rule that includes a Federal mandate that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of $100 million or more in any one year. However, the UMRA does not apply to final rules for which a general notice of proposed rulemaking was not published.[9] Consistent with section 553(b)(B) of the APA, the OCC has determined for good cause that general notice and opportunity for public comment is unnecessary because the rule makes a technical change to update a physical mailing address for the OCC's CAG and does not alter any substantive standard, and, therefore, the OCC is not issuing a notice of proposed rulemaking. Accordingly, the OCC has not prepared an economic analysis of the rule under the UMRA.

F. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act of 1994,[10] in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, the OCC must consider, consistent with the principles of safety and soundness and the public interest: (1) Any administrative burdens that the final rule places on depository institutions, including small depository institutions and customers of depository institutions, and (2) the benefits of the final rule. This final rule does not impose additional reporting, disclosure, or other requirements on an insured depository institution. Therefore, section 302(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 does not apply to this final rule.

G. The Congressional Review Act

Before a rule can take effect, the Congressional Review Act (CRA), 5 U.S.C. 801 *et seq.,* provides that the OCC must submit to Congress and to the Comptroller General the rule along with a report indicating whether it is a ''major rule.'' In general, if a rule is a ''major rule,'' the CRA provides that unless Congress enacts a joint resolution of disapproval, the rule takes effect the later of: (1) 60 Days after Congress receives the required report or publication of the rule in the **Federal Register**, whichever is later; or (2) the date the rule would otherwise take effect.[11] The CRA defines a ''major rule'' as any rule that the Administrator of the Office of Information and Regulatory Affairs (OIRA) of the Office of Management and Budget finds has resulted in or is likely to result in (1) an annual effect on the economy of $100,000,000 or more; (2) a major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies, or geographic regions, or (3) a significant adverse effect on competition, employment, investment, productivity, innovation, or the ability of United States-based enterprises to compete with foreign-based enterprises in domestic and export markets.[12]

OIRA has determined that this final rule is not a major rule. As required by the CRA, the OCC will submit the final rule and other appropriate reports to Congress and the Government Accountability Office for review.

List of Subjects in 12 CFR Part 14

Banks, banking, Consumer protection, Insurance, National banks, Reporting and recordkeeping requirements.

Office of the Comptroller of the Currency

For the reasons set out in the preamble, 12 CFR part 14 is amended as follows:

PART 14—CONSUMER PROTECTION IN SALES OF INSURANCE

■ 1. The authority citation for part 14 continues to read as follows:

Authority: 12 U.S.C. 1 *et seq.,* 24(Seventh), 92, 93a, 1462a, 1463, 1464, 1818, 1831x, and 5412(b)(2)(B).

■ 2. Appendix A to part 14 is revised to read as follows:

Appendix A to Part 14—Consumer Grievance Process

Any consumer who believes that any bank, Federal savings association, or any other person selling, soliciting, advertising, or offering insurance products or annuities to the consumer at an office of the bank or Federal savings association, or on behalf of the bank or Federal savings association, has violated the requirements of this part should contact the Customer Assistance Group, Office of the Comptroller of the Currency, (800) 613–6743, P.O. Box 53570, Houston, TX 77052, or *www.helpwithmybank.gov.*

Benjamin W. McDonough,

Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency.

[FR Doc. 2022–09860 Filed 5–6–22; 8:45 am]

BILLING CODE 4810–33–P

[9] *See* 2 U.S.C. 1532(a).

[10] 12 U.S.C. 4802(a).

[11] 5 U.S.C. 801(a)(3).

[12] 5 U.S.C. 804(2).

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 329

Liquidity Risk Measurement Standards

CFR Correction

This rule is being published by the Office of the Federal Register to correct an editorial or technical error that appeared in the most recent annual revision of the Code of Federal Regulations.

In Title 12 of the Code of Federal Regulations, parts 300 to 346, revised as of January 1, 2022, make the following corrections:

§ 329.22 [Corrected]

■ 1. Amend § 329.22 in paragraphs (a)(2) introductory text, (a)(2)(ii), (a)(4), and (a)(5), by removing the text ''" in its place wherever it appears.'' wherever it appears.

§ 329.40 [Corrected]

■ 2. Amend § 329.40 in paragraph (a) by adding the words ''An FDIC-supervised institution'' to the beginning of the first sentence.

[FR Doc. 2022–09989 Filed 5–6–22; 8:45 am]

BILLING CODE 0099–10–P

FARM CREDIT ADMINISTRATION

12 CFR Parts 611, 615, 620, 621, 628, and 630

RIN 3052–AD36

Implementation of the Current Expected Credit Losses Methodology for Allowances, Related Adjustments to the Tier 1/Tier 2 Capital Rule, and Conforming Amendments

AGENCY: Farm Credit Administration.

ACTION: Final rule.

SUMMARY: The Farm Credit Administration (FCA or Agency) is amending certain regulations to address changes in U.S. generally accepted accounting principles (U.S. GAAP). These amendments modify FCA's capital and other regulations, including certain regulatory disclosure requirements.

DATES: The final rule is effective on January 1, 2023.

FOR FURTHER INFORMATION CONTACT:

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or

Legal information: Jennifer Cohn, *CohnJ@fca.gov,* Assistant General Counsel, Office of General Counsel, (720) 213–0440, TTY (703) 883–4056.

SUPPLEMENTARY INFORMATION:

Table of Contents

I. Introduction

A. Objectives of the Final Rule

FCA's objectives in adopting this rule are to:

• Ensure the Farm Credit System's (System) capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology (CECL), which revises the accounting for credit losses under U.S. GAAP; and

• Ensure conforming amendments to other regulations accurately reference credit losses.

B. Background

In 1916, Congress created the System to provide permanent, stable, affordable, and reliable sources of credit and related services to American agricultural and aquatic producers.[1] As of January 1, 2022, the System consists of three Farm Credit Banks, one agricultural credit bank, 64 agricultural credit associations, one Federal land credit association, several service corporations, and the Federal Farm Credit Banks Funding Corporation (Funding Corporation). System banks (including both the Farm Credit Banks and the agricultural credit bank) issue Systemwide consolidated debt obligations in the capital markets through the Funding Corporation,[2] which enables the System to extend short-, intermediate-, and long-term credit and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, aquatic producers and harvesters, their cooperatives, rural utilities, exporters of agricultural commodities products, farm-related businesses, and certain rural homeowners. The System's enabling statute is the Farm Credit Act of 1971, as amended (Act).[3]

On September 23, 2019, FCA published in the **Federal Register** a notice of proposed rulemaking (proposed rule or proposal) seeking public comment on revisions to certain regulations to address changes to credit loss accounting under U.S. GAAP.[4] In particular, FCA proposed to amend certain rules to reflect the Financial Accounting Standards Board's (FASB) issuance of Accounting Standards Update (ASU) No. 2016–13, Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments (ASU 2016–13). FASB's new accounting standard for credit losses applies to all System institutions.[5]

ASU 2016–13 introduces CECL, which replaces the incurred loss methodology for financial assets measured at amortized cost. This update is discussed in more detail in the next section, Overview of Changes to U.S. GAAP. FCA proposed to revise the tier 1/tier 2 capital rule in part 628 to distinguish which credit loss allowances under the new accounting standard would be eligible for inclusion in a System institution's regulatory capital.

FCA's tier 1/tier 2 capital rule in part 628 are similar to the standardized approach capital rules the Federal banking regulatory agencies (FBRAs)[6] adopted for the banking organizations they regulate (U.S. Rule), while taking into account the cooperative structure and the organization of the System. FCA's proposed CECL rule was similar to the FBRAs' final CECL rule, which was published in February 2019.[7]

Unlike the CECL rule adopted by the FBRAs, FCA did not propose a phase-in of the day-one impacts of CECL on regulatory capital ratios. The CECL Transition Provision section below discusses why a transition period for System institutions is unnecessary and would create undue burden and complexity.

As part of efforts to address the disruption of economic activity in the United States caused by the spread of COVID–19, the FBRAs adopted a second CECL transition provision.[8] This second CECL transition provided banking organizations that were required to adopt CECL for purposes of U.S. GAAP on January 1, 2020, the option to delay, for up to two years, an estimate of CECL's impact on regulatory capital, followed by a three-year transition period (*i.e.,* a five-year transition period in total).

As discussed below, FCA received four comment letters on the proposed

[1] The Federal Agricultural Mortgage Corporation (Farmer Mac) was chartered in 1987 as a Farm Credit System institution. Farmer Mac operates secondary market activities for agricultural real estate mortgage loans, rural housing mortgage loans, rural utility cooperative loans, and agriculture and rural development loans guaranteed by the United States Department of Agriculture (USDA). The FCA has a separate set of capital regulations, at subpart B of part 652, that apply to Farmer Mac. This rulemaking does not affect Farmer Mac, and the use of the term ''System institution'' in this preamble and rule does not include Farmer Mac.

