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Allowances for Loan Losses Under the Transition to CECL During the Pandemic

Stephen G. Ryan, John Drum, and Evan Carter*

This article delineates the timelines for banks to implement the current expected credit loss ("CECL") model and examines the impact of the model on the timeliness of the financial information provided by banks about their loan loss allowances. Further, the article examines how the combination of CECL and the ongoing COVID-19 pandemic dramatically increase the estimation uncertainty of banks' loan loss allowances, and thus the potential for the Securities and Exchange Commission, bank regulators, and shareholders to question banks' CECL estimates in hindsight as the effects of the pandemic are observed.

In 2016, the Financial Accounting Standards Board ("FASB") issued the controversial accounting standards update ASU 2016-13, which requires companies to transition from the incurred loss model ("ASC 450") to the current expected credit loss ("CECL") model in recording their credit loss allowances. This change was primarily motivated by the perceived untimeliness of banks' recording of loan loss allowances under the incurred loss model during the credit boom that preceded the 2007–2009 financial crisis. The FASB intends CECL to mitigate this concern by requiring more timely recognition of loan loss allowances for most loan types, particularly those with high loss rates and long lifetimes, such as private student loans.

The CECL model applies to any entity that holds financial assets measured at amortized cost (including loans held for investment and held-to-maturity securities), net investments in leases, or off-balance-sheet credit exposures.[1] Financial institutions, particularly banks and insurance companies, hold large amounts of these types of financial assets. Hence, it is important for these institutions to understand the effects the new methodology is likely to have on their key accounting and regulatory measures, such as net financial assets, earnings, and regulatory capital. ASU 2016-13 required large public reporting companies, including all major banks and most public banks, to transition to CECL beginning with their 1Q 2020 financial statements.

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[1] ASU 2016-13, Financial Instruments—Credit Losses (Topic 326).

However, the global COVID-19 pandemic hit U.S. shores in the first quarter of 2020, upending the economic and financial landscape. Financial institutions raised concerns about the impact that the combination of CECL and COVID-19 would have on their regulatory capital, and consequently on their ability to lend and thereby foster economic recovery. In response, in the Coronavirus Aid, Relief, and Economic Security ("CARES") Act enacted on March 27, 2020, Congress allowed federally insured depository institutions to delay implementation of CECL until the earlier of December 31, 2020 or at such time as the U.S. president declares the national emergency concerning the coronavirus pandemic to be over. Similarly, federal bank regulators delayed the impact of CECL on banks' regulatory capital.

As of this writing, these events have led to the unsettled and inconsistent state in which most large banks have made the transition to CECL, while other banks have not. This variation in banks' CECL implementation, coupled with the unprecedented uncertainty about the collectability of banks' loans raised by the COVID-19 pandemic, raises difficulties in analyzing banks' financial reports.

This article delineates the timelines for banks to implement the CECL model and examines the impact of the model on the timeliness of the financial information provided by banks about their loan loss allowances. Further, the article examines how the combination of CECL and the ongoing COVID-19 pandemic dramatically increase the estimation uncertainty of banks' loan loss allowances, and thus the potential for the Securities and Exchange Commission ("SEC"), bank regulators, and shareholders to question banks' CECL estimates in hindsight as the effects of the pandemic are observed.

WHY DID THE FASB DEVELOP CECL TO REPLACE THE INCURRED LOSS MODEL?

In the aftermath of the 2007–2009 financial crisis, investors' requests for more timely financial statement information about loan losses led the FASB to develop CECL. The incurred loss model employed during the crisis required that banks delay the recognition of loan losses until it was "probable" that those losses had been incurred based on past events and current conditions. As a result of this requirement, loans held for investment were carried at their amortized cost less a loan loss allowance that typically was appreciably lower than the current expected loan losses. For example, banks often deemed default on large and heterogeneous types of commercial loans to become probable when the loans became severely delinquent. For these loan types, the loan loss allowance could be zero until shortly before default.

Understanding the delays in credit loss reserving under the incurred loss model, financial statement users often adjusted their analyses of financial institutions' net financial assets by estimating the institutions' expected credit losses using forward-looking information. These users devalued financial institutions before the incurred loss model required the institutions to recognize accounting losses in their financial statements.

In contrast to the incurred loss model, CECL requires financial institutions to carry *all* financial assets measured at amortized cost net of credit loss allowances equal to the estimated current expected credit losses over the remaining lifetime of the assets. In estimating current expected credit losses, an entity should incorporate relevant information about past events and current conditions affecting collectability, and make "reasonable and supportable forecasts of future conditions."[2] CECL further requires that banks reduce their periodic net income by a provision for credit losses that incorporates the initial measurement of expected credit losses for financial assets and off-balance-sheet credit exposures originated during the period, as well as the change in current expected credit losses on financial assets and off-balance sheet credit exposures held during the period.

