July 13, 2018

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

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

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

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the notice of proposed rulemaking titled *Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations* (the "Proposal"). ICBA is fully supportive of all attempts by the prudential banking regulators to

[1] The Independent Community Bankers of America®, the nation's voice for nearly 5,700 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services. With nearly 52,000 locations nationwide, community banks employ 760,000 Americans, hold $4.9 trillion in assets, $3.9 trillion in deposits, and $3.3 trillion in loans to consumers, small businesses, and the agricultural community. F*or more information, visit ICBA's website at www.icba.org.*

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provide regulatory capital relief to community banks as they adopt the provisions of the current expected credit loss (CECL) provisioning methodology for recognizing expected losses on certain loans and investment securities. Delaying the impact on regulatory capital of the day-one loss recognition provisions of adopting CECL on a community bank's respective adoption date complements the extensive work that ICBA has devoted to ensuring that community banks can transition to CECL without the use of complex modeling techniques that generate extensive and crushing accounting and regulatory burdens on community banks of all sizes. ICBA was responsible for a much more scalable FASB accounting standard for loan loss recognition which we believe will eventually save community banks countless sums of vital capital and resources that can be better utilized to support their local communities.

ICBA requests that the prudential banking regulators extend the transition period for the impact of adoption of CECL on community bank regulatory capital balances from three years to five years to ensure that these institutions have enough time to absorb the impact of the adoption of CECL. Specifically, ICBA requests that the five-year transition period be implemented for all banks and bank holding companies with total consolidated assets of $50 billion or less. Additionally, ICBA requests that the amount of the allowance that can be included in an organization's tier 2 capital be raised from 1.25% of the banking organization's standardized total risk-weighted assets to full inclusion of the entire allowance. ICBA also requests that any amount of the allowance that is not attributed to currently identified losses be included in common equity tier 1 capital up to 1.25% of the banking organization's standardized total risk-weighted assets and be recognized as another form of the most basic loss-absorbing capital available to the bank.

The Proposal

The prudential banking regulators have proposed a three-year transition period for the recognition of the impact of adopting CECL in retained earnings for regulatory capital calculation purposes. The amount of the CECL adoption adjustment to retained earnings, net of associated tax effects, would be reduced by 75% in the first year of adoption, 50% in the second year of adoption, and 25% in the third year of adoption. The proposed transition period would be taken through a one-time election at the date that the bank adopts CECL and would not be able to be taken in subsequent reporting periods.

The Proposal retains the current cap on the amount of the allowance for credit losses that can be recognized in tier 2 capital at 1.25% of standardized total risk-weighted assets. The agencies have also proposed to introduce a new term known as the allowance for credit losses, which would include credit loss allowances related to financial assets measured at amortized cost, except for allowances for purchased credit-deteriorated assets. This new term would replace the current allowance for loan and lease losses for all banks that have adopted CECL.

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ICBA's Comments

ICBA is pleased that the prudential banking regulators have taken steps to propose further regulatory relief for community banks through the three-year transition period for the recognition of cumulative effect adjustment related to the adoption of CECL through retained earnings. Allowing for community banks to elect to recognize the adoption impact of CECL over an extended period of time will be crucial to avoiding any short-term or medium-term impacts on regulatory capital that could develop with the adoption of CECL. At minimum, the extended transition period reflects the unique nature of such a large regulatory capital adjustment and reinforces that the underlying business model, asset quality, and loss mitigation activities of the bank have not changed.

However, regulators must be mindful of the potential impact of such a short transition period on community bank capital balances in the event that national, state, or local economies experience recessionary economic conditions of varying degrees. In a situation where a recession is severe or is experienced over an extended period of time, community banks could become undercapitalized quickly without sufficient time to rebuild retained earnings balances that would be depleted to accommodate the CECL transition. **Therefore, ICBA requests that the prudential banking regulators extend the transition period for the impact of adoption of CECL on community bank regulatory capital balances from three years to five years to ensure that these institutions have enough time to absorb the impact of the adoption of CECL across a varying degree of economic conditions in the local community.** Regulators should limit the five-year transition period to banks and bank holding companies with total consolidated assets of $50 billion or less.

Regulators should also reexamine their allocations of the allowance for credit losses to the various tiers of regulatory capital. The allowance for credit losses, especially once the amount reaches the lifetime loss measurement required by CECL, simply represents yet another layer of loss absorbing capital available to the bank. When those balances are healthy and adequate to cover potential loss events, they should be reflected in regulatory capital. Therefore, ICBA requests that the amount of the allowance that can be included in an organization's tier 2 capital be raised from 1.25% of the banking organization's standardized total risk-weighted assets to full inclusion of the entire allowance. ICBA also requests that any amount of the allowance that is not attributed to currently identified losses up to 1.25% of the banking organization's standardized total risk-weighted assets be included in common equity tier 1 capital.

By making this capital allocation change, the entire amount of the depletion of retained earnings caused by CECL would be recognized in regulatory capital. The inclusion of this increased allowance is appropriate because the increased allowance would be the first line of loss absorption for the bank in the event of a realized credit loss. The absorption would be sourced from retained earnings, which is already a component of common equity tier 1 capital.

Reclassifying any component of retained earnings to tier 2 capital simply because of an accounting change is not warranted if the risk profile of the bank has not changed. Regulators should be cautious not to change their supervisory approach to the safety and soundness of a community bank simply because noncash charges have been altered with no real help or harm to the bank.

ICBA appreciates your attention to these concerns and the opportunity to provide comments. If you have any questions or would like additional information, please do not hesitate to contact James Kendrick at james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
First Vice President, Accounting and Capital Policy