[2] The Funding Corporation was established pursuant to section 4.9 of the Farm Credit Act of 1971, as amended, and is owned by all System banks. The Funding Corporation is the fiscal agent and disclosure agent for the System. The Funding Corporation is responsible for issuing and marketing debt securities to finance the System's loans, leases, and operations and for preparing and producing the System's financial results.

[3] 12 U.S.C. 2001–2279cc. The Act is available at *www.fca.gov* under ''Laws and regulations'' and ''Statutes.''

[4] *See* 84 FR 49684. Section 621.3 requires System institutions to prepare financial statements in accordance with U.S. GAAP (referred to as GAAP in FCA regulations), except as otherwise directed by statutory and regulatory requirements. Previously, FCA had issued an informational memorandum providing initial information on the new accounting standard. *See* Informational Memorandum, New Accounting Standard on Financial Instruments—Credit Losses, dated September 1, 2016.

[5] FCA regulation § 628.2 defines System institution, for capital rule purposes, as a System bank, an association, and any other institution chartered by the FCA that the FCA determines should be subject to FCA's capital rules.

[6] The FBRAs are the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation.

[7] *See* FBRA's final CECL rule at 84 FR 4222 (February 14, 2019). FCA staff met with System representatives during the development of FCA's proposed rule to seek their input on certain issues. The questions discussed were similar to the questions asked in the preamble to the FBRAs' proposed CECL rule (83 FR 22312, May 14, 2018). FCA staff considered this input in developing the proposed rule.

[8] *See* 85 FR 17723 (March 31, 2020) (interim final rule); 85 FR 61577 (September 30, 2020) (final rule).

rule. These comments, together with FCA's responses to those comments, are addressed in the Final Rule section below. FCA is finalizing most provisions as proposed. However, FCA is making changes to certain provisions in response to comments, as discussed below.

C. Overview of Changes to U.S. GAAP

In June 2016, FASB issued ASU No. 2016–13, Topic 326, Financial Instruments—Credit Losses,[9] which revises the accounting for credit losses under U.S. GAAP. In pertinent part, ASU No. 2016–13:

- Introduces CECL, which replaces the incurred loss methodology for financial assets measured at amortized cost;
- Introduces the term purchased credit deteriorated (PCD) assets, which replaces the term purchased credit impaired (PCI) assets;
- Modifies the treatment of credit losses on available-for-sale (AFS) debt securities; and
- Requires certain disclosures of credit quality indicators by year of origination (or vintage).

CECL differs from the incurred loss methodology in several key respects. CECL requires System institutions to recognize lifetime expected credit losses for financial assets measured at amortized cost, not just those credit losses that have been incurred as of the reporting date. CECL also requires the incorporation of reasonable and supportable forecasts in developing an estimate of lifetime expected credit losses, while maintaining the current requirement for System institutions to consider past events and current conditions. Furthermore, the probable threshold for recognition of allowances in accordance with the incurred loss methodology is removed under CECL. Estimating expected credit losses over the life of an asset under CECL, including consideration of reasonable and supportable forecasts, results in earlier recognition of credit losses than under the existing incurred loss methodology.

In addition, CECL replaces multiple impairment approaches in existing U.S. GAAP. CECL allowances will cover a broader range of financial assets than allowance for loan losses (ALL) under the incurred loss methodology. Under the incurred loss methodology, in general, ALL covers credit losses on loans held for investment and lease financing receivables, with additional allowances for certain other extensions of credit and allowances for credit losses on certain off-balance sheet credit exposures (with the latter allowances presented as a liability).[10] These exposures will be within the scope of CECL. In addition, CECL covers credit losses on held-to-maturity (HTM) debt securities.

As mentioned above, ASU No. 2016–13 also introduces PCD assets as a replacement for PCI assets. The PCD asset definition covers a broader range of assets than the PCI asset definition. CECL requires System institutions to estimate and record credit loss allowances for a PCD asset at the time of purchase. The credit loss allowance is then added to the purchase price to determine the amortized cost basis of the asset for financial reporting purposes. Post-acquisition increases in credit loss allowances on PCD assets will be established through a charge to earnings. This is different from the current treatment of PCI assets, for which System institutions are not permitted to estimate and recognize credit loss allowances at the time of purchase. Rather, in general, credit loss allowances for PCI assets are estimated after the purchase only if there is deterioration in the expected cash flows from the assets.[11]

ASU No. 2016–13 also introduces new requirements for AFS debt securities. The new accounting standard requires a System institution to recognize credit losses on individual AFS debt securities through credit loss allowances, rather than through direct write-downs, as is currently required under U.S. GAAP. AFS debt securities will continue to be measured at fair value, with changes in fair value not related to credit losses recognized in other comprehensive income. Credit loss allowances on an AFS debt security are limited to the amount by which the security's fair value is less than its amortized cost.

Upon adoption of CECL, a System institution will record a one-time adjustment to its credit loss allowance as of the beginning of its fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowance required under the incurred loss methodology and the amount of credit loss allowance required under CECL. Except for PCD assets, the adjustment to credit loss allowance would be recognized with offsetting entries to deferred tax assets (DTAs), if appropriate, and to the fiscal year's beginning retained earnings.

The effective date of ASU No. 2016–13 varies for different financial institutions. The original effective date for public business entities (PBEs) that are not Securities and Exchange Commission (SEC) filers, such as the Funding Corporation,[12] was the fiscal year beginning after December 15, 2020, including interim periods within that fiscal year, and that was the timeframe in effect when FCA published the proposed CECL rule. After publication, on October 18, 2019, FASB amended the effective dates of certain major accounting standards, including ASU No. 2016–13. Specifically, for entities such as the Funding Corporation, ASU No. 2016–13 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.[13] System institutions will implement the new standard on January 1, 2023, and Systemwide combined financial statements for the quarter ending March 31, 2023, will reflect the new standard.[14]

D. Regulatory Capital

Changes necessitated by CECL to a System institution's retained earnings, DTAs, and allowances will affect the institution's regulatory capital ratios.[15]

[9] ASU 2016–13 covers measurement of credit losses on financial instruments and includes three subtopics within Topic 326: (i) Subtopic 326–10 Financial Instruments—Credit Losses—Overall; (ii) Subtopic 326–20: Financial Instruments—Credit Losses—Measured at Amortized Cost; and (iii) Subtopic 326–30: Financial Instruments—Credit Losses—Available-for-Sale Debt Securities.

[10] "Other extensions of credit" includes trade and reinsurance receivables, and receivables that relate to repurchase agreements and securities lending agreements. "Off-balance sheet credit exposures" includes off-balance sheet credit exposures not accounted for as insurance, such as loan commitments, standby letters of credit, and financial guarantees. Note that credit losses for off-balance sheet credit exposures that are unconditionally cancellable by the issuer are not recognized under CECL.

[11] The System currently holds limited PCI assets, which have generally been acquired through business combinations. FCA does not believe the amount of PCD assets in the System after the adoption of CECL will be materially different.

[12] A PBE that is not an SEC filer includes: (1) An entity that has issued securities that are traded, listed, or quoted on an over-the-counter market, or (2) an entity that has issued one or more securities that are not subject to contractual restrictions on transfer and is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available periodically. For further information on the definition of a PBE, refer to ASU No. 2013–12, Definition of a Public Business Entity, issued in December 2013. Since, as discussed above, the Funding Corporation is the System's fiscal and disclosure agent, the CECL effective date for the System is based on its effective date for the Funding Corporation. The Funding Corporation satisfies the definition of a PBE that is not an SEC filer.

[13] *See* FASB ASU 2019–10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) Effective Dates, issued in November 2019.

[14] If FASB were to amend the effective date again, System implementation may similarly be delayed.

[15] These capital ratios are specified in § 628.10.

Specifically, retained earnings are a key component of a System institution's common equity tier 1 (CET1) capital.[16] An increase in a System institution's allowances, including those estimated under CECL, generally will reduce the institution's earnings or retained earnings, and therefore its CET1 capital.[17]

Depending on the nature of the difference, DTAs arising from temporary differences (temporary difference DTAs) are included in a System's institution's risk-weighted assets or are deducted from CET1 capital.[18] Increases in allowances generally give rise to increases in temporary difference DTAs that will partially offset the reduction in earnings or retained earnings.[19] Under § 628.20(d)(3), the ALL is included in a System institution's tier 2 capital up to 1.25 percent of its standardized total risk-weighted assets (as defined in § 628.2) not including any amount of the ALL.[20]

II. Summary of the Proposal

A. Proposed Revisions to the Capital Rules To Reflect the Change in U.S. GAAP

To address the forthcoming implementation of changes to U.S. GAAP resulting from the FASB's issuance of ASU No. 2016–13 and to improve consistency between FCA's capital rules and U.S. GAAP, FCA proposed to amend the capital rules in part 628 to identify which credit loss allowances under the new accounting standard would be eligible for inclusion in a System institution's regulatory capital. Because FCA's capital rules are generally similar to the U.S. Rule, FCA's proposed CECL rule was generally similar to the FBRAs' final CECL rule.

