December 9, 2019

Chief Counsel's Office, Attn: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E–218
Washington, DC 20219.

By e-mail: regs.comments@occ.treas.gov

**Re: Proposed Supervisory Guidance – Interagency Guidance on Credit Risk Review Systems**

**(Docket ID OCC-2019-0018)**

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 23,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned proposed guidance.

The NYSSCPA's Banking Committee deliberated the proposed guidance and prepared the attached comments. If you would like additional discussion with us, please contact Jeremy R. Goss, Chair of the Banking Committee, at (212) 624-5295, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Ita M. Rahilly
President

Attachment

**NEW YORK STATE SOCIETY OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**PROPOSED SUPERVISORY GUIDANCE – INTERAGENCY GUIDANCE ON CREDIT RISK REVIEW SYSTEMS**

**(Docket ID OCC-2019-0018)**

**December 9, 2019**


**Principal Drafters**

**Matthew T. Clohessy**
**Jeremy R. Goss**

**NYSSCPA 2019–2020 Banking Committee**

Jeremy R. Goss, *Chair*
Gina C. Omolon, *Vice Chair*
Jeffrey Abramczyk
Ashish Ahlowalia
Victony Akachi
Charles J. Alexander
Jason E. Bovell
Michael W. Braunstein
Christopher G. Cahill
Catherine Califano
Mamadou Camara
Rekha Chatterjee
Santo Chiarelli
Matthew T. Clohessy
Benjamin Z. Cooper
Nicole P. Cunningham
Maureen P. Downing-Cilano
Sharon Sabba Fierstein
Howard M. Gluckman
Jo Ann Golden
Lucy J. Gonzales
Mukul Gupta
Richard Hack
Joseph A. Heim
Erfin Huda
Norman V. Jardine
Harry A. Kabalian
Laurence Karagulian
Elias H. Lambros
Hee Woon Lee
Steve Y. Lehrer
Steven R. Leidenfrost
Marina Li
Stephen Lurie
Philip A. Masi
Edward J. Mueller
Ewelina Pietras
Michelle M. Plummer
Lorenzo Prestigiacomo
Patrick J. Raziano
Maurice Redhead
Joseph G. Schiavo III
William F. Schwenk
Paul C. Sinaly, Jr.
Jonathan Sinaw
Allan Tepper
Tammy W. Tien
Daniel J. White

**NYSSCPA Staff**

Ernest J. Markezin

## New York State Society of Certified Public Accountants

### Comments on

### Proposed Supervisory Guidance – Interagency Guidance on Credit Risk Review Systems (Docket ID OCC-2019-0018)

We welcome the opportunity to respond to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the National Credit Union Administration (collectively, the agencies) joint invitation to comment on the Proposed Guidance for Credit Risk Review Systems (the Proposal).

**General Comments**

Overall, we support the proposed credit review guidance. It reflects sound practices for an effective Credit Risk Review (CRR) function. There are several areas, as presented in our Specific Comments below, that we believe additional clarification on the intended expectations for adherence to the proposed guidelines can assist in greater consistency in institutions'[1] implementation of the Proposal.

**Specific Comments**

We have the following specific comments on certain sections of the Proposal. The sections are identified in italics followed by our comments.

***Overview of Credit Risk Review Systems***

*Regardless of the structure, an effective credit risk review system accomplishes the following objectives:…*

*…* • *Appropriately validates and, if necessary, adjusts risk ratings, especially for those loans with potential or well-defined credit weaknesses that may jeopardize repayment.*

• *Identifies relevant trends that affect the quality of the loan portfolio and highlights segments of the loan portfolio that are potential problem areas….*

Where appropriate, CRR functions integrate qualitative factors such as industry performance and economic headwinds in their assessment of customer's ability to repay. This can be a factor to the risk rating of obligors and facilities as well as potential broader portfolio-wide concerns that CRR may raise. Leveraging internally generated forecasts can be useful in having a consistent organizational view on expected future economic conditions, however use of these forecasts may also result in a doubling of impact through current risk rating qualitative adjustments sourced from CRR reviews and risk rating migration estimates from lifetime Allowance for Credit Losses (ACL) credit model estimations.

[1] Institutions as defined in the Proposal as regulated institutions supervised by the following agencies: The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency.

For institutions that produce economic forecast estimations as a component of their ACL calculation, is there an expectation that CRR functions integrate and align these forecast scenarios into their qualitative assessments of individual loans and portfolios? We believe clarification would be helpful. Also, if CRR is expected to integrate the organization-wide forecasted estimates of future conditions, we believe guidance as to the length of forecast period they would be reasonably expected to rely upon in their qualitative credit risk assessments would be useful.

.... • *Provides management with accurate and timely credit quality information for financial and regulatory reporting purposes, including the determination of appropriate ACL or ALLL* [Allowance for Loan and Lease Losses], *as applicable.*

In consideration of the broader range of assets and forward looking elements that are applicable to the calculation of ACL under the Current Expected Credit Loss accounting standard, we recommend that the regulatory agencies provide additional clarifications on the types of activities that Credit Risk Review departments are expected to be responsible for in "the determination of appropriate ACL." Specifically, what are the expectations for CRR functions to conduct credit risk specific assessments on the valuations of financial assets measured at an amortized cost basis such as Held-To-Maturity (HTM) Securities.

***Frequency of Reviews***

*An effective credit risk review system provides for review and evaluation of an institution's significant loans, loan products, or groups of loans at least annually, on renewal, or more frequently when internal or external factors indicate a potential for deteriorating credit quality or the existence of one or more other risk factors…*

*…Use of key risk indicators or performance metrics by credit risk review management can support adjustments to the frequency and scope of reviews.*

We recommend that the regulatory agencies clarify whether the use of key risk indicators and other performance metrics is intended to only support more frequent reviews, or whether it would be considered acceptable to use monitoring activities to support a risk-based approach that reviews significant loans, loan products and groups of loans less frequently than annually.

***Scope of Reviews***

*An effective scope of credit risk review is generally risk-based and typically includes:…*
*… • Past due, nonaccrual, renewed, and restructured loans.*

We recommend that the regulatory agencies clarify whether the evaluation of restructured loans is inclusive of an expectation that the classification of loans "reasonably expected to be modified in troubled debt restructurings (TDRs)"[2] should be subject to specific review by CRR, both at an individual loan basis and as an assessment of individual loans that are part of a group restructure program of similar loans.

---

[2] Proposed Interagency Policy Statement on Allowances for Credit Losses, Federal Register, Vol. 84, No. 201 Thursday, October 17, 2019, 55510