCA) requirements). However, the FBRAs will continue to examine banking organizations' credit loss estimates and allowance balances through the supervisory process regardless of whether they have elected to use the transition provision. In addition, the FBRAs may examine whether banking organizations will have adequate amounts of capital at the expiration of the transition provision period.[20]

We are not proposing a transition period for the following reasons.

First, a transition provision appears to be unnecessary for any System institution because, even without a transition period, they are all expected to be sufficiently capitalized to absorb the day one impact of CECL for the purpose of complying with regulatory capital requirements. In particular, if the allowances as estimated under CECL increase, CET1 capital (including retained earnings) will decrease and tier 2 capital will increase;[21] we believe total capital will be largely unchanged at the majority of System institutions. Even though a transition period like the FBRAs adopted would not affect the FCA's supervisory oversight, we do not anticipate the impacts of CECL prompting any increase in supervisory concern or response. Moreover, the capital ratios of all System institutions—CET1; Tier 1; Total Capital; and Tier 1 Leverage—are expected to remain above the regulatory minimums and buffers after the implementation of CECL, even without a transition period. An institution's ability to provide loans and related services without a transition provision would be hindered only if the

[18] This proposal excludes both initial PCD allowances and post-acquisition PCD allowances from being included in tier 2 capital. As noted above, the initial allowance for a PCD asset will not be established through a charge to earnings (the allowance is estimated on the date of acquisition). However, post-acquisition increases in allowances for PCD assets are established through a charge against earnings.

[19] CECL requires consideration of current and future expected economic conditions to estimate allowances. To an extent, these conditions will not be known until closer to an institution's CECL adoption date.

[20] 84 FR 4229 (February 14, 2019).

[21] As of March 31, 2019, the combined System-wide allowance for loan losses and reserve for losses on unfunded commitments as a percentage of risk weighted assets was 0.57 percent. As mentioned above, under revised § 628.20(d)(3), the AACL would be included in a System institution's tier 2 capital up to 1.25 percent of its standardized total risk-weighted assets not including any amount of the AACL.

institution's capital measures would fall below its regulatory capital requirements without the transition provision.[22]

Second, we believe either an optional or a mandatory transition period would lead to unnecessary complexity and operational burden that is not warranted in light of our belief that a transition period is not needed. An optional transition period, like that adopted by the FBRAs, could be difficult to implement and maintain for System institutions in at least two districts that make use of common standardized applications for computing and reporting regulatory capital. A transition period utilized by some institutions in such districts but not by others would appear to complicate supporting the common reporting platforms for those institutions. In addition, allowing an optional transition period would create a lack of comparability among System institutions' capital levels.

A mandatory transition period might not be wanted by institutions that already have plans to absorb the day-one impact of CECL and have incurred sunk costs in making changes to processes for calculating and reporting regulatory capital ratios for FCA Uniform Reports of Financial Condition and Performance (Call Reports) and shareholder reporting.

Closer to the adoption of CECL, and in the unlikely event that its day-one impact threatens regulatory capital compliance or patronage practices, FCA may consider other options to reduce unanticipated impacts of the accounting change. The type of action would depend on the materiality of CECL's impact and how widespread the issue is throughout the System.

We request comment on the following issues relative to a transition period:

1. We invite comment on whether FCA should adopt a transition period for the day-one impact CECL may have on an institution's regulatory capital ratios. If you believe we should adopt a transition period, please explain whether you believe it should be mandatory or optional, and please address the reasons we have discussed for not proposing a transition period. Please provide analysis to support your position.

2. We invite comment on alternatives to a transition period that might accommodate institutions in their implementation of the CECL requirements. Please explain what these alternatives are and why they would be necessary. Please explain why our reasons for not proposing a transition period would not apply to these alternatives. Please provide analysis to support your position.

B. Disclosures and Regulatory Reporting

Under the proposed rule, System banks would be required to update their disclosures required under § 628.63 to reflect the adoption of CECL. For example, System banks would be required to disclose AACL instead of ALL after adoption.