In particular, FCA proposed to add adjusted allowances for credit losses (AACL) as a newly defined term in its capital rules. Under the proposal, AACL included credit loss allowances related to financial assets, except for allowances for PCD assets and AFS debt securities.[21] AACL was eligible under the proposal for inclusion in a System institution's tier 2 capital subject to the current limit for including ALL in tier 2 capital under the capital rules.[22] The proposed rule provided separate capital treatment for allowances associated with AFS debt securities and PCD assets that would apply to System institutions upon adoption of ASU 2016–13. Unlike the CECL rule adopted by the FBRAs, FCA did not propose a phase-in of the day-one impacts of CECL on regulatory capital ratios.

FCA's proposed rule also revised capital disclosure requirements that apply to System banks following their adoption of CECL [23] and made conforming amendments to other regulations so they refer to credit loss allowance and reflect the implementation of ASU No. 2016–13.

B. Summary of Comments Received on the Proposal

FCA received four comment letters on the proposed rule: One letter from the Funding Corporation on behalf of the System's Accounting Standards and CECL Workgroups (System Workgroups Letter); [24] one letter from CoBank, ACB (CoBank Letter), a System bank; [25] and one letter each from Northwest Farm Credit Services, an Agricultural Credit Association (Northwest Letter) [26] and Capital Farm Credit, ACA (Capital Letter),[27] both System associations. All commenters generally supported many significant aspects of the proposed rule and expressed similar comments. CoBank expressly stated it supported the System Workgroups Letter. The two associations offered comments consistent with certain aspects of the System Workgroups Letter.

All commenters supported FCA's new defined term ''Adjusted Allowances for Credit Losses'' and the modification to the definition of ''carrying value.'' All the commenters also supported the existing limit on the inclusion of the allowance in tier 2 capital of 1.25 percent of risk-weighted assets.

All commenters asked FCA to follow U.S. GAAP for disclosure and reporting requirements, including the conforming amendments FCA proposed, rather than introducing specific disclosures different than those required by U.S. GAAP. In addition, all commenters suggested the rule should contain a general reference to the effective date required by U.S. GAAP rather than specifying an effective date.

All commenters believe FCA should adopt an optional transition period for the day-one impact CECL may have on institutions' regulatory capital to align more closely with the approach taken by the FBRAs. Additionally, all commenters asked FCA to exclude any day-one impact of CECL from the year-over-year change in CET1 capital referred to in § 628.20(f)(5)(ii), to avoid a negative impact on an institution's ability to make capital distributions, including the payment of patronage.

III. Final Rule

As discussed above, FCA's capital rules are similar to the U.S. Rule, while taking into account the cooperative structure and the organization of the System. This final rule is similar in many respects to the FBRAs' CECL rule.

A. Revisions to the Capital Rules To Reflect the Change in U.S. GAAP

1. Introduction of Adjusted Allowances for Credit Losses as a Newly Defined Term

FCA is adopting as final, without change from the proposal, the proposed definition of the new capital term AACL. As proposed, FCA is revising the capital rules to reflect the revised accounting standard for credit losses under U.S. GAAP as it relates to System institutions' calculation of regulatory capital ratios. The new capital term AACL, which replaces the existing term ALL, applies to all System institutions.

FCA is also adopting without change its proposal, consistent with the treatment of ALL under FCA's existing capital rules, to make amounts of AACL eligible for inclusion in an institution's tier 2 capital up to 1.25 percent of the institution's standardized total risk-weighted assets not including any amount of the AACL.

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[16] FCA's capital rules refer to ''unallocated retained earnings (URE)'' rather than ''retained earnings.'' Section 628.2 defines URE as ''accumulated net income that a System institution has not allocated to a member-borrower.'' This preamble uses the term ''retained earnings,'' because that is the term used in CECL and in U.S. GAAP more generally. For purposes of this preamble, ''retained earnings'' has the same meaning as ''URE.''

[17] However, as discussed above, allowances recognized on PCD assets upon adoption of CECL and upon later purchases of PCD assets generally would not reduce the System institution's earnings, retained earnings, or CET1 capital.

[18] DTAs arising from temporary differences in relation to net operating loss carrybacks are risk-weighted at 100 percent under § 628.32(l)(3). DTAs that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of deferred tax liabilities in accordance with § 628.22(e), are deducted from CET1 capital under § 628.22(a)(3). All other DTAs are risk-weighted at 100 percent under § 628.32(l)(5). DTAs are immaterial at most System institutions.

[19] *See* Accounting Standards Codification Topic 740, ''Income Taxes.''

[20] Under § 628.2, any amount of ALL greater than the 1.25 percent limit is deducted from standardized total risk-weighted assets.

[21] This exclusion of credit loss allowances on PCD assets and AFS debt securities is what differentiates AACL from the term allowance for credit losses (ACL), which is used by the FASB in ASU 2016–13 and which applies to both financial assets and AFS debt securities. Consistent with the proposal and as described in the following sections, the AACL definition includes only those allowances that have been charged against earnings or retained earnings.

[22] *See* existing § 628.20(d)(3).

[23] Section 628.63 requires System banks to disclose items such as capital structure, capital adequacy, credit risk, and credit risk mitigation.

[24] System Workgroups Letter dated November 22, 2019.

[25] CoBank Letter dated November 20, 2019.

[26] Northwest Letter dated November 15, 2019.

[27] Capital Letter dated October 18, 2019.

All commenters supported the new defined term AACL and the continuation of the existing limit on the inclusion of the allowance in tier 2 capital.

CECL allowances cover a broader range of financial assets than the ALL under the incurred loss methodology. Under FCA's existing capital rules, ALL includes valuation allowances that have been established through a charge against earnings to cover estimated credit losses on loans or other extensions of credit as determined in accordance with U.S. GAAP. Under CECL, credit loss allowances represent an accounting valuation account, measured as the difference between the financial assets' amortized cost basis and the amount expected to be collected on the financial assets (*i.e.,* lifetime credit losses). Thus, AACL includes allowances for expected credit losses on HTM debt securities and lessors' net investments in leases that have been established to adjust these assets to amounts expected to be collected, as determined in accordance with U.S. GAAP. AACL also includes allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance, as determined in accordance with U.S. GAAP. As described below, however, credit loss allowances related to AFS debt securities and PCD assets are not included in the definition of AACL.

As the FBRAs have said they are doing for the banking organizations that they regulate, FCA intends to monitor the impacts of this 1.25 percent limit on regulatory capital and System institution lending practices after the final rule is effective. FCA's ongoing monitoring will include the review of data, including data provided by System institutions. FCA will also monitor the FBRAs' actions in this area. FCA will consider the information it is monitoring in determining whether a further change to the FCA's capital rules' treatment of AACL might be warranted. To the extent FCA determines further revisions to the capital rules are necessary, the Agency would seek comment through a separate proposal.

2. Definition of Carrying Value

FCA is adopting as final, without change from the proposal, a revision to the definition of carrying value. Under the existing definition at § 628.2, carrying value means, with respect to an asset, the value of the asset on the balance sheet as determined in accordance with U.S. GAAP. Under the final rule, and consistent with the FBRAs' final CECL rule, the definition of carrying value is revised to add a provision that, for all assets other than AFS debt securities and PCD assets, the carrying value is not reduced by any associated credit loss allowance. All commenters supported this proposed revision to the definition of carrying value.

i. Available-for-Sale Debt Securities

Current accounting standards require a System institution to make an individual assessment of each of its AFS debt securities and take a direct write-down for credit losses when such a security is other-than-temporarily impaired. The amount of the write-down is charged against earnings, which reduces CET1 capital and results in a reduction in the same amount to the carrying value of the AFS debt security. ASU 2016–13 revises the accounting for credit impairment of AFS debt securities by requiring System institutions to determine whether a decline in fair value below an AFS debt security's amortized cost resulted from a credit loss, and to record any such credit impairment through earnings with a corresponding allowance.

Similar to the current regulatory treatment of credit-related losses for other-than-temporary impairment, under the final rule all credit losses recognized on AFS debt securities will correspondingly affect CET1 capital and reduce the carrying value of the AFS debt security. Since the carrying value of an AFS debt security is its fair value, which would reflect any credit impairment, credit loss allowances for AFS debt securities required under the new accounting standard are not eligible for inclusion in a System institution's tier 2 capital.

ii. Purchased Credit Deteriorated Assets

The final rule maintains the requirement that valuation allowances be fully charged against earnings in order to be eligible for inclusion in tier 2 capital. The final rule, however, excludes PCD allowances from being included in tier 2 capital; rather, a System institution will calculate the carrying value of PCD assets net of allowances.