HOW HAVE THE TIMELINES FOR IMPLEMENTATION OF CECL FOR FINANCIAL AND REGULATORY CAPITAL REPORTING BEEN MODIFIED?

The path to implementation of the CECL model has been (and appears likely to remain) long and convoluted for both financial and regulatory reporting. ASU 2016-13 initially specified three effective dates for CECL: 1Q 2020 for public entities that are SEC filers, 1Q 2021 for public entities that are not SEC filers, and 1Q 2021 for all other entities.[3] In November 2019, the FASB delayed the effective dates and updated the grouping of entities to 1Q 2020 for public companies that are SEC filers except for smaller reporting companies as defined by the SEC, and to 1Q 2023 for all other entities.[4]

Similarly, federal bank regulators delayed the inclusion of the effects of CECL in regulatory capital for all banks. To ensure the solvency of individual banks and the stability of the financial system, regulators require banks to

[2] Ibid.

[3] Effective dates are for fiscal years and assume a calendar year end. ASU 2016-13, Financial Instruments—Credit Losses (Topic 326).

[4] Effective dates assume a calendar year end. ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)—Effective Dates.

maintain regulatory capital equal to specified percentages of their total and risk-weighted regulatory assets. Banks with inadequate regulatory capital must either reduce the amount or risk of their regulatory assets or increase their regulatory capital. Because banks' regulatory capital is based primarily on GAAP shareholders' equity, the decreases in shareholders' equity expected when banks adopt CECL generally decrease their regulatory capital and thereby could constrain their lending capacity.

For this reason, many banks expressed concern that the effects of transitioning to CECL on their regulatory capital adequacy might impair their ability to lend. In response, in February 2019 federal bank regulators issued a final rule that allowed filers using CECL to record only 25 percent of the initial effect of their adoption of CECL on their regulatory capital in 2020, and to spread the remainder of this adoption effect over the subsequent three years.

By January 2020, most large banks had adopted CECL, but even these banks will incur the impact of the adoption on their regulatory capital over four years. Meanwhile, most smaller banks continue to use the incurred loss model, leaving their credit loss reporting subject to the same criticisms that led the FASB to issue ASU 2016-13.[5]

In March 2020, shortly after most large banks had adopted CECL, the global COVID-19 pandemic hit the United States, and the economic and financial landscapes changed dramatically. The volatile and unpredictable economic environment led to new concern about the timing of the transition to CECL. Reflecting this concern, the CARES Act, signed into law on March 27, 2020, contained a provision permitting banks to delay implementation of CECL until the earlier of December 31, 2020, or the time at which the U.S. president declares the national emergency to be over.[6]

On March 26, 2020, in conjunction with this legislative action, federal bank regulators issued an interim final rule that allows banks that adopt CECL in 2020 to defer recording the initial adoption effect in regulatory capital entirely for two years and then to spread the adoption effect over the following four years.[7] During the two-year delay period, these banks are further allowed to

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[5] Wipfli LLP reports that in its review of 152 public banks with assets between $3 billion and $50 billion, 105 banks adopted CECL in 2020 and 47 did not. Wipfli further states that, of banks with assets of less than $1 billion, "few, if any, . . . have adopted CECL." *Available at* https://www.wipfli.com/insights/articles/fi-aa-covid-19-measuring-the-impact-of-cecl-adoption.

[6] *Compliance Week*, "CECL delayed amid U.S. government's coronavirus response," March 27, 2020, *available at* https://www.complianceweek.com/accounting-and-auditing/cecl-delayed-amid-us-governments-coronavirus-response/28674.article.

[7] Federal Register, "Regulatory Capital Rule: Revised Transition of the Current Expected

include only 75 percent of their annual provision for loan losses in regulatory capital, and to spread the remaining 25 percent over the following four years.[8]

Table 1 summarizes changes to CECL's effective date[9] and impact on regulatory capital for different entities.

Credit Loss Methodology for Allowances," March 2020, *available at* https://www.federalregister.gov/documents/2020/03/31/2020-06770/regulatory-capital-rule-revised-transition-of-the-current-expected-credit-losses-methodology-for.

[8] Ibid.

[9] The update becomes effective for periods beginning after the effective date.

