December 16, 2019

Chief Counsel’s Office, Attn: Comment Processing  Robert E. Feldman, Executive Secretary
Office of the Comptroller of the Currency Federal Deposit Insurance Corporation
400 7th Street, SW, Suite 3E-218  550 17th Street, NW
Washington, DC 20219  Washington, DC 20249

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

Via email

Re: Proposed Interagency Policy Statement on Allowances for Credit Losses (Docket OCC-2019-0013; FRB Docket No. OP-1680)

To Whom It May Concern:

The American Bankers Association1 and The Bank Policy Institute2 (collectively, the Associations) appreciate the opportunity to comment on the Proposed Interagency Policy Statement on Allowances for Credit Losses (the Proposal). The Proposal recognizes the implementation of Accounting Standards Update 2016-13 (CECL, which is effective in 2020 for large SEC registrants and in 2023 for all other organizations) and, thus, supersedes previous Interagency guidance that has guided long-running bank practice as related to impairment accounting. CECL represents a dramatic change in practice and governance. Implementation requires a forecast of lifetime credit losses, significantly different data, and careful analysis; overall governance processes are anticipated to be applied in the credit loss estimation process much differently from current processes today. The Associations welcome and support the agencies in their efforts to provide substantive guidance to the industry.

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1 The American Bankers Association is the voice of the nation’s $18 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard more than $14 trillion in deposits, and extend $10.4 trillion in loans.

2 The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation’s small business loans, and are an engine for financial innovation and economic growth.
The Associations expect practices related to CECL provisioning to evolve over time, even prior to the effective date for the 2023-adopters. Further, evolution in auditing practices and investor needs is bound to occur. Therefore, the Associations believe that institutions must anticipate flexibility in their CECL systems, and it is in this vein that we provide our comments.

Overall, given the enormous change that CECL represents, the Associations believe that a final Policy Statement should clarify how expectations related to CECL practices and analyses may differ from current incurred loss accounting and how current practices (such as nonaccrual and charge-off practices) might change. The Associations also believe that the document should reduce conflicting messages from other organizations (such as the AICPA and FASB) as to expected supporting documentation and internal controls.

On the following pages, we provide specific comments that generally address the four questions posed on pages 12 and 13.

Thank you for your attention to these matters and for considering our views. Please feel free to contact the undersigned if you would like to discuss our views.

Sincerely,

Michael L. Gullette
Senior Vice President, Tax and Accounting
American Bankers Association
(202) 663-4986
mgullette@aba.com

David Wagner
Deputy General Counsel, Senior Vice President and Head of Finance, Risk and Audit Affairs
Bank Policy Institute
(646) 736-3958
david.wagner@bpi.com
Specific Comments to the Proposed Interagency Policy Statement

1. Guidance Is Needed to Address an “Appropriate Expected Credit Loss Framework” at Smaller Institutions

The Proposal refers to an “appropriate expected credit loss framework” that appears to be summarized through sections relating to Documentation Standards, Analyzing and Validating the Overall Measurement of ACLs, Responsibilities of the Board of Directors, and Responsibilities of Management. The Proposal is written broadly, with little detail, and normally this is not a problem. However, community banks have been receiving contradictory messages related to modeling complexity, and the Associations believe that this is slowing down the overall implementation process. For example, FASB papers emphasize that non-complex credit loss modeling can often be appropriate:

There is no expectation that a less complex entity should have to implement a sophisticated model to satisfy the requirements of Update 2016-13.³

On the other hand, many auditors emphasize CECL’s complexity, which implies that a great deal of additional work will be necessary to support CECL forecasts. The Auditing Standards Board’s exposure draft on “Auditing Accounting Estimates and Related Disclosures,” for example, appears to assume that credit loss estimation processes will be complex, even needing specialized skills, due to the high estimation uncertainty.

…for expected credit losses of a banking institution or an insurance contract liability for an insurance entity, the auditor is likely to conclude that it is necessary to apply specialized skills or knowledge.

