

Deposit Insurance Relief for CECL

The new credit loss accounting standard, Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, commonly referred to as CECL, is effective for certain public business entities. Banking regulators issued final rules in [2019](#) and [2020](#) that allowed banking organizations to phase in the effects of CECL implementation on their regulatory capital ratios and provided the option to delay—for up to two years—an estimate of CECL’s effect on regulatory capital.

The FDIC estimates that 109 of 139 large or highly complex banks had implemented CECL and that 94 had elected a transition provided.

On February 16, 2021, the FDIC issued a [final rule](#) that provides the following relief for large or highly complex insured depository institutions (IDI) that elected the CECL regulatory capital provisions or delay:

- Removes the double counting of a specified portion of the CECL transitional amounts in certain financial measures that are used to determine assessment rates
- Adjusts the calculation of the loss severity measure to remove the double counting of a specified portion of the CECL transitional amounts

The FDIC is continuing to allow the application of the CECL regulatory capital transition provisions to the Tier 1 leverage ratio used in determining deposit insurance assessment rates for all IDIs.

To facilitate this relief, the final rule requires large or highly complex IDIs that elect a CECL transition provision to report one additional, temporary item on the Consolidated Reports of Condition and Income (Call Report).

The final rule is effective April 1, 2021 (which is the beginning of the second quarterly assessment period of 2021). **The FDIC is not adjusting prior quarterly assessments.**

This rule does not affect regulatory capital or the phased-in regulatory capital relief.

Conclusion

If you have questions about these changes, contact your **BKD Trusted Advisor™** today.

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