In addition, to reflect changes in U.S. GAAP, FCA anticipates revising the Call Reports as part of its annual review process. These revisions would specify the affected line items in the capital schedules and the newly defined term AACL. In addition, FCA intends to update instructions for all affected Call Report schedule references to ALL. If we adopt this rule as proposed, we expect to make these changes for the March 31, 2021 reporting period.

C. Conforming Changes

A number of existing FCA regulations outside of Part 628 refer to ALL or to ''loan loss.'' ASU No. 2016–13 removes impairment approaches and related terminology, including replacing the term ALL with allowance for credit losses (ACL). The proposed rule would replace the references to ALL or ''loan loss'' in our regulations with references to ACL or ''credit loss,'' as appropriate. In addition, several regulations that refer to ''allowance for losses'' more appropriately should refer to ACL.

Both the part 620 regulations governing the contents of the annual report to shareholders and the part 630 regulations governing the contents of the annual report to investors require that the discussion and analysis of risk exposures analyze the allowance for loan losses. 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. The proposal would also replace terms in the requirement that references ''loan loss'' with references to ''credit loss,'' as appropriate.

In the capital rules codified at part 628, as well as in other regulations that refer to the capital rules, the proposal would replace references to ALL with AACL. In the capital disclosures at § 628.63, references to ''probable loan losses'' and ''loan losses'' would be updated with ACL or AACL, as applicable.

The proposed rule would make conforming changes in regulations in the following parts:

- Part 611—Organization
- Part 615—Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations
- Part 620—Disclosure to Shareholders
- Part 621—Accounting and Reporting Requirements
- Part 628—Capital Adequacy of System Institutions
- Part 630—Disclosure to Investors in System-Wide and Consolidated Bank Debt Obligations of the Farm Credit System.

D. Supervisory Guidance on the ACL

If this rule is adopted, we expect to issue supervisory guidance on the ACL. Until that time, many concepts, processes, and practices detailed in existing supervisory guidance on the ALL would continue to remain relevant under CECL. Relevant guidance includes, but is not limited to, information related to management's responsibility for the allowance estimation process, the board of directors' responsibility for overseeing management's process, and the need for institutions to appropriately support and document their allowance estimates.[23] Until new guidance is issued, institutions should consider the relevant sections of existing ALL guidance in their implementation of the new accounting standard.

E. Additional Request for Comment

FCA seeks comment on all aspects of the proposal. Comments are requested about the potential impact, if any, of the proposal in ensuring the safety and soundness of individual System institutions as well as on the stability of the Farm Credit System.

III. Timeframe for Implementation

We intend the effective date of the final rule to be January 1, 2021. As mentioned above, the effective date of ASU No. 2016–13 will become effective for the Funding Corporation for the first fiscal year beginning after December 15, 2020, including interim periods within that fiscal year, and System institutions will implement the new standard for purposes of System-wide combined financial statements for the Call Report quarter ending March 21, 2021.

[22] Unlike the banking organizations regulated by the FBRAs, System institutions have no PCA requirements and therefore have no concerns about triggering such requirements.

[23] Existing supervisory guidance includes: FCA Bookletter 49, Adequacy of Farm Credit System Institutions' Allowance for Loan Losses and Risk Funds, April 26, 2004; FCA Informational Memorandum, Computer-Based Model Validation Expectations, June 17, 2002; FCA Informational Memorandum, Allowance for Loan Losses, June 30, 2009; and FCA Exam Manual, Allowance for Loan Losses, November 17, 2015.

IV. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), FCA hereby certifies that the proposed rule would not have a significant economic impact on a substantial number of small entities. Each of the banks in the System, considered together with its affiliated associations, has assets and annual income in excess of the amounts that would qualify them as small entities. Therefore, System institutions are not ''small entities'' as defined in the Regulatory Flexibility Act.

Lists of Subjects

12 CFR Part 611

Agriculture, Banks, banking, Rural areas.

12 CFR Part 615

Accounting, Agriculture, Banks, banking, Government securities, Investments, Rural areas.

12 CFR Part 620

Accounting, Agriculture, Banks, banking, Reporting and recordkeeping requirements, Rural areas.

12 CFR Part 621

Accounting, Agriculture, Banks, banking, Reporting and recordkeeping requirements, Rural areas.