…Accounting estimates for expected credit losses are also likely to be subject to high estimation uncertainty and significant subjectivity in making judgments about future events or conditions.⁴

Other documents may be providing further confusion to community bankers related to the extent of work they need to address. In contrast to the high-level framework described in the Proposal, the American Institute of CPAs (AICPA) has issued a Practice Aid that, while directly relevant to auditors, has been promoted by the AICPA’s Depository Institutions Expert Panel as being highly relevant for banks as preparers of the financial statements. The Committee on Corporate Reporting (CCR) of Financial Executives International has also issued “ICFR: Insights, Issues, and Practices” related to CECL (CCR document). Both the CCR document and the Practice Aid are detailed, contain certain examples, and represent a natural reference for each of the issues.

³ FASB Staff Q&A Topic 326, No. 1, Whether the Weighted-Average Remaining Maturity Method is an Acceptable Method to Estimate Expected Credit Losses.

⁴ Paragraphs A64 and A68.
addressed in the Proposal. In fact, in addition to greater detail regarding issues addressed in the Proposal, the Practice Aid also addresses certain items of critical importance:

- In relation to qualitative adjustments to historical information, the Practice Aid notes:

  “The less objective and more qualitative in nature the adjustment is (meaning it has less quantitative support), the greater the need for robust documentation. In all cases, it is expected that management will document the relevant factors and related adjustments, especially qualitative adjustments, that it considered and include in the documentation objective evidence to support the amount of adjustment (or why there is no adjustment) and an explanation about why (or why not) an adjustment is necessary.”

  The message that significant work required to quantitatively support “Q factor adjustments” conflicts with messaging from FASB staff, who indicate that little difference to current practice is needed to support such adjustments. Considering that regulator messaging to community banks has been relatively silent, thus far, on the level of documentation expected over Q factor adjustments, final interagency guidance should have a discussion related to the nature and extent of documentation of such adjustments.

- The Practice Aid addresses “Consideration of Management Bias.” Management bias consists of “availability bias,” “anchoring bias,” “confirmation bias,” and “familiarity bias.” Presumably to address certain bias, the CCR document addresses consideration of contradictory evidence. There is no mention in the Proposal as to how banks should address any of these biases.

  Further, addressing these control concerns could have significant implications to many banks. For example, the Associations believe that addressing “availability bias” (relying on specific information that is readily available to them) may result in an expectation of referring to external data in some respect. Any expectation the agencies have that certain assumptions (for example, prepayment rates) should be consistent with other functions in the organization (for example, with asset/liability management or budgeting purposes) should be communicated.

  The Associations recommend that a final Policy Statement address these internal control concerns and that examples should be provided on how such bias can be mitigated at smaller institutions.

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5 Page 33 of the Practice Aid. The Associations believe that this interpretation helps explain the comment on page 23 of the Proposal “Adjustments may be quantitative or qualitative in nature…” With this in mind, we recommend that the final Policy Statement include examples of “quantitative adjustments” and “qualitative adjustments.”

6 PCAOB standard 2501 as well as the current Proposed Statement on Auditing Standards of the Auditing Standards Board “Auditing Accounting Estimates and Related Disclosures.”
The Proposal appears to imply that a loss estimation model is an advanced, or automated, process\(^7\) while the Practice Aid definition of a “model” includes any method, system, or approach that applies math to arrive at a quantitative estimate.\(^8\) As such, the Proposal appears to imply that certain CECL estimation processes would not be subject to model validation processes. If there are expectations related to model validation that are different under CECL modeling from current processes, we believe that they should be addressed in the Final Policy Statement.

As you can see, many community bankers can be understandably confused as to an appropriate implementation plan. Contradictory messaging from FASB and auditors are being heard, and overall the CCR document and the Practice Aid set high benchmarks in relation to expectations regarding an “Appropriate Expected Credit Loss Framework.” The Associations believe that guidance on internal controls and governance guidance can effectively be scaled to smaller institutions. However, the Associations also believe that smaller institutions need more detailed guidance on what that appropriate framework would look like at their specific banks. Therefore, the Associations recommend that a final Policy Statement contain an Appendix that address internal control concerns at smaller institutions. The Associations would be happy to work with the agencies, community bankers, and auditing firms in developing such a guide.

2. **Capital Management Expectations Under an Appropriate Expected Credit Loss Framework Should Be Provided**

Due to the volatility inherent in long-term forecasting of lifetime credit losses and the highly judgmental and subjective nature of the estimate, CECL is expected to change significantly how certain banks manage capital. With this in mind, the 2006 interagency guidance addressed the allowance for loan and lease losses (ALLL) in relation to capital management with the following statement:

> Institutions that have high levels of risk in the loan portfolio or are uncertain about the effect of possible future events on the collectibility of the portfolio should address these concerns by maintaining higher equity capital and not by arbitrarily increasing the ALLL in excess of amounts supported under GAAP.