Under the new accounting standard, PCD assets are acquired individual financial assets (or acquired groups of financial assets with shared risk characteristics) that, as of the date of acquisition and as determined by an acquirer's assessment, have experienced a more-than-insignificant deterioration in credit quality since origination. The new accounting standard will require System institutions to estimate expected credit losses that are embedded in the purchase price of a PCD asset and recognize these amounts as an allowance as of the date of acquisition. As such, the initial allowance amount for a PCD asset recorded on a System institution's balance sheet will not be established through a charge to earnings. Including allowances in tier 2 capital that have not been charged against earnings would diminish the quality of regulatory capital. Post-acquisition increases in allowances for PCD assets will be established through a charge against earnings.

Accordingly, the final regulation provides that valuation allowances charged to retained earnings, in accordance with U.S. GAAP (*i.e.,* the allowances required at CECL adoption), are eligible for inclusion in tier 2 capital. This treatment of PCD assets, in effect, will reduce a System institution's standardized total risk weighted assets, similar to the proposed treatment for credit loss allowances for AFS debt securities.

Consistent with FCA's proposal and with the FBRAs' final CECL rule, this final rule does not allow System institutions to bifurcate PCD allowances to include post-acquisition allowances in the definition of AACL. As discussed in the preamble to the proposed rule, FCA is concerned a bifurcated approach could create undue complexity and burden for System institutions and believes requiring System institutions to calculate the carrying value of PCD assets net of allowances appropriately accounts for post-acquisition allowances in the calculation of regulatory capital.[28] FCA received no comments concerning not allowing a bifurcated approach.

B. CECL Transition Provision

Unlike the FBRAs' final CECL rule, FCA did not propose and is not adopting an optional phase-in of the day-one impacts of CECL on regulatory capital ratios. The FBRAs included an optional transition period for banking organizations to reduce the potential day-one adverse impacts CECL may have on a banking organization's regulatory capital ratios. The FBRAs included this transition period because of concerns that some banking organizations might face difficulties in capital planning because of uncertainty about the economic environment at the time of CECL adoption.[29]

All commenters asked FCA to adopt an optional transition period for the

[28] 84 FR 49684, 49687 (September 23, 2019).

[29] CECL requires consideration of current and future expected economic conditions to estimate allowances. To an extent, these conditions will not be known until closer to a System institution's CECL adoption date.

day-one impact CECL may have on an institution's regulatory capital to more closely align with the approach adopted by the FBRAs.[30] Two commenters stated that FCA should follow its own objective in the capital rules that became effective January 1, 2017, which was to ensure the System's capital requirements were comparable to the Basel III framework and the U.S. Rule.[31] Two commenters asserted that FCA's statement in the preamble to the proposed rule that all institutions will be sufficiently capitalized to absorb the day-one impacts of CECL is not supported by firm estimates.[32] Additionally, all commenters stated that as of their comment submission date, System institutions had not yet fully implemented CECL and were not able to definitively assess possible capital impacts of the implementation.[33]

FCA disagrees with these commenters. As when FCA proposed this rule, FCA continues to believe a transition provision is unnecessary for any System institution. First, even without a transition period, FCA expects all institutions will be sufficiently capitalized to absorb the day-one impact of CECL for the purpose of complying with regulatory capital requirements. Second, FCA's capital requirements are comparable to the Basel III framework and the U.S. Rule even without an optional phase-in period. Finally, adopting an optional phase-in period would create significant operational burden and complexity with no corresponding benefit to the safety and soundness of System institutions.[34]

The first reason a transition period is not necessary is because even without one, FCA expects all institutions will be sufficiently capitalized to absorb the day-one impact of CECL for the purpose of complying with regulatory capital requirements. FCA expects allowances estimated under CECL will likely increase at most System institutions, causing CET1 capital (including retained earnings) to decrease and tier 2 capital to increase. Total capital, which is generally the most constraining capital ratio for associations, would remain largely unchanged. For System banks, where the tier 1 leverage ratio is generally the most constraining capital ratio, FCA expects credit losses under CECL to result in little to no change for bank allowance levels.[35] FCA continues to believe all System institutions will continue to comply with regulatory capital ratios and buffers without a transition period.[36]

Contrary to the commenters' assertions, FCA's expectations for the day-one impact of CECL are supported by firm estimates. For the proposed rule, FCA analyzed allowance amounts from the Uniform Reports of Financial Condition and Performance (Call Report) for all System institutions under various stress scenarios.[37] For the final rule, FCA analyzed allowance amounts from updated Call Report data for all System institutions and completed a review of select System institutions' model development and implementation of CECL.[38] Additionally, since the proposed rule comment period closed, regulatory capital levels remain satisfactory, indicating the System is well positioned to absorb the day-one impact of CECL. In addition, the credit quality of the System's combined loan portfolio remains strong as of December 31, 2021.[39]

Based on these reviews, unless existing and future expected economic conditions significantly deteriorate after publication of this rule and before the January 1, 2023, effective date of this rule, FCA expects all institutions will be sufficiently capitalized to absorb the day-one impact of CECL for the purpose of complying with regulatory capital requirements. More specifically, FCA continues to believe the regulatory capital ratios of all System institutions—CET1; tier 1; total capital; and tier 1 leverage—will remain above the regulatory minimums and buffers after the implementation of CECL, even without a transition period. FCA considered this analysis as part of its determination not to provide an optional transition period for System institutions.

The second reason a transition period is not necessary is that FCA disagrees with the commenters' position that not adopting an optional phase-in period would diverge from FCA's capital rule objective to ensure the System's capital requirements are comparable to the Basel III framework and the U.S. Rule. FCA views comparability as ensuring the overall regulatory outcome of FCA's capital requirements are comparable with the U.S. Rule as appropriate, taking into account the differences between System institutions and banking organizations subject to the U.S. Rule.[40] While many requirements in FCA's capital rules are similar or identical to requirements in the U.S. Rule, comparability does not mean every provision and requirement in the U.S. Rule should be incorporated into FCA's capital rules. FCA's minimum capital requirements ensure the quality and quantity of capital are comparable to that of the U.S. Rule and reflect principles outlined in the Basel III framework, ensuring an overall uniform standard of capital quality that is consistent and transparent.

In adopting the tier 1/tier 2 capital rule in 2016, FCA did not adopt the majority of phase-in and transitional periods that were included in the U.S. Rule.[41] At the time, FCA determined most of these transitional and phase-in periods were not needed to give System institutions sufficient time to come into

[30] In response to a specific question from FCA on the matter, none of the commenters asked FCA to adopt a mandatory transition provision.

[31] System Workgroups Letter and Northwest Letter.

[32] System Workgroups Letter and Capital Letter.

[33] No commenters provided analysis to support their position. In the proposed rule, FCA requested analysis that would support a transition period or alternatives to a transition period that might accommodate institutions in their implementation of the CECL requirements.

[34] For the same reasons, FCA declines to adopt the second, COVID-related transition period the FBRAs adopted in 2020. In addition, FCA notes that transition period applied only to banking organizations that were required to implement CECL on January 1, 2020.

[35] While each System bank has different strategies and asset compositions, in general, the direct note to associations and investments comprise a majority of each banks' assets. Given these assets held at System banks (and their anticipated allowance levels under CECL), FCA anticipates all banks will maintain regulatory capital compliance.

[36] As noted above, FCA issued an informational memorandum in 2016 titled ''New Accounting Standard on Financial Instruments—Credit Losses.'' This informational memorandum specifically encouraged System institutions to plan and prepare for CECL's potential impact on capital and included seven items for System institutions to consider for the measurement, transition, and implementation of CECL. Institutions that have heeded this planning guidance have had ample opportunity to prepare themselves for CECL's day-one impact.

[37] *See* Call Report Schedule RC Balance Sheet.

[38] FCA also reviewed allowance ratios provided by the FBRAs as of June 30, 2021, which compared allowances for banking organizations that had already adopted CECL and allowance ratios for banking organizations that were still under the incurred loss model.

[39] The Funding Corporation reported strong credit quality in the combined System's loan portfolio with loans classified as Acceptable and Other Assets Especially Mentioned at 98.1 percent on December 31, 2021, compared to 97.5 percent on December 31, 2020. *See* 2021 Annual Information Statement of the Farm Credit System, March 1, 2022.

[40] As noted in FCA's preamble to the proposed tier 1/tier 2 capital rule, FCA changed items from the U.S. Rule as appropriate to account for the differences between System institutions and banking organizations regulated by the FBRAs. *See* 79 FR 52814 (September 4, 2014).