12 CFR Part 628

Accounting, Agriculture, Banks, banking, Capital, Government securities, Investments, Rural areas.

12 CFR Part 630

Accounting, Agriculture, Banks, banking, Organization and functions (Government agencies), Reporting and recordkeeping requirements, Rural areas.

For the reasons stated in the preamble, the Farm Credit Administration proposes to amend parts 611, 615, 620, 621, 628, and 630 of chapter VI, title 12 of the Code of Federal Regulations as follows:

PART 611—ORGANIZATION

■ 1. The authority citation for part 611 is revised to read as follows:

Authority: Secs. 1.2, 1.3, 1.4, 1.5, 1.12, 1.13, 2.0, 2.1, 2.2, 2.10, 2.11, 2.12, 3.0, 3.1, 3.2, 3.3, 3.7, 3.8, 3.9, 4.3A, 4.12, 4.12A, 4.15, 4.20, 4.25, 4.26, 4.27, 4.28A, 5.9, 5.17, 5.25, 7.0–7.3, 7.6–7.13, 8.5(e) of the Farm Credit Act (12 U.S.C. 2002, 2011, 2012, 2013, 2020, 2021, 2071, 2072, 2073, 2091, 2092, 2093, 2121, 2122, 2123, 2124, 2128, 2129, 2130, 2154a, 2183, 2184, 2203, 2208, 2211, 2212, 2213, 2214, 2243, 2252, 2261, 2279a–2279a–3, 2279b–2279f–1, 2279aa–5(e)); secs. 411 and 412 of Pub. L. 100–233, 101 Stat. 1568, 1638 (12 U.S.C. 2071 note and § 2202 note).

§ 611.515 [Amended]

■ 2. Amend § 611.515 paragraph (b)(6)(ii)(E) by removing the word ''loan'' and adding in its place the word ''credit''.

§ 611.1122 [Amended]

■ 3. Amend § 611.1122 by:

■ a. Removing in paragraph (e)(6)(iii), the word ''loan'' and adding in its place the word ''credit''; and

■ b. Removing in paragraph (e)(10), the words ''loan losses'' and adding in its place the words ''credit losses'' both places it appears.

§ 611.1130 [Amended]

■ 4. Amend § 611.1130 paragraph (b)(4)(i) by removing the words ''allowance for losses'' and adding in its place the words ''allowance for credit losses''.

§ 611.1223 [Amended]

■ 5. Amend § 611.1223 paragraph (c)(23)(ii) by removing the words ''allowance for losses'' and adding in its place the words ''allowance for credit losses''.

§ 611.1250 [Amended]

■ 6. Amend § 611.1250 paragraph (b)(5)(i)(B) by removing the words ''loan'' and adding in its place the words ''credit''.

§ 611.1255 [Amended]

■ 7. Amend § 611.1255 paragraph (b)(5)(i)(B) by removing the words ''general allowance for losses'' and adding in its place the words ''general allowance for credit losses''.

PART 615—FUNDING AND FISCAL AFFAIRS, LOAN POLICIES AND OPERATIONS, AND FUNDING OPERATIONS

■ 8. The authority citation for part 615 is revised to read as follows:

Authority: Secs. 1.5, 1.7, 1.10, 1.11, 1.12, 2.2, 2.3, 2.4, 2.5, 2.12, 3.1, 3.7, 3.11, 3.25, 4.3, 4.3A, 4.9, 4.14B, 4.25, 5.9, 5.17, 8.0, 8.3, 8.4, 8.6, 8.8, 8.10, 8.12 of the Farm Credit Act (12 U.S.C. 2013, 2015, 2018, 2019, 2020, 2073, 2074, 2075, 2076, 2093, 2122, 2128, 2132, 2146, 2154, 2154a, 2160, 2202b, 2211, 2243, 2252, 2279aa, 2279aa–3, 2279aa–4, 2279aa–6, 2279aa–8, 2279aa–10, 2279aa–12); sec. 301(a), Pub. L. 100–233, 101 Stat. 1568, 1608 (12 U.S.C. 2154 note); sec. 939A, Pub. L. 111–203, 124 Stat. 1326, 1887 (15 U.S.C. 78o–7 note).

