TO: NCUA Board

DATE: June 7, 2021

FROM: Office of General Counsel
Office of Examination and Insurance

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SUBJ: Final rule: Transition to the Current Expected Credit Loss Methodology

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

DATE ACTION REQUESTED: June 24, 2021.

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, Senior Staff Attorney, Office of General Counsel.

SUMMARY: This final rule facilitates the transition of federally insured credit unions (FICUs) to the current expected credit loss (CECL) methodology required under Generally Accepted Accounting Principles (GAAP). The final rule provides that, for purposes of determining a FICU's net worth classification under the prompt corrective action (PCA) regulations, the Board will phase-in the day-one adverse effects on regulatory capital that may result from adoption of CECL. Consistent with regulations issued by the other federal banking agencies, the final rule will temporarily mitigate the adverse PCA consequences of the day-one capital adjustments, while requiring that FICUs account for CECL for other purposes, such as Call Reports. The final rule also provides that FICUs with less than $10 million in assets are no longer required to determine their charges for loan losses in accordance with GAAP. These FICUs may instead use any reasonable reserve methodology (incurred loss), provided that it adequately covers known and probable loan losses. The final rule follows publication of an August 19, 2020, proposed rule and takes into consideration the public comments received on the proposed rule.

RECOMMENDED ACTION: The NCUA Board approve the attached final rule for publication in the *Federal Register* with an immediate effective date.

ATTACHMENT: Final rule.