[41] As an example, the U.S. Rule provided for phase-in and transitional periods of certain regulatory deductions and adjustments, minority interests, and temporary inclusions of non-qualifying instruments. The FBRAs provided these transitional periods, in part, to provide banking organizations they regulate sufficient time to build capital to meet the new requirements. *See* 79 FR 52814 (September 4, 2014).

compliance with the new rules.[42] FCA's analysis at the time evidenced that all System institutions would exceed the minimum regulatory capital ratios on the effective date of the rule. Since January 1, 2017, the effective date of the rule, as FCA expected, System capital levels have remained satisfactory and all System institutions have exceeded all minimum regulatory capital requirements as well as applicable capital conservation and leverage buffer requirements.

In general, banking organizations regulated by the FBRAs may have a larger day-one impact from adopting CECL and a phase-in may be more appropriate to ensure their regulatory capital compliance. The lending operations of many of these banking organizations—including unsecured lending such as credit cards—have historically caused banking organizations to experience higher credit losses (as a percentage of loans) than System institutions. In contrast to many banking organizations, the System lends primarily to agriculture and other eligible borrowers in rural areas. Approximately 50 percent of the System's combined loan portfolio is in real estate mortgage and rural residential real estate loans. These real estate loans are generally long-term and well-secured, and they are generally expected to have lower credit losses than commercial real estate loans.

The final reason an optional transition period is not needed is that it would lead to unnecessary complexity and operational burden. An optional transition period would require changes to existing Call Report schedules that would require institutions to change existing reporting processes each year of the transition period. For example, new, more complex calculations would be necessary for each year of the transition period (based on the percentage of the transition amount allowed for the year) for reporting items such as retained earnings, average assets, AACL, and other assets. The Call Report would also need to be updated to reflect new temporary line items such as the CECL transition amount.[43]

If System institutions were not sufficiently capitalized to absorb the day-one impact of CECL, FCA believes the complexity and operational burden of an optional transition period might be warranted to provide relief from regulatory capital requirements. However, all System institutions are expected to be sufficiently capitalized to absorb the day-one impact and comply with regulatory capital requirements without an optional transition period.

An optional transition period could also be difficult to implement and maintain for System institutions in districts that make use of common standardized applications for computing and reporting regulatory capital. A transition period utilized by some institutions in such districts but not by others would appear to complicate supporting the common reporting platforms for those institutions. In addition, allowing an optional transition period would create a lack of comparability among System institutions' capital levels.

The commenters asked FCA to state in this final rule that the Agency will work with individual institutions to provide regulatory relief similar to a transition period if the day-one impacts of CECL cause a significant impact to an individual institution's regulatory capital ratios. FCA confirms the Agency will work with individual institutions if the day-one impact of CECL causes them not to comply with the regulatory capital requirements but does not commit to granting relief. As stated in the preamble to the proposed rule, if closer to the adoption of CECL its day-one impact threatens regulatory capital compliance, FCA may consider options to reduce the unanticipated impacts of implementing CECL. The type of action would depend on, among other factors, the significance of CECL's impact on an individual institution, the institution's capital strategy, business planning, and implementation efforts,[44] and how widespread the issue is throughout the System.

For these reasons, FCA declines to adopt a transition period for the day-one impact CECL may have on an institution's regulatory capital.

C. ''*Safe Harbor*'' *Deemed Prior Approval To Make Cash Distributions*

All commenters asked FCA to exclude any day-one CECL impacts from § 628.20(f)(5)(ii).

Section 628.20(f) requires System institutions to obtain prior approval from FCA before making any cash distributions of capital included in tier 1 or tier 2 capital. FCA's ''safe harbor'' deemed prior approval provisions, at § 628.20(f)(5), provide that System institutions are deemed to have prior approval from FCA to distribute cash payments as long as certain conditions are met. One of the conditions, in § 628.20(f)(5)(ii), stipulates that, after any such cash payments have been declared and defined by resolution of the board, the dollar amount of CET1 capital at quarter-end equals or exceeds the dollar amount of CET1 capital on the same quarter-end in the previous calendar year.[45]

Commenters believe FCA should exclude the day-one impacts CECL will have on the dollar amount of CET1 capital from compliance with this condition so that CECL implementation would not impact a System institution's ability to make cash capital distributions, including patronage payments, under the ''safe harbor.'' Commenters seek this exclusion so the existing deemed prior approval process would continue without interruption.

FCA disagrees with this request for several reasons. First, FCA believes it is unlikely the day-one impact would result in CET1 capital declining to the same level of CET1 capital on March 31, 2022 (the quarter-end of the prior year). The ''safe harbor'' essentially limits System institutions (without express FCA prior approval) to distributing net income for the current quarter (in which the distribution is declared and defined by resolution of the board) and the prior 3 quarters.

In practice, System institutions rarely make capital distributions—including paying dividends on preferred stock, making cash patronage payments, or redeeming or revolving equities—that equal net income for the current quarter and prior 3 quarters. Rather, in the last three years, System associations have reported, on average, distributing at least 40 percent of their net income in cash patronage.[46] This means the overwhelming majority of associations have had sufficient capacity both to pay cash patronage and to build capital.

FCA continues to expect System boards to give significant thought to capital distribution decisions and how they impact overall capitalization of their institution, especially regarding a cash payment that equals 12-months of net income. In the unlikely event CECL's day-one impact reduces CET1

[42] FCA did provide a phase-in period of 3 years for the 2.5 percent capital conservation buffer. *See* 81 FR 49720, 49721 (July 28, 2016).

[43] *See* Federal Financial Institutions Examination Council Supplemental Instructions: Interim Final Rules and Notice Issued March 2020, Revision 3: 2020 CECL Transition Provision.

[44] As noted above, FCA issued an informational memorandum in 2016 titled ''New Accounting Standard on Financial Instruments—Credit Losses'' which included seven items for System institutions to consider for the measurement, transition, and implementation of CECL. System institutions were specifically encouraged to plan and prepare for CECL's potential impact on capital.

[45] Note that amendments to the capital rule published at 86 FR 54347 (October 1, 2021) and effective on January 1, 2022, made a minor revision to this provision that does not change the comment or FCA's response.

[46] *See* Call Report Schedule RI–D Changes in Net Worth.

capital to a level where an institution could not use the ''safe harbor'' to make a cash patronage distribution in line with prior years, the appropriateness of making such a cash patronage distribution may be questionable.

Second, in the unlikely event CECL implementation would cause a System institution's CET1 capital to be less than the same quarter-end in the previous calendar year, that does not preclude the institution from paying patronage. An institution that wants to pay cash patronage but that cannot satisfy the ''safe harbor'' deemed prior approval requirements under § 628.20(f)(5) may request the prior approval of FCA for such distribution under § 628.20(f)(2) and (3).[47] In addition, a System institution may allocate equities to its member-borrowers as a form of patronage without needing to satisfy any requirements that could be affected by any day-one impacts from CECL.

D. Disclosures and Regulatory Reporting

FCA is adopting as final the proposed requirement for System banks to update their disclosures required under § 628.63 to reflect the adoption of CECL. Section 628.63 imposes public disclosure requirements for System banks related to the capital requirements contained in part 628. The public disclosure requirements are designed to provide important information to market participants on the scope of application, capital structure, risk exposures, risk assessment processes, capital adequacy of the bank, and techniques the bank uses to identify, measure, monitor, and control risks. The final rule replaces requirements to disclose ALL with requirements to disclose AACL. Additionally, the final rule updates references to ''probable loan losses'' and ''loan losses'' with references to allowance for credit losses (ACL)[48] or AACL, as applicable. FCA did not receive any comments related to the proposed bank disclosure amendments in § 628.63.

To reflect changes in U.S. GAAP concerning CECL, FCA anticipates revising the Call Reports in the first quarter of 2023. These revisions would specify the affected line items in the capital schedules and the newly defined term AACL. In addition, FCA intends to update the Call Report instructions for all references to ALL.

E. Conforming Changes to Other FCA Regulations

FCA is not adopting the proposed requirement for System institutions to provide a vintage year credit loss analysis disclosure in §§ 620.5[49] and 630.20.[50] However, the final rule adopts all the other proposed conforming changes.

1. Final Rule Change for Vintage Year Disclosure

Existing FCA regulations at §§ 620.5 and 630.20 require that the discussion and analysis of risk exposures analyze the ALL.[51] The proposal amended these disclosure requirements to update references to the ALL with the newly defined U.S. GAAP term ACL. The proposal also required a new credit loss analysis disclosure by vintage year.[52]

All commenters noted that a vintage year disclosure of the ACL is not required by U.S. GAAP. The commenters requested FCA not introduce specific disclosure requirements in §§ 620.5 and 630.20 that may result in regulatory disclosures being different than those required by U.S. GAAP. The commenters believe removing the vintage year requirement would eliminate the need for FCA to update regulations in the event of any subsequent changes in U.S. GAAP. Because of the overlap of U.S. GAAP disclosures and FCA's requirement to disclose the ''Allowance for credit losses-to-loans,''[53] the final rule removes the vintage year requirements for the allowance analysis in §§ 620.5(g)(1)(iv)(B) and 630.20(g)(1)(ii)(B), as requested by the commenters. However, consistent with the proposal, the final rule replaces the term ALL with ACL and requires a discussion of the adequacy of the allowance for credit losses given reasonable and supportable forecasts.

