



August 2019



Greetings!

My team at the San Francisco Fed recently co-hosted a bankers' roundtable with the Western Bankers Association at our Los Angeles branch office. We host several similar events every year across the San Francisco Fed's nine-state region, and we find these

forums are invariably an excellent opportunity to gather observations and feedback from supervised financial institutions. (If you're interested in attending, or scheduling a roundtable in your area, we'd love to hear from you.)

Although banking conditions remain very positive overall, our conversation at the recent roundtable revealed that banking and financial services still face a number of challenging and complex policy issues, including CECL adoption, Community Reinvestment Act reform, and the California Consumer Privacy Act of 2018. While many of these and other issues are unlikely to be resolved immediately, I wanted to offer our most current update and perspectives on each one.

- **Current Expected Credit Losses (CECL)** accounting standards: As most people are well aware, the first mandatory implementation date for CECL is January 2020. However, FASB voted in July to delay implementation for all companies other than the larger SEC filers until January 2023. While this delay will provide a bit of a reprieve for many institutions, the banking industry has already made some progress in implementing this new framework, which replaces the incumbent "incurred loss" credit-loss accounting standards. We would encourage you to continue with that progress.

The Federal Reserve and other agencies have emphasized a "good faith effort" from institutions, and they have also published some tools to help with CECL adoption, including [Ask the Fed](#) and Ask the Regulator webinars, as well as links to other resources. Additionally, all institutions should be aware of the most recent [Frequently Asked Questions](#) on CECL, published in April, which reflect some of the agencies' most recent thinking.

- **Community Reinvestment Act (CRA) reform** continues to represent a challenging issue for federal supervisory agencies to resolve. The good news: It is hard to find anyone who disagrees that CRA requirements need to be revised to reflect the modern banking industry's realities, including (but hardly limited to) challenges associated with defining geographical assessment areas. The not-so-good news: There are still widely diverse views of how the CRA rules should be changed, both in framework and fine print.

Fortunately, the process for revising the rules is well under way. In June, the Federal Reserve System released [a summary of CRA roundtable discussions](#) convened nationwide from 2018 to 2019. For more insights into the Fed's approach to CRA reform, I would point

you to two important speeches by Federal Reserve Governor Lael Brainard, who details some helpful perspectives ([May 18, 2018](#) and [February 1, 2019](#)).

Finally, I would emphasize that there is no more crucial input than yours! Specifically, the federal agencies will continue to offer a range of opportunities for the private sector to provide its insights regarding CRA reform. One easy option is to provide written responses to current and future rulemaking proposals – I can assure you that agency staff carefully read all correspondence. As always, you are welcome to reach out to your local supervisory agency contacts, including my team here at the San Francisco Fed.

- **The California Consumer Privacy Act (CCPA)** is raising a whole host of questions about whether and how the law applies to financial institutions. The law is still relatively new and rule-making is still in-process, making for something of an uncertain outlook for both financial institutions and their supervisors. There are also indications that California's lawmakers are considering revisions to the law – a development that may be ultimately helpful, but in the near-term prolongs the uncertainty around implementation.

My team is working hard to stay on top of CCPA-related issues, and I would encourage all interested parties to do the same. Although we can't expect to have answers to all the hardest questions, we are trying to understand the evolution of the data-privacy landscape and how it affects both consumers and the institutions that serve them. To that end, the San Francisco Fed's Fintech Team recently published a report, "[The 2018 California Consumer Privacy Act: Understanding Its Implications and Ambiguities](#)."

Taken individually, each of these issues is a key factor in the life of a modern financial institution. Taken together, they serve as a reminder that positive banking conditions, no matter how good, do not resolve hard policy challenges.

Working through each of these issues will require the time-tested approach of deep understanding and engagement – from industry participants, from lawmakers, and from regulators. By keeping each other as informed as possible, we can ensure policymakers have all the insights and perspectives necessary to arrive at useful and effective outcomes.

Best regards,
Tracy
tracy.basinger@sf.frb.org