§ 615.5050 [Amended]

■ 9. Amend § 615.5050 by:

■ a. Removing in paragraph (c)(1), the words ''allowance for loan losses'' and adding in its place the words ''allowance for credit losses''; and

■ b. Removing in paragraphs (c)(2) through (4) the words ''allowance for losses'' and adding in its place the words ''allowance for credit losses''.

§ 615.5132 [Amended]

■ 10. Amend § 615.5132 paragraph (a) by removing the words ''loan loss adjustments'' and adding in its place the words ''credit loss adjustments''.

§ 615.5140 [Amended]

■ 11. Amend § 615.5140 paragraph (b)(4)(ii) by removing the words ''loan loss'' and adding in its place the words ''credit loss''.

§ 615.5200 [Amended]

■ 12. Amend § 615.5200 paragraph (c)(4) by adding the word ''credit'' before ''losses''.

§ 615.5201 [Amended]

■ 13. Amend § 615.5201 by removing the words ''allowance for loan losses'' and adding in its place the words ''adjusted allowance for credit losses'' in the definition of ''Risk-adjusted asset base''.

§ 615.5351 [Amended]

■ 14. Amend § 615.5351 paragraph (d) by adding the word ''credit'' before ''loss.''

PART 620—DISCLOSURE TO SHAREHOLDERS

■ 15. The authority citation for part 620 continues to read as follows:

Authority: Secs. 4.3, 4.3A, 4.19, 5.9, 5.17, 5.19 of the Farm Credit Act (12 U.S.C. 2154, 2154a, 2207, 2243, 2252, 2254).

§ 620.5 [Amended]

■ 16. Amend § 620.5 by:

■ a. Removing in paragraph (f)(1)(i)(D), the words ''Allowance for losses'' and adding in its place the words ''Allowance for credit losses'';

■ b. Removing in paragraph (f)(1)(ii)(B), the words ''Provision for loan losses'' and adding in its place the words ''Provision for credit losses'';

■ c. Removing in paragraph (f)(1)(iii)(F), the words ''Allowance for loan losses-to-loans'' and adding in its place the words ''Allowance for credit losses-to-loans'';

■ d. Revising paragraph (g)(1)(iv)(B);

■ e. Removing in paragraph (g)(1)(iv)(E), the words ''allowance for losses'' and adding in its place the words ''allowance for credit losses.''

The revision reads as follows:

* * *

(g) * * *

(1) * * *

(iv) * * *

(B) An analysis of the allowance for credit losses by year of origination (vintage year). The number of years analyzed must be consistent with vintage year disclosures required by generally accepted accounting principles. The analysis must include the ratios of the allowance for credit losses to loans and net chargeoffs to average loans and a discussion of the adequacy of the allowance for credit losses given reasonable and supportable forecasts;

* * * * *

PART 621—ACCOUNTING AND REPORTING REQUIREMENTS

■ 17. The authority citation for part 621 is revised to read as follows:

Authority: Secs. 5.17, 5.19, 5.22A, 8.11 of the Farm Credit Act (12 U.S.C. 2252, 2257a, 2279aa–11).

§ 621.5 [Amended]

■ 18. Amend § 621.5 by:

■ a. Removing in the heading, the word ''loan'' and adding in its place the word ''credit''; and

■ b. Removing in paragraphs (a) and (b), the word ''loan'' and adding in its place the word ''credit''.

§ 621.8 [Amended]

■ 19. Amend § 621.8 paragraph (c)(2) by removing the word ''loan'' and adding in its place the word ''credit''.

PART 628—CAPITAL ADEQUACY OF SYSTEM INSTITUTIONS

■ 20. The authority citation for part 628 is revised to read as follows:

Authority: Secs. 1.5, 1.7, 1.10, 1.11, 1.12, 2.2, 2.3, 2.4, 2.5, 2.12, 3.1, 3.7, 3.11, 3.25, 4.3, 4.3A, 4.9, 4.14B, 4.25, 5.9, 5.17, 8.0, 8.3, 8.4, 8.6, 8.8, 8.10, 8.12 of the Farm Credit Act (12 U.S.C. 2013, 2015, 2018, 2019, 2020, 2073, 2074, 2075, 2076, 2093, 2122, 2128, 2132, 2146, 2154, 2154a, 2160, 2202b, 2211, 2243, 2252, 2279aa, 2279aa–3, 2279aa–4, 2279aa–6, 2279aa–8, 2279aa–10, 2279aa–12); sec. 301(a), Pub. L. 100–233, 101 Stat. 1568, 1608 (12 U.S.C. 1254 note); sec. 939A, Pub. L. 111–203, 124 Stat. 1326, 1887 (15 U.S.C. 78o–7 note).