2. Conforming Changes Adopted as Proposed

The proposal made a conforming amendment to replace the key financial ratio ''Allowance for loan losses-to-loans'' with ''Allowance for credit losses-to-loans'' in the selected financial disclosure requirement for banks and associations in § 620.5(f). The commenters requested that FCA retain the existing ratio. The commenters believe retaining the existing ratio would avoid the need to reconcile financial data included in the regulatory financial disclosures with the U.S. GAAP balance sheet. The commenters stated a reconciliation would become necessary if the allowance for off-balance sheet credit exposures, which is a liability for U.S. GAAP purposes, were included within the definitions of ''Allowance for credit losses'' in the proposed rule. The commenters proposed as an alternative to require the denominator of the ratio (loans) be expanded to include total off-balance sheet credit exposures to keep the ratios comparable.

FCA disagrees with the commenters' suggestion and continues to believe System disclosures should remain generally consistent with those of the financial services industry, as they have been since at least 1986. FCA's disclosure requirements in the annual report to shareholders and investors are similar to, though not as extensive as, those required by the SEC and other financial regulators.[54] The disclosure reporting requirements originally adopted by FCA in 1986 were generally similar to the SEC Industry Guide 3, *Statistical Disclosure by Bank Holding Companies (Industry Guide 3).*[55] Subsequent to FCA's proposed CECL rule, the SEC updated and codified certain Industry Guide 3 disclosure requirements, including requirements for a similar Allowance for Credit Losses-to-loans ratio disclosure.[56] The FCA continues to believe that System institution shareholders should have access to comparable disclosures made to shareholders of other financial institutions in order to enhance the borrower ownership and control mandated by the Act.

Similarly, the proposal made a conforming amendment to replace the balance sheet line item ''Allowance for

[47] Section 628.20(f)(2) and (3) provide that at least 30 days prior to the intended action, a System institution must submit a request for approval to FCA for a 30-day review period before it takes the intended action. The request is deemed to be granted if FCA does not notify the System institution to the contrary before the end of the 30-day review period. While the prior approval provisions under § 628.20(f)(2) and (3) do not require any supporting documentation, institutions that have material declines in CET1 capital due to the day-one impact of CECL may want to provide the following supporting documentation in any prior approval request related to CECL's implementation: (1) The institution's historical trends and current projections for capital growth through earnings retention, (2) average cash patronage payments over the last 3 years, (3) projected cash patronage payments over the institution's current planning horizon, and (4) the most recent allowance analysis/study under CECL.

[48] ASU No. 2016–13 removes impairment approaches and related terminology, including replacing the term ALL with ACL.

[49] Governing the contents of the annual report to shareholders.

[50] Governing the contents of the annual report to investors.

[51] *See* §§ 620.5(g)(1)(iv)(B) and 630.20(g)(1)(ii)(B).

[52] *See* proposed §§ 620.5(g)(1)(iv)(B) and 630.20(g)(1)(ii)(B).

[53] *See* §§ 620.5(f)(1)(iii)(F) and 630.20(f)(3)(v).

[54] *See* 50 FR 34711, 34712 (August 27, 1985).

[55] *See* 51 FR 8656 (March 13, 1986).

[56] *See* 85 FR 66108 (October 16, 2020). *See also* 17 CFR 229.1405 (Item 1405) Allowance for Credit Losses.

losses'' with ''Allowance for credit losses'' in the selected financial disclosure requirement for banks and associations in § 620.5(f). Commenters s uggested FCA retain the current § 620.5(f)(1)(i)(D) requirement to disclose the allowance for loan losses, rather than adopting the proposed requirement to disclose the allowance for credit losses. Commenters stated the new requirement could result in regulatory disclosure requirements that are different than those required by U.S. GAAP.

FCA disagrees with the commenters' suggestions regarding the usage of ''Allowance for credit losses'' in § 620.5(f)(1)(i)(D) as FCA believes it is important for users of the annual report to understand the amount of potential credit losses to which each bank and association may be exposed. While certain regulatory disclosures, such as the proposed § 620.5(f)(1)(i)(D), may require a reconciliation with U.S. GAAP, FCA continues to believe shareholders should have access to comparable disclosures provided to shareholders of other financial institutions. By retaining the conforming proposed financial disclosures in the final rule, System institutions will be required to provide transparent and comparable disclosures similar to others in the financial services industry.[57]

FCA received no comments relating to any other proposed conforming change and adopts them as proposed.

A number of existing FCA regulations outside of part 628 refer to ALL or to ''loan loss.'' As discussed above, ASU No. 2016–13 removes impairment approaches and related terminology, including replacing the term ALL with ACL. Accordingly, most of the conforming changes outside of part 628 are to replace ALL or ''loan loss'' with ACL or ''credit loss,'' as appropriate. In addition, several existing regulations that refer to ''allowance for losses'' more appropriately refer to ACL.

Most of the conforming changes to regulations within part 628 (as well as to regulations that refer to regulations within part 628), replace ''ALL'' with ''AACL.'' In the capital disclosures at § 628.63, the final rule replaces references to ''probable loan losses'' and ''loan losses'' with ACL or AACL, as applicable.

The final rule makes conforming changes in the following parts:

- Part 611—Organization
- Part 615—Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations
- Part 620—Disclosure to Shareholders
- Part 621—Accounting and Reporting Requirements
- Part 628—Capital Adequacy of System Institutions
- Part 630—Disclosure to Investors in Systemwide and Consolidated Bank Debt Obligations of the Farm Credit System.

F. Effective Date

Under U.S. GAAP, System institutions are required to implement the new standard for purposes of Systemwide combined financial statements for the Call Report quarter ending March 31, 2023. Thus, the final rule will be effective January 1, 2023, for System institutions.

All commenters recommended that FCA not adopt a specific effective date and instead include a more generic reference to the effective date required by U.S. GAAP. When FCA's proposed rule was published in September of 2019, as discussed above, CECL was scheduled to be effective for PBEs that are not SEC filers, such as the Funding Corporation, on January 1, 2021. After FCA's proposed rule was published, FASB deferred the mandatory effective date of CECL for such entities to January 1, 2023.[58] FCA agrees with System commenters that this final rule should be effective consistent with U.S. GAAP. If FASB changes the effective date of CECL for System institutions, FCA will update the effective date of this final rule consistent with the System's implementation date of CECL.

G. Supervisory Guidance on the ACL

FCA expects to issue supervisory guidance on the ACL and update existing guidance referencing ALL. Until that time, many concepts, processes, and practices detailed in existing supervisory guidance on the ALL continue to remain relevant under CECL. Relevant guidance includes, but is not limited to, information related to management's responsibility for the allowance estimation process, the board of directors' responsibility for overseeing management's process, and the need for institutions to appropriately support and document their allowance estimates.[59] Until new guidance is issued, institutions should consider the relevant sections of existing ALL guidance in their implementation of the new accounting standard.

IV. Regulatory Analysis

A. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), FCA hereby certifies that this final rule would not have a significant economic impact on a substantial number of small entities. Each of the banks in the System, considered together with its affiliated associations, has assets and annual income in excess of the amounts that would qualify them as small entities. Therefore, System institutions are not ''small entities'' as defined in the Regulatory Flexibility Act.

B. Congressional Review Act

Under the provisions of the Congressional Review Act (5 U.S.C. 801 *et seq.*), the Office of Management and Budget's Office of Information and Regulatory Affairs has determined that this final rule is not a ''major rule'' as the term is defined at 5 U.S.C. 804(2).

List of Subjects

12 CFR Part 611

Agriculture, Banks, banking, Rural areas.

12 CFR Part 615

Accounting, Agriculture, Banks, banking, Government securities, Investments, Rural areas.

12 CFR Part 620

Accounting, Agriculture, Banks, banking, Reporting and recordkeeping requirements, Rural areas.

12 CFR Part 621

Accounting, Agriculture, Banks, banking, Reporting and recordkeeping requirements, Rural areas.

12 CFR Part 628

Accounting, Agriculture, Banks, banking, Capital, Government securities, Investments, Rural areas.

12 CFR Part 630

Accounting, Agriculture, Banks, banking, Organization and functions (Government agencies), Reporting and recordkeeping requirements, Rural areas.

