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Legal Update

Recent COVID-19 Banking Regulatory Deadline Extensions and Relief

On March 27, 2020, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), and the US prudential banking regulators, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (collectively, the "Agencies") announced separate actions to change the implementation deadlines for various regulatory actions. These changes were undertaken in response to the COVID-19 pandemic and illustrate the "whole of government" approach being employed globally to respond to this threat.

Basel Committee Action

GHOS endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 on the global banking system.[1]

The measures endorsed by the GHOS comprise the following changes to the implementation timeline of the outstanding Basel III standards:

- The implementation date of the Basel III standards finalized in December 2017 has been deferred by one year to January 1, 2023. The accompanying transitional arrangements for the output floor has also been extended by one year to January 1, 2028.
- The implementation date of the revised market risk framework finalized in January 2019 has been deferred by one year to January 1, 2023.
- The implementation date of the revised Pillar 3 disclosure requirements finalized in December 2018 has been deferred by one year to January 1, 2023.

A table from GHOS that summarizes these changes is below:

Standard	Original implementation date	Revised implementation date
Revised leverage ratio framework and G-SIB buffer	1 January 2022	1 January 2023
Revised standardised approach for credit risk	1 January 2022	1 January 2023
Revised IRB approach for credit risk	1 January 2022	1 January 2023
Revised operational risk framework	1 January 2022	1 January 2023
Revised CVA framework	1 January 2022	1 January 2023
Revised market risk framework	1 January 2022	1 January 2023
Output floor	1 January 2022; transitional arrangements to 1 January 2027	1 January 2023; transitional arrangements to 1 January 2028
Revised Pillar 3 disclosure framework	1 January 2022	1 January 2023

IRB = internal ratings-based approach; CVA = credit valuation adjustment.

Actions by US Agencies

On March 27, 2020, the Agencies announced two actions to support the US economy and allow banking organizations to continue lending to households and businesses:

- Allowing early adoption of a new methodology on how certain banking organizations are required to measure counterparty credit risk derivatives contracts; and
- Providing an optional extension of the regulatory capital transition for the new credit loss accounting standard.[2]

The "standardized approach for measuring counterparty credit risk" rule, also known as SA-CCR, was finalized by the Agencies in November 2019, with an effective date of April 1, 2020.[3] The SA-CCR reflects improvements made to the derivatives market since the 2007-2008 financial crisis, such as central clearing and margin requirements. To help improve current market liquidity and smooth disruptions, the agencies will permit banking organizations to early adopt SA-CCR for the reporting period ending March 31, 2020.

Additionally, the Agencies issued an interim final rule that allows banking organizations to mitigate the effects of the "current expected credit loss" (CECL) accounting standard in their regulatory capital.[4] Banking organizations that are required under US accounting standards to adopt CECL this year are permitted to mitigate the estimated cumulative regulatory capital effects for up to two years. This is in addition to the three-year transition period already in place. Alternatively, banking organizations may follow the capital transition rule issued by the Agencies in February 2019.

The changes will be effective immediately, and the Agencies will accept comments on the CECL interim final rule for 45 days.

For more information about the topics raised in this Legal Update, please contact any of the following lawyers.

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Endnotes

[1] BCBS, *Governors and Heads of Supervision announce deferral of Basel III implementation to increase operational capacity of banks and supervisors to respond to Covid-19* (Mar. 27, 2020), https://www.bis.org/press/p200327.htm.

[2] Agencies announce two actions to support lending to households and businesses (Mar. 27, 2020), https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200327a.htm; *see also Joint Statement on the Interaction of the CECL Revised Transition Interim Final Rule with Section 4014 of the Coronavirus Aid, Relief, and Economic Security Act* (Mar. 31, 2020), https://www.fdic.gov/news/news/financial/2020/fil20032.html.

[3] See our earlier related Legal Update at: https://www.mayerbrown.com/en/perspectives-events/publications/2018/11/us-banking-agencies-propose-changes-to-calculation.

[4] See our earlier related Legal Update at: https://www.mayerbrown.com/-/media/files/perspectives-events/publications/2018/04/credit-loss-accounting-us-bank-regulators-proposal/files/update-credit_loss_accounting_0418_v1/fileattachment/update-credit_loss_accounting_0418_v1.pdf.