



**TO:** NCUA Board

**DATE:** July 13, 2020

**FROM:** Office of Examination and Insurance

**SUBJ:** Proposed rule: Transition to the Current Expected Credit Loss Methodology

**ACTION REQUESTED:** NCUA Board approval to issue the attached proposed rule.

**DATE ACTION REQUESTED:** July 30, 2020.

**OTHER OFFICES CONSULTED:** N/A

**VIEWS OF OTHER OFFICES CONSULTED:** N/A

**BUDGET IMPACT, IF ANY:** None.

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** Yes.

**RESPONSIBLE STAFF MEMBERS:** Alison L. Clark, Chief Accountant, Office of Examination and Insurance; Ariel Pereira, Staff Attorney, Office of General Counsel.

**SUMMARY:** The NCUA Board (Board) is seeking comment on a proposed rule to address changes to the U.S. generally accepted accounting principles (GAAP). Consistent with regulations issued by the other federal banking agencies, the proposed rule would phase-in the day-one adverse effects on regulatory capital that may result from the adoption of the current expected credit loss (CECL) accounting methodology. For purposes of determining a federally insured credit union's (FICU's) net worth classification under the prompt corrective action regulations, the Board will phase-in the day-one effects on a FICU's net worth ratio over a three-year period (12 quarters). The phase-in would only be applied to those FICUs that adopt the CECL methodology for fiscal years beginning on or after December 15, 2022 (the deadline established by the Federal Accounting Standards Board for CECL implementation). FICUs that elect to adopt CECL for fiscal years beginning prior to that date would not be eligible for the phase-in. The proposed rule would also provide that FICUs with less than \$10 million in assets are no longer required to determine their charges for loan losses in accordance with GAAP but will instead use any reasonable reserve methodology, provided that it adequately covers known and probable loan losses.

**RECOMMENDED ACTION:** The NCUA Board approve the attached proposed rule for publication in the *Federal Register* with a 60-day public comment period.

**ATTACHMENT:** Proposed rule.