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[57] Commenters did not request changes to similar disclosure requirements in part 630. Since the requirements are similar, FCA considered the comments in connection with those requirements as well and, for the same reasons, declines to amend them.

[58] In November 2019, FASB issued ASU 2019–10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) Effective Dates, which amended the effective date of CECL.

[59] Existing supervisory guidance includes: FCA Bookletter 49, Adequacy of Farm Credit System Institutions' Allowance for Loan Losses and Risk Funds, April 26, 2004; FCA Informational Memorandum, Allowance for Loan Losses, June 30, 2009; FCA Exam Manual, Allowance for Loan Losses, November 17, 2015; and FCA Exam Manual, Corporate Governance, September 24, 2021.

For the reasons stated in the preamble, the Farm Credit Administration amends parts 611, 615, 620, 621, 628, and 630 of chapter VI, title 12 of the Code of Federal Regulations as follows:

PART 611—ORGANIZATION

■ 1. The authority citation for part 611 is revised to read as follows:

Authority: Secs. 1.2, 1.3, 1.4, 1.5, 1.12, 1.13, 2.0, 2.1, 2.2, 2.10, 2.11, 2.12, 3.0, 3.1, 3.2, 3.3, 3.7, 3.8, 3.9, 4.3A, 4.12, 4.12A, 4.15, 4.20, 4.25, 4.26, 4.27, 4.28A, 5.9, 5.17, 5.25, 7.0–7.3, 7.6–7.13, 8.5(e) of the Farm Credit Act (12 U.S.C. 2002, 2011, 2012, 2013, 2020, 2021, 2071, 2072, 2073, 2091, 2092, 2093, 2121, 2122, 2123, 2124, 2128, 2129, 2130, 2154a, 2183, 2184, 2203, 2208, 2211, 2212, 2213, 2214, 2243, 2252, 2261, 2279a–2279a–3, 2279b–2279f–1, 2279aa–5(e)); secs. 411 and 412, Pub. L. 100–233, 101 Stat. 1568, 1638, as amended by secs. 403 and 404, Pub. L. 100–399, 101 Stat. 989, 999 (12 U.S.C. 2071 note and 2202 note).

§ 611.515 [Amended]

■ 2. Amend § 611.515(b)(6)(ii)(E) by removing the word ''loan'' and adding in its place the word ''credit''.

§ 611.1122 [Amended]

■ 3. Amend § 611.1122 by:

■ a. Removing in paragraph (e)(6)(iii) the word ''loan'' and adding in its place the word ''credit''; and

■ b. Removing in paragraph (e)(10) the words ''loan losses'' and adding in their place the words ''credit losses'' wherever they appear.

§ 611.1130 [Amended]

■ 4. Amend § 611.1130(b)(4)(i) by removing the words ''allowance for losses'' and adding in their place the words ''allowance for credit losses''.

§ 611.1223 [Amended]

■ 5. Amend § 611.1223(c)(23)(ii) by removing the words ''allowance for losses'' and adding in their place the words ''allowance for credit losses''.

§ 611.1250 [Amended]

■ 6. Amend § 611.1250(b)(5)(i)(B) by removing the words ''loan losses'' and adding in their place the words ''credit losses''.

§ 611.1255 [Amended]

■ 7. Amend § 611.1255(b)(5)(i)(B) by removing the words ''general allowance for losses'' and adding in their place the words ''general allowance for credit losses''.

PART 615—FUNDING AND FISCAL AFFAIRS, LOAN POLICIES AND OPERATIONS, AND FUNDING OPERATIONS

■ 8. The authority citation for part 615 is revised to read as follows:

Authority: Secs. 1.5, 1.7, 1.10, 1.11, 1.12, 2.2, 2.3, 2.4, 2.5, 2.12, 3.1, 3.7, 3.11, 3.25, 4.3, 4.3A, 4.9, 4.14B, 4.25, 5.9, 5.17, 8.0, 8.3, 8.4, 8.6, 8.8, 8.10, 8.12 of the Farm Credit Act (12 U.S.C. 2013, 2015, 2018, 2019, 2020, 2073, 2074, 2075, 2076, 2093, 2122, 2128, 2132, 2146, 2154, 2154a, 2160, 2202b, 2211, 2243, 2252, 2279aa, 2279aa–3, 2279aa–4, 2279aa–6, 2279aa–8, 2279aa–10, 2279aa–12); sec. 301(a), Pub. L. 100–233, 101 Stat. 1568, 1608, as amended by sec. 301(a), Pub. L. 103–399, 102 Stat 989, 993 (12 U.S.C. 2154 note); sec. 939A, Pub. L. 111–203, 124 Stat. 1326, 1887 (15 U.S.C. 78o–7 note).

§ 615.5050 [Amended]

■ 9. Amend § 615.5050 by:

■ a. Removing in paragraph (c)(1) the words ''allowance for loan losses'' and adding in their place the words ''allowance for credit losses''; and

■ b. Removing in paragraphs (c)(2) through (4) the words ''allowance for losses'' and adding in their place the words ''allowance for credit losses''.

§ 615.5132 [Amended]

■ 10. Amend § 615.5132(a) by removing the words ''loan loss adjustments'' and adding in their place the words ''credit loss adjustments''.

§ 615.5140 [Amended]

■ 11. Amend § 615.5140(b)(4)(ii) by removing the words ''loan loss'' and adding in their place the words ''credit loss''.

§ 615.5200 [Amended]

■ 12. Amend § 615.5200(c)(4) by adding the word ''credit'' before ''losses''.

§ 615.5201 [Amended]

■ 13. Amend § 615.5201 by removing the words ''allowance for loan losses'' and adding in their place the words ''adjusted allowance for credit losses'' in the definition of ''Risk-adjusted asset base''.

§ 615.5351 [Amended]

■ 14. Amend § 615.5351(d) by adding the word ''credit'' before ''loss''.

PART 620—DISCLOSURE TO SHAREHOLDEERS

■ 15. The authority citation for part 620 is revised to read as follows:

Authority: Secs. 4.3, 4.3A, 4.19, 5.9, 5.17, 5.19 of the Farm Credit Act (12 U.S.C. 2154, 2154a, 2207, 2243, 2252, 2254); sec. 424, Pub. L. 100–233, 101 Stat. 1568, 1656 (12 U.S.C. 2252 note); sec. 514, Pub. L. 102–552, 106 Stat. 4102, 4134.

■ 16. Amend § 620.5 by:

■ a. Removing in paragraph (f)(1)(i)(D) the word ''losses'' and adding in its place the words ''credit losses'';

■ b. Removing in paragraph (f)(1)(ii)(B) the words ''loan losses'' and adding in their place the words ''credit losses'';

■ c. Removing in paragraph (f)(1)(iii)(F) the words ''loan losses-to-loans'' and adding in their place the words ''credit losses-to-loans'';

■ d. Revising paragraph (g)(1)(iv)(B); and

■ e. Removing in paragraph (g)(1)(iv)(E) the word ''losses'' and adding in its place the word ''credit losses''.

The revision reads as follows:

§ 620.5 Contents of the annual report to shareholders.

* * * * *

(g) * * *

(1) * * *

(iv) * * *

(B) An analysis of the allowance for credit losses that includes the ratios of the allowance for credit losses to loans and net chargeoffs to average loans, and a discussion of the adequacy of the allowance for credit losses given reasonable and supportable forecasts;

* * * * *

PART 621—ACCOUNTING AND REPORTING REQUIREMENTS

■ 17. The authority citation for part 621 is revised to read as follows:

Authority: Secs. 5.17, 5.19, 5.22A, 8.11 of the Farm Credit Act (12 U.S.C. 2183, 2202, 2202a, 2202d, 2252, 2257a, 2279aa–11); Pub. L. 102–552, 106 Stat. 4102, 4134.

§ 621.5 [Amended]

■ 18. Amend § 621.5 by removing the word ''loan'' and adding in its place the word ''credit'' in the section heading and paragraphs (a) and (b).

§ 621.8 [Amended]

■ 19. Amend § 621.8(c)(2) by removing the word ''loan'' and adding in its place the word ''credit''.

PART 628—CAPITAL ADEQUACY OF SYSTEM INSTITUTIONS

■ 20. The authority citation for part 628 is revised to read as follows:

Authority: Secs. 1.5, 1.7, 1.10, 1.11, 1.12, 2.2, 2.3, 2.4, 2.5, 2.12, 3.1, 3.7, 3.11, 3.25, 4.3, 4.3A, 4.9, 4.14B, 4.25, 5.9, 5.17, 8.0, 8.3, 8.4, 8.6, 8.8, 8.10, 8.12 of the Farm Credit Act (12 U.S.C. 2013, 2015, 2018, 2019, 2020, 2073, 2074, 2075, 2076, 2093, 2122, 2128, 2132, 2146, 2154, 2154a, 2160, 2202b, 2211, 2243, 2252, 2279aa, 2279aa–3, 2279aa–4, 2279aa–6, 2279aa–8, 2279aa–10, 2279aa–12); sec.