§ 628.2 [Amended]

■ 21. Amend § 628.2 by:

■ a. Adding in alphabetical order a definition for ''Adjusted allowances for credit loss (AACL)'';

■ b. Removing the definition of ''Allowances for loan losses (ALL)''; and

■ c. Adding in the definition ''Carrying value'' a new last sentence;

■ d. Revising ''Standardized total risk-weighted assets'' definitions second paragraph (2).

The additions and revision reads as follows:

§ 628.2 Definitions

* * * * *

Adjusted allowances for credit losses (AACL) means valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on financial assets measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, adjusted allowances for credit losses includes allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance as determined in accordance with GAAP. Adjusted allowances for credit losses excludes allowances created that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities.

* * * * *

Carrying value * * * For all assets other than available-for-sale debt securities or purchased credit-deteriorated assets, the carrying value is not reduced by any associated credit loss allowance that is determined in accordance with GAAP.

* * * * *

Standardized total risk-weighted assets means:

* * *

(2) Any amount of the System institution's adjusted allowance for credit losses that is not included in tier 2 capital.

* * * * *

§ 628.20 [Amended]

■ 22. Amend § 628.20 paragraph (d)(3) by removing the word ''ALL'' and adding in its place the word ''AACL'' each place it appears.

§ 628.22 [Amended]

■ 23. Amend § 628.22 paragraph (c) by removing the word ''ALL'' in footnote 6 and adding in its place the word ''AACL''.

§ 628.63 [Amended]

■ 24. Amend Table 5 to Section 628.63—Credit Risk: General Disclosures by:

■ a. Removing in paragraphs (a)(5), (e)(5), and (g), the words ''allowance for loan losses'' and adding in its place the words ''adjusted allowance for credit losses''; and

■ b. Removing in footnote 6, the words ''probable loan losses'' and adding in its place the words ''credit losses''.

PART 630—DISCLOSURE TO INVESTORS IN SYSTEMWIDE AND CONSOLIDATED BANK DEBT OBLIGATIONS OF THE FARM CREDIT SYSTEM

■ 25. The authority citation for part 630 is revised to read as follows:

Authority: Secs. 4.2, 4.9, 5.9, 5.17, 5.19 of the Farm Credit Act (12 U.S.C. 2153, 2160, 2243, 2252, 2254).

§ 630.20 [Amended]

■ 26. Amend § 630.20 by:

■ a. Removing in paragraph (f)(1)(ii), the words ''Allowance for losses'' and adding in its place the words ''Allowance for credit losses'';

■ b. Removing in paragraph (f)(2)(iii), the words ''Provision for loan losses'' and adding in its place the words ''Provision for credit losses'';

■ c. Removing in paragraph (f)(3)(v), the words ''Allowance for losses'' and adding in its place the words ''Allowance for credit losses'' and

■ d. Revising paragraph (g)(1)(ii)(B).

The revision reads as follows:

* * *

(B) An analysis of the allowance for credit losses by year of origination (vintage year). The number of years analyzed must be consistent with vintage year disclosures required by generally accepted accounting principles. The analysis must include the ratios of the allowance for loan credit losses to loans and net chargeoffs to average loans and a discussion of the adequacy of the allowance for credit losses given reasonable and supportable forecasts.

* * * * *

Appendix A to Part 630—Supplemental Information Disclosure Guidelines [Amended]

■ 27. Amend Appendix A to Part 630 by removing the words ''loan losses'' and adding in its place the words ''credit losses'' in Table B wherever they appear.

Dated: August 14, 2019.

Dale Aultman,

Secretary, Farm Credit Administration Board.

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