This statement provides a conceptual difference between the ALLL and capital, as capital effectively accounts for, among other things, current risk in the portfolio that has not resulted in an incurred loss, as well as the impact of uncertain possible future events. With the implementation of CECL, the conceptual difference between allowances for credit losses (ACL)

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\(^7\) See page 47 “Additionally, if an institution uses loss estimation models in determining expected credit losses…”

\(^8\) See page 21 of the Practice Aid: “a *model* is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A model consists of three components: an information input component, which delivers assumptions and data to the model; a processing component, which transforms inputs into estimates; and a reporting component, which translates the estimates into useful business information.”
and capital has changed, and a similar statement is expected, for example, that emphasizes that regulatory capital addresses credit risks and other risks (such as liquidity) beyond those expected or addressed within the regulatory capital framework.

No similar statement, however, is made in the Proposal. While there are statements in the Proposal related to adjustments to ACLs when an appropriate expected credit loss framework is in place, there is a lack of clarity as to what is an “appropriate” framework, especially related to smaller banks. As a result, many banks believe that they will be subject to arbitrary examiner adjustments to ACL levels that are beyond losses actually expected by management and the Board.

In addition to more detail as to the nature of an “appropriate expected credit loss framework,” the Associations recommend that similar guidance be provided regarding expected credit losses and other credit loss possibilities and uncertainties, including what would appropriately be included in equity capital.

3. Expectations on Use of Data and Data Quality Should Be Clarified

The Proposal sends various messages related to the use of external data: on page 26, for example, the Proposal generally indicates that banks may use external data as a regular part of the estimation process.

Management may begin the expected credit loss estimation process by determining its historical loss information or obtaining reliable and relevant historical loss proxy data for each segment of financial assets with similar risk characteristics.

Page 43 appears to discourage specific use of external data within an analysis of CECL results:

Comparing the institution’s ACLs to those of peer institutions may provide management with limited insight into management’s own ACL estimates. Management should apply caution when performing peer comparisons as there may be significant differences among peer institutions in the mix of financial asset portfolios, reasonable and supportable forecast period assumptions, reversion techniques, the data used for historical loss information, and other factors.

However, it goes on to say that there are certain analyses that can, in fact, be helpful.

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9 An example includes: “It is inappropriate for examiners to seek adjustments to ACLs for the sole purpose of achieving ACL levels that correspond to a peer group median, a target ratio, or a benchmark amount when management has used an appropriate expected credit loss framework to estimate expected credit losses.”

10 The Associations assume “proxy data” is the equivalent to “external data.”
When used prudently, comparisons of estimated expected losses to actual writeoffs, ratio analysis, and peer comparisons can be helpful as a supplemental check on the reasonableness of management’s assumptions and analyses. Because appropriate ACLs are institution-specific estimates, the use of comparisons does not eliminate the need for a comprehensive analysis of financial asset portfolios and the factors affecting their collectibility.

Ever since the issuance of the CECL standard in 2016, it has generally been understood that many companies will use external data not only for supplemental analysis, but also to fill in data holes that exist, due to the quality of available internal data, as well as the lack of critical mass that would produce estimates within acceptable ranges. While external data have previously been used in various capacities related to the current ALLL, the need for granular, loan-level data for a long period of time, new data elements that may not have been subject to internal controls over financial reporting, and the relative availability of external credit loss data creates a whole new paradigm in how banks might think of external data. The Associations believe, therefore, that a separate section in the final Policy Statement is needed that addresses the use of data as a whole. Such a section would address expectations related to—

- Reliability of data (data quality), including expectations related to both current information and historical experience. Assuming that expectations will be scalable to the size of the bank, a framework is needed to assess the risk of inaccurate (or unavailable) data, how far back in time data are needed, any needed remediation procedures, and how external data may be used. For practical purposes, specifically addressing data that may be unavailable because of acquisitions performed prior to the effective date would be needed. Specific discussion is also needed related to agency expectations on the use of external data and how a bank can get assurance that the data provided by vendors are reliable.

