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FINANCIAL REGULATION

Banks Get a Break on Soured-Loan Accounting

Banks received a reprieve on Tuesday from a new accounting rule that requires them to book losses on soured loans more quickly

Federal Deposit Insurance Corp. offices in Washington **PHOTO:** STEPHEN VOSS FOR THE WALL STREET JOURNAL

By Michael Rapoport and Andrew Ackerman

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Banks received a reprieve on Tuesday from a new accounting rule that requires them to book losses on soured loans more quickly.

The Federal Deposit Insurance Corp. approved a measure, proposed in April, that will allow banks to take three years to phase in the impact of the new accounting rule on their regulatory capital.

The rule, which publicly traded banks must adopt by 2020, will require lenders to book all expected losses from their loans as soon as the loans are issued, and that could require some banks to significantly boost their loan-loss reserves, which would reduce regulatory capital.

The FDIC's move is separate from a continuing push by some banks for a delay and softening of the rule. In that effort, banks are arguing the need to book loan losses up front will exacerbate any future recession or economic downturn.

Tuesday's measure was approved without any significant changes from the April proposal, according to documents the FDIC distributed at its meeting.

The reprieve comes a day before a separate panel of senior financial regulators known as the Financial Stability Oversight Council is set to conduct its own review of the accounting provision in a closed-door meeting at the Treasury Department. The American Bankers Association and 52 state banking groups in October asked the FSOC to seek a delay in the rule to allow time for a comprehensive study of its impact.

The FSOC has no authority to impose a delay on its own, though it does have a bully pulpit it can use to pressure policy makers on issues.

Currently, banks don't book losses on their loans until they have evidence the losses will occur. But critics said that method led banks to be too slow in recording losses after the 2008 financial crisis, and that investors needed more timely information about banks' finances.

The new accounting method—known as CECL, for current expected credit losses—was approved in 2016 by the Financial Accounting Standards Board, which sets accounting rules for U.S. companies.

ABA President and CEO Rob Nichols said his group "appreciates" the FDIC's changes but added they don't go far enough.

"Banks have long been concerned about CECL's cost and impact on our ability to serve our customers and communities," Mr. Nichols said in a written statement, adding his group wants a delay until "a quantitative impact study can be conducted and the economic consequences of the accounting standard are fully understood."

The FDIC's measure also makes changes in how bad-loan reserves are counted in regulatory capital. Banks also will be able to delay having the loan-loss change affect their regulatory "stress tests" until the 2020 testing cycle.

The other bank regulators, the Federal Reserve and the Office of the Comptroller of the Currency, are expected to sign off on the measure later this week.

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