301(a), Pub. L. 100–233, 101 Stat. 1568, 1608, as amended by sec. 301(a), Pub. L. 103–399, 102 Stat 989, 993 (12 U.S.C. 1254 note); sec. 939A, Pub. L. 111–203, 124 Stat. 1326, 1887 (15 U.S.C. 78o–7 note).

■ 21. Amend § 628.2 by:
■ a. Adding in alphabetical order a definition for ''Adjusted allowances for credit loss (AACL)'';
■ b. Removing the definition of ''Allowances for loan losses (ALL)''; and
■ c. Adding a sentence at the end of the definition of ''Carrying value'';
■ d. Revising paragraph (2) of the definition of ''Standardized total risk-weighted assets''.

The additions and revision reads as follows:

§ 628.2 Definitions.

* * * * *

Adjusted allowances for credit losses (AACL) means valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on financial assets measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, adjusted allowances for credit losses includes allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance as determined in accordance with GAAP. Adjusted allowances for credit losses excludes allowances created that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities.

* * * * *

Carrying value * * * For all assets other than available-for-sale debt securities or purchased credit deteriorated assets, the carrying value is not reduced by any associated credit loss allowance that is determined in accordance with GAAP.

* * * * *

Standardized total risk-weighted assets * * *

(2) Any amount of the System institution's adjusted allowance for credit losses that is not included in tier 2 capital.

* * * * *

§ 628.20 [Amended]

■ 22. Amend § 628.20(d)(3) by removing the word ''ALL'' and adding in its place the word ''AACL'' wherever it appears.

§ 628.22 [Amended]

■ 23. Amend § 628.22(c) by removing the word ''ALL'' in footnote 6 and adding in its place the word ''AACL''.

■ 24. Amend § 628.63(c) in Table 5 by revising entries (a)(5), (e)(5), and (g) and footnote 6 to read as follows:

§ 628.63 Disclosures.

* * * * *

(c) * * *

TABLE 5 TO § 628.63[1]—CREDIT RISK: GENERAL DISCLOSURES

Qualitative Disclosures	(a) * * * (5) Description of the methodology that the System bank uses to estimate its adjusted allowance for credit losses, including statistical methods used where applicable;
* * *	* * * *
	(e) * * * (5) The balance in the adjusted allowance for credit losses at the end of each period according to GAAP; and
* * *	* * * *
	(g) Reconciliation of changes in adjusted allowance for credit losses.[6]
* * *	* * * *

[1] This Table 5 does not cover equity exposures, which should be reported in Table 9 of this section.

* * * * * * *

[6] The reconciliation should include the following: A description of the allowance; the opening balance of the allowance; charge-offs taken against the allowance during the period; amounts provided (or reversed) for estimated credit losses during the period; any other adjustments (for example, exchange rate differences, business combinations, acquisitions and disposals of subsidiaries), including transfers between allowances; and the closing balance of the allowance. Charge-offs and recoveries that have been recorded directly to the income statement should be disclosed separately.

* * * * *

PART 630—DISCLOSURE TO INVESTORS IN SYSTEMWIDE AND CONSOLIDATED BANK DEBT OBLIGATIONS OF THE FARM CREDIT SYSTEM

■ 25. The authority citation for part 630 is revised to read as follows:

Authority: Secs. 4.2, 4.9, 5.9, 5.17, 5.19 of the Farm Credit Act (12 U.S.C. 2153, 2160, 2243, 2252, 2254); sec. 424, Pub. L. 100–233, 101 Stat. 1568, 1656 (12 U.S.C. 2252 note); sec. 514, Pub. L. 102–552, 106 Stat. 4102, 4134.

■ 26. Amend § 630.20 by:
■ a. Removing in paragraph (f)(1)(ii) the word ''losses'' and adding in its place the words ''credit losses'';
■ b. Removing in paragraphs (f)(2)(iii) and (f)(3)(v) the words ''loan losses'' and adding in their place the words ''credit losses''; and
■ c. Revising paragraph (g)(1)(ii)(B).

The revision reads as follows:

§ 630.20 Contents of the annual report to investors.

* * * * *

(g) * * *
(1) * * *
(ii) * * *
(B) An analysis of the allowance for credit losses to loans and net chargeoffs to average loans and a discussion of the adequacy of the allowance for credit losses given reasonable and supportable forecasts.

* * * * *

■ 27. Revise appendix A to part 630 to read as follows:

Appendix A to Part 630—Supplemental Information Disclosure Guidelines

Supplemental information required by §§ 630.20(m) and 630.40(e) shall contain, at a minimum, the current year financial data for the components listed in the following tables and be presented in the columnar format illustrated in the following tables:

TABLE A—SUPPLEMENTAL BALANCE SHEET INFORMATION

	Banks [1]	Associations [2]	Financial assistance corporation	Eliminations	Combined without insurance fund [3]	Insurance fund and related combination entries	Combined with insurance fund
Cash and investments. Net loans. Restricted assets. Other Assets.							
Total assets.							
Total liabilities. Protected borrower capital [4]. Restricted capital. Capital stock and surplus.							
Total liabilities, protected borrower capital, and capital stock and surplus.							

[1] Provided combined financial data of all FCS banks, including any consolidated subsidiaries of the banks.
[2] Provide association-only combined financial data of all FCS associations.
[3] Provide the combined financial data of all columns on the left.
[4] Any item that is no longer applicable, *e.g., protected borrower stock, may be omitted.*

TABLE B—SUPPLEMENTAL INCOME STATEMENT INFORMATION

	Banks [1]	Associations [2]	Financial assistance corporation	Eliminations	Combined without insurance fund [3]	Insurance fund and related combination entries	Combined with insurance fund
Net interest income. Provision for credit losses. Other income. Other expenses.							
Net Income.							

[1] Provide combined financial data of all FCS banks, including any consolidated subsidiaries of the banks.
[2] Provide association-only combined financial data of all FCS associations.
[3] Provide the combined financial data of all columns on the left.

Dated: April 20, 2022.

Ashley Waldron,

Secretary, Farm Credit Administration Board.

[FR Doc. 2022–08832 Filed 5–6–22; 8:45 am]

BILLING CODE 6705–01–P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. FAA–2022–0511; Project Identifier AD–2022–00397–T; Amendment 39–22043; AD 2022–10–05]

RIN 2120–AA64

Airworthiness Directives; Gulfstream Aerospace Corporation Airplanes

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Final rule; request for comments.

SUMMARY: The FAA is superseding Airworthiness Directive (AD) 2020–05–12, which applied to all Gulfstream Aerospace Corporation Model GVII–G500 and GVII–G600 airplanes. AD 2020–05–12 required revising the existing airplane flight manual (AFM) to incorporate revised limitations and procedures. This AD was prompted by reports of two landing incidents in which the alpha limiter engaged in the landing flare in unstable air, resulting in high rate of descent landings and damage to the airplanes. This AD retains certain requirements, and also adds and replaces certain AFM sections with more restrictive limitations and procedures. The FAA is issuing this AD to address the unsafe condition on these products.

DATES: This AD is effective May 9, 2022.

The Director of the Federal Register approved the incorporation by reference of certain publications listed in this AD as of March 13, 2020 (85 FR 14562, March 13, 2020).

The FAA must receive comments on this AD by June 23, 2022.

ADDRESSES: You may send comments, using the procedures found in 14 CFR 11.43 and 11.45, by any of the following methods:

- *Federal eRulemaking Portal:* Go to *https://www.regulations.gov.* Follow the instructions for submitting comments.
- *Fax:* 202–493–2251.
- *Mail:* U.S. Department of Transportation, Docket Operations, M–30, West Building Ground Floor, Room W12–140, 1200 New Jersey Avenue SE, Washington, DC 20590.
- *Hand Delivery:* Deliver to Mail address above between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays.

For service information identified in this final rule, contact Gulfstream Aerospace Corporation, Technical Publications Dept., P.O. Box 2206, Savannah, GA 31402–2206; telephone 800–810–4853; fax 912–965–3520; email *pubs@gulfstream.com;* internet *http://www.gulfstream.com/customer-support.* You may view this service information at the FAA, Airworthiness Products Section, Operational Safety Branch, 2200 South 216th St., Des Moines, WA. For information on the availability of this material at the FAA, call 206–231–3195. It is also available at *https://www.regulations.gov* by searching for and locating Docket No. FAA–2022–0511.

Examining the AD Docket

You may examine the AD docket at *https://www.regulations.gov* by searching for and locating Docket No. FAA–2022–0511; or in person at Docket Operations between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays. The AD docket contains this