- Relevance of data, including expectations on granularity of segments. As under current practice, geography is a typical point of granularity that is assessed in segmentation and is over and above the level of granularity reflected in Call Reports. Other loan attributes, however, such as commercial real estate loans for hospitality development or investor-purposed residential mortgages, have shown historical volatility in stress times, and certain examiners have suggested separate segmentation or qualitative factor analysis to bankers.

If there are agency expectations that banks should be ready to quantify credit risk in more granularity than (as an interagency webinar noted) Call Report lines, many banks will want to know now before significant additional work is performed on their CECL systems. In light of the Practice Aid’s discussion related to robust documentation for qualitative adjustments to historical information, a discussion should include a presumed higher level of quantitative documentation needed in the Q factor analysis when lower levels of granularity are used in the estimation process.
• Overall considerations on whether to use external data, including a better understanding of what data are “reasonably available” that do not require “undue cost and effort” (that which “should not be ignored”).

Currently, loan-level external lifetime credit loss data related to various loan products appear to be reasonably available from several sources, and certain data are available free of charge. The Associations believe that, over time, such availability may be commonplace. Agencies, therefore, should provide more direct guidance on how to assess whether and how use of such data should be integrated into bank processes.

4. More Discussion on Qualitative Factors Is Needed

Overall Comments

The lifetime loss concept of CECL is significantly different from incurred loss. With risk factor adjustments from the initial estimates expected to be a more significant aspect of the allowance, we believe more discussion is needed on how “qualitative” adjustments can differ from “quantitative” adjustments.

The Associations agree that (on page 26) “Adjustments should not be made for information that has already been considered and included in the loss estimation process.” However, under the incurred loss approach, since the vast majority of allowances were initially based on historical charge-offs, changes to virtually any other credit risk metric would be an appropriate qualitative adjustment. This is not so under CECL. For example, the volume of past due loans may often NOT be considered an appropriate basis for a qualitative adjustment if past due migration analysis was used in the initial estimate or it was factored into a probability of default model. Another example could be the analysis of vintages. As changes in underwriting standards normally relate to specific periods of time, qualitative adjustments may not necessarily be relevant if vintage-based estimates were initially made.

All of that said, if a bank does not use past-due analysis in its initial credit loss estimates, but separately tracks the ultimate losses on past due loans as a supplemental process, the Associations believe that a quantitative adjustment from the initial estimate that is based on that tracking is “qualitative” and not “quantitative.”

The Associations believe that a separate discussion on the difference between “qualitative” and “quantitative” adjustments is appropriate. As previously noted, the Practice Aid has explicitly provided high documentation expectations related to quantifying qualitative adjustments. The Associations believe that this will add significant work to the current process for the average bank – while current documentation at most community banks is robust related to the need for and the general direction of qualitative adjustments, robust documentation as to the specific quantitative amount of such adjustments is often lacking. The Associations believe that the final
Policy Statement needs to affirm the statements of the Practice Aid if the agencies agree with this expectation of robust documentation.

**Comments on Specific Qualitative Factors**

While the list of relevant risk factors on pages 26 through 28 conforms to the CECL standard, the Associations believe that certain discussion may be needed to supplement the understanding of many bankers and examiners:

- **“The volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets;”**

  While less relevant in an incurred environment, downgraded assets (yet neither criticized nor past due) may also be important indicators of credit risk, and migration might also be considered as an important indicator in the future. In addition to being an early warning for increased credit risk, such a change could have impact on whether, for example, an asset continues to qualify as a zero loss asset.

- **“The value of the underlying collateral for loans that are not collateral dependent;”**

  Based on the sophistication of the institution, many banks may not have sophisticated processes to assess collateral prices on an ongoing basis. The Associations believe that, for practical purposes and in certain cases, the value of collateral for loans that are collateral-dependent may often be indicators in which qualitative adjustments may be used to adjust initial credit loss estimates on non-collateral-dependent loans.

The Associations believe that other model-based factors should be considered. For example—

- A delay to the timing of when the information (that is the basis for historical information) is input into the model. For practical purposes, estimates may be based on information that is current as of a period prior to the reporting date.

- The precision of past modeling, based on validation procedures.

