



Capital One Financial Corp  
1680 Capital One Drive  
McLean, VA 22102

December 16, 2019

Chief Counsel's Office  
Attn: Comment Processing  
Office of the Comptroller of the Currency  
400 7<sup>th</sup> Street SW, Suite 3E-218  
Washington, DC 20219  
Via email: [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)  
Docket ID: OCC-2019-0013

Robert E. Feldman, Executive Secretary  
Attn: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street NW  
Washington, DC 20429  
Via email: [comments@fdic.gov](mailto:comments@fdic.gov)  
RIN: 3064-ZA10

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, DC 20551  
Via email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)  
Docket No.: OP-1680

Gerard Poliquin, Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428  
Via email: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)  
RIN 3133-AF05

RE: Proposed Interagency Policy Statement on Allowances for Credit Losses

Dear Sir or Madam:

Capital One Financial Corporation ("Capital One")<sup>1</sup> appreciates the opportunity to provide comments on the Proposed Interagency Policy Statement on Allowances for Credit Losses ("the Proposal") issued by the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("Board"), the Federal Deposit Insurance Corporation ("FDIC") and the National Credit Union Administration ("NCUA") (collectively, "the Agencies"). We support the efforts of the Agencies to promote consistency in the interpretation and application of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (as well as subsequently issued amendments) and expect entities' practices to evolve over time. We generally agree with the Proposal and we ask that you also consider the comments and suggestions we have provided below.

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<sup>1</sup> Capital One Financial Corporation ([www.capitalone.com](http://www.capitalone.com)) is a financial holding company whose subsidiaries, which include Capital One, N.A., and Capital One Bank (USA), N.A., had \$257.1 billion in deposits and \$378.8 billion in total assets as of September 30, 2019. Headquartered in McLean, Virginia, Capital One offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients through a variety of channels. Capital One, N.A. has branches located primarily in New York, Louisiana, Texas, Maryland, Virginia, New Jersey and the District of Columbia. A Fortune 500 company, Capital One trades on the New York Stock Exchange under the symbol "COF" and is included in the S&P 100 index.

## **Evaluation of Segmentation and Inputs Used in the Estimation of Expected Credit Losses**

The Proposal indicates entities should evaluate (1) asset segmentation on an ongoing basis, and (2) the appropriateness of inputs used in the estimate of expected credit each reporting period. We have interpreted the Proposal to allow entities to use judgment in determining the timing and extent of the procedures they will perform to re-evaluate asset segmentation and appropriateness of inputs. To avoid doubt, we would encourage the Agencies to specifically confirm this in the final Policy Statement.

## **Application of Qualitative Factors to Debt Securities**

The Proposal provides qualitative factors that Management should consider specific to debt securities. We believe the Agencies did not intend for qualitative factors to be applied to AFS securities (rather, they are only intended to apply to loans, leases, HTM securities and off-balance sheet credit exposures). Provided this is true, we encourage the Agencies to clarify the types of debt securities to which the qualitative factors should apply in the final Policy Statement.

If the agencies do intend for qualitative factors to apply to AFS securities, we believe many entities will find applying them to be challenging due to the requirement to evaluate impairment at the individual security level using a discounted cash flow method. As a result, we would encourage the Agencies to seek public comment on when and how entities should apply qualitative factors to AFS securities. Further, we would encourage the Agencies to explicitly state that qualitative factors do not apply in situations where fair value exceeds amortized cost (as no allowance may be recorded in such situations).

## **Presentation of Provisions for Credit Losses on Off-balance Sheet Credit Exposures**

Within ASU No. 2016-13, FASB Accounting Standard Codification (“ASC”) paragraph 326-20-30-11 indicates entities “shall report in net income (as a credit loss expense) the amount necessary to adjust the liability for credit losses for management’s current estimate of expected credit losses on off-balance-sheet credit exposures.” This requirement is provided using identical language to that found in FASB ASC paragraph 326-20-30-1, which indicates entities “shall report in net income (as a credit loss expense) the amount necessary to adjust the allowance for credit losses for management’s current estimate of expected credit losses on financial asset(s).” Therefore, we believe the FASB intended for entities to consistently present both amounts within provision for credit losses (“PCL”), which would align with many entities’ historic presentation for purposes of reports filed with the Securities Exchange Commission (“SEC”).

In contrast to the above, the Proposal indicates the “amount needed to adjust the liability for expected credit losses on off-balance-sheet credit exposures must be reported as an other noninterest expense rather than being reported as part of the PCLs.” This is consistent with the historic requirement for *Schedule RI-Income Statement* in the Call Report, which has resulted in many entities needing to make adjustments to amounts recorded for purposes of reports filed

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with the SEC. In order to eliminate the need for entities to record such adjustments and to promote consistency amongst all entities, we encourage the Agencies to consider requiring entities to record the amount needed to adjust the liability for expected credit losses on off-balance-sheet credit exposures as part of provision for credit losses in the Call Report.

We thank you for the opportunity to provide comments on the Proposal and appreciate your consideration of our feedback.

Sincerely,

/s/ Christie S. Lloyd

Christie Simpson Lloyd  
VP, Accounting Policy and Assistant Controller  
Capital One Financial Corporation

CC: Andres Navarrete  
Elijah Alper