**Qualitative Factors Related to Available For Sale Securities Needs to Be Clarified**

The Proposal provides qualitative factors that Management should consider for debt securities. Applying qualitative factors to available for sale (AFS) securities presents significant operational challenges, due to the discounted cash flow method used, the bifurcation of market loss from credit loss, and the fair value floor defined in the standard. Therefore, the Associations believe that it is the agencies’ intent for these factors to be applied only to held-to-maturity (HTM) debt securities, consistent with the placement of the factors within the section entitled “Measurement of ACLs for Loans, Leases, Held-to-Maturity Debt Securities, and Off-Balance-Sheet Credit Exposures.” However, for the avoidance of doubt, the Associations encourage the agencies to
state explicitly that consideration of qualitative factors is not required for AFS debt securities in the final Policy Statement.

5. **Backtesting Expectations Should Be Clarified**

The Proposal notes specific practices to analyze and validate the overall measurement of ACLs. Comparing ACLs to actual charge-offs at both the aggregate and financial asset portfolio levels is suggested as a possible tool. Such processes seem to be similar to backtesting procedures commonly performed in compliance with Model Validation processes detailed in the Interagency Statement, “Supervisory Guidance on Model Risk Management.” While the Proposal has a brief reference to the Interagency Statement, in light of the fact that the 2006 interagency guidance on the ALLL does not address specific model validation, the Proposal appears to indicate that model validation procedures, which can be extensive, will be the expectation for all entities. The Associations recommend that the final Policy Statement include discussion of the scalability of model validation procedures.

Part of the discussion related to model validation should also address acceptable levels of precision in modeling. Many smaller banks are considering using the Weighted Average Maturity Method (WARM) to provide initial CECL estimates. Under current benign conditions, however, initial estimates indicate that adjustments from the historical experience will often be so large as to make up 75-90% of the ACL balance. Under these circumstances, it is questionable whether the base “method” or “model” is WARM or the adjustments themselves. Whether the WARM method individually or the WARM method with qualitative overlays is considered the tested model, guidance should also include how qualitative overlays are validated.

6. **New Requirements on Off-Balance Sheet Exposures Should Be Highlighted**

Despite the implied prescriptive guidance that was highlighted above, the proposal has limited discussion related to critical issues in estimating credit losses on Off-balance sheet exposures:

- Most of the Associations’ members believe that reporting the provisions for credit losses on off-balance-sheet exposures within “Other noninterest expense” in the Income Statement of the Call Report represents a regulatory reporting difference to GAAP. Bankers generally prefer to minimize the number of RAP to GAAP differences. While the Proposal maintains current reporting, the impact of such a difference within a CECL context can potentially be significant.

- As noted in the 2019 Bank Accounting Advisory Series (BAAS), there is a difference between Call Reporting treatment standards for regulatory capital purposes on whether unfunded commitments for HELOCs are unconditionally cancellable. Since the BAAS is OCC-specific, we believe that guidance is needed in the final Policy Statement to apply to all institutions.
• Lifetime credit losses must now be estimated on commitments to originate all held-for-investment loans. This is a new process for certain banks.

These issues need to be discussed merely to highlight apparent changes to long-held practice.

7. **Quarterly Evaluations of Segmentation and Forecasting Processes May Not Be Detailed**

Certain statements in the Proposal appear to indicate that extensive and onerous processes are required each quarter:

Page 21: “Management should evaluate financial asset segmentation on an ongoing basis to determine whether the financial assets in the pool continue to share similar risk characteristics.”

Page 24: “Management should evaluate the appropriateness of the reasonable and supportable forecast period(s) each reporting period, consistent with other inputs used in the estimation of expected credit losses.”

For those banks implementing CECL effective January 1, 2020, significant work has been performed over the past few years in determining segmentation and reasonable and supportable forecast periods. Such decisions have been subject to significant analysis and governance. The Associations believe that, instead of requiring a full reassessment each quarter, an appropriate process will consist of reviewing facts and circumstances that may trigger a fuller analysis.

8. **Possible Changes to Current Practice Should Be Explicitly Addressed**

Wording from the CECL standard appears to be used in the Proposal, but it may represent significant changes to long-standing bank accounting practice:

• **Charge-offs based on past due status**

Page 20: “When available information confirms that specific loans, securities, other assets, or portions thereof, are uncollectible, these amounts should be promptly written off against the related ACLs.” This statement indicates that current charge-off policies – for example, based on past due status – are being superseded or may be ignored for financial reporting purposes.

• **Charge-offs, Classification, and TDR status on Collateral Dependent Loans**

The 2009 interagency guidance, “Prudent Commercial Real Estate Loan Workouts,” provided certain specific examples in which certain parts (of a multiple note restructuring, for example) of a fair value estimate were charged-off and remaining parts retained in a criticized status. The Proposal implies that other charge-off policies can be developed for the
purposes of financial reporting under CECL. For example, related to Collateral-dependent Financial Assets—

“…if the fair value of the collateral has increased as of the ACL evaluation date, the increase in the fair value of the collateral is reflected through a reduction in the ACL.”

Current guidance through both the 2009 interagency guidance and Bank Accounting Advisory Service indicates a charge-off is appropriate, which would naturally preclude any future write-up of the amortized cost (though may not preclude recognition of a negative allowance for certain expected recoveries).

- **Estimates of expected losses for nonaccrual loans**

Currently, impairment on loans in a nonaccrual status (including Troubled Debt Restructurings) and loans that are criticized is normally measured on an individual basis or on a pooled basis with other similar nonaccrual/criticized loans. In other words, the nonaccrual/criticized status is considered a sufficiently significant credit risk characteristic so as to require it to be removed from its pool that is used for the ASC 450 (collective) impairment estimate. This principle is not mentioned related to loan segmenting, implying that such banks will not be required to measure impairment on such loans separately.

- **Charge-offs on Available for Sale debt securities**

Currently (per ASC 320-10-35-34E), the previous amortized cost basis of the security, less the amount of other than temporary impairment (OTTI) that is recognized through earnings, becomes the new amortized cost basis of the security. In essence, the credit-related portion of OTTI on debt securities represents a partial charge-off. With the CECL standard, of course, the ACL recorded may be recorded as an allowance. This will represent a change from current charge-off practices for AFS securities.

Since all of these practices are relatively long-lived, the Associations recommend that the agencies clarify their expectations on the continuation or termination of such practices.

**Other comments**

9. **The CECL Measurement Process Should Provide Flexibility**

Within the consideration and use of historical information on Page 23, the Proposal appears prescriptively to require a structured process: 1) Assess expected credit losses based on historical losses; 2) Consider adjustments for portfolio-related differences, such as changes related to underwriting, portfolio mix, and contractual terms; 3) Consider adjustments for current conditions and reasonable and supportable forecasts.
With that in mind, the Associations believe that banks will often approach their estimates more holistically with regard neither to the order of the process nor to the specific details within. For example, a bank may first select specific historical information that already reflects its forecast of economic conditions. In this case, without a change to wording, the Associations believe that there may be a perceived requirement that a bank start with the most recent historical information and then explicitly adjust for current conditions and then adjust again for a reasonable and supportable forecast. With this in mind, we recommend that the prescriptive language in the Proposal (“Management should...”) be softened to allow for banks to perform the most efficient process available.

10. Use of Other Metrics for Reversion Estimates Should Be Clarified

The Associations believe that the wording unintentionally limits the use of other legitimate metrics that could be considered for the reversion period, such as medians and averages that exclude certain outliers.

Page 25: “FASB ASC Topic 326 does not specify the historical loss information that is used in the reversion period. This historical loss information may be based on long-term average losses or on losses that occurred during a particular historical period(s).”

Considering the reversion process will be subject to a governance/review process, the Associations recommend that wording should allow other systematic and reasonable metrics.

11. Collateral Dependent Practical Expedient Guidance Should Be Aligned with US GAAP

Wording in page 32 of the Proposal requires the use of the collateral dependent expedient for regulatory reporting purposes regardless of whether foreclosure is probable:

Collateral-Dependent Financial Assets
FASB ASC Topic 326 describes a collateral-dependent asset as a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management’s assessment, is experiencing financial difficulty as of the reporting date. For regulatory reporting purposes, the ACL for a collateral-dependent loan is measured using the fair value of collateral, regardless of whether foreclosure is probable.

Per US GAAP, ASC 326-20-35-4 requires that the ACL for a collateral-dependent loan be measured using the fair value of collateral when foreclosure is probable. However, in other instances [when foreclosure is not probable] this method is optional. As stated in ASC 326-20-35-5:

An entity may use, as a practical expedient, the fair value of the collateral at the reporting date when recording the net carrying amount of the asset and determining the allowance for credit losses for a financial asset for which the repayment is expected to be provided
substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty…

The Associations recommend changing the guidance to align with U.S. GAAP.