Table 1
Implementation Timelines for Adoption of CECL and Regulatory Capital Reporting

	Public Business Entities (PBEs)						Private and All Others Entities	
	SEC Filers[10]				All Other PBEs			
	Large SEC Filers		Smaller Reporting Companies[11]					
	Fiscal Years	Interim Periods	Fiscal Years	Interim Periods	Fiscal Years	Interim Periods	Fiscal Years	Interim Periods
Release of ASU 2016-13 (June 2016)	December 15, 2019		December 15, 2019		December 15, 2020		December 15, 2020	December 15, 2021
Three-year Relief for Regulatory Capital Impact (February 2019)	2020-2023		2020-2023		2021-2024		2021-2024	
Delay by FASB (November 2019)	December 15, 2019		December 15, 2022		December 15, 2022		December 15, 2022	
Updated Three-year Relief for Regulatory Capital Impact	2020-2023		2023-2026		2023-2026		2023-2026	
Delay by CARES Act (March 2020)	N/A	Earlier of end of national emergency or December 31, 2020	N/A		N/A		N/A	
Five-year Relief for Regulatory Capital Impact (March 2020)	2020-2025		N/A		N/A		N/A	

[10] SEC filers are companies required to file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other required filings with the SEC.

[11] A company qualifies as a smaller reporting company if it either has public float of less than $250 million or it has 1) less than $100 million in annual revenues and 2) no public float or public float of less than $700 million.

HOW WILL BANKS' LOAN LOSS REPORTING DIFFER UNDER CECL AND COVID-19 FROM UNDER THE INCURRED LOSS MODEL?

The CECL standard was issued to address problems with the incurred loss model that were exposed by the 2007–2009 financial crisis. The changes in the implementation timelines for CECL described above have led to the situation where most large banks have adopted CECL, while others have not. This reduces the adopting banks' regulatory capital adequacy relative to the non-adopting banks, all else equal.

For banks that have adopted CECL, perhaps the greatest concern and challenge is the mandate to incorporate "reasonable and supportable forecasts of future conditions" into their estimates of current expected credit losses. These banks are likely to find that it is even more difficult to predict the impact of a once-in-a-century global health crisis on loan loss allowances than it has been to predict the impacts of more frequently occurring financial crises, even one of the extreme severity of the 2007–2009 crisis. That crisis was driven by a collapse in the housing market and excessive leverage, events that banks were in a reasonably good position to understand and model. In contrast, to forecast the economic consequences of the pandemic, banks must first predict the pandemic's impacts on public health and related behaviors, and then estimate how these predicted impacts will affect key economic variables such as GDP and unemployment, and thereby the collectability of the banks' outstanding loans.

Table 2 illustrates the impact on loan loss allowances resulting from the adoption of CECL coupled with the speed at which the COVID-19 pandemic has hit the U.S. economy. The three large banks shown in this example—JP Morgan Chase, Bank of America, and Wells Fargo—all adopted CECL in 1Q 2020. In 4Q 2019, these three banks reported pre-CECL loan loss allowances of $14.3B, $10.2B, and $10.5B, respectively. On January 1, 2020, they recorded initial CECL adoption adjustments to retained earnings of $4.3B, $3.3B, and ($1.3B), respectively.[12]

During 1Q 2020 under the CECL model, the banks recorded additional provisions for loan losses of $8.3B, $4.8B, and $3.8B, respectively, due to the impact of COVID-19 and other factors, and gross write-offs less recoveries of $1.5B, $1.1B, and $0.9B, respectively.[13]

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[12] JP Morgan Chase, 1Q 2020 10-Q; Bank of America, 1Q 2020 10-Q; Wells Fargo, 1Q 2020 10-Q.

[13] Ibid.

During 2Q 2020, after updating their assessments of the impact of COVID-19 and other factors, the three banks recorded additional provisions for loan losses of $10.5B, $5.1B, and $9.5B, respectively, and gross write-offs less recoveries of $1.6B, $1.2B, and $1.1B, respectively.[14] The adjustments to the loan loss allowances during 1Q and 2Q 2020 resulted in 2Q 2020 loan loss allowances of $34.3B, $21.1B, and $20.4B, respectively.

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[14] JP Morgan Chase, 2Q 2020 10-Q; Bank of America, 2Q 2020 10-Q; Wells Fargo, 2Q 2020 10-Q.

Table 2
Illustration of Pre- and Post-CECL Loan Loss Allowances
(in billions)

	4Q 2019		1Q 2020					2Q 2020		
	A	**B**	**C**	**B+C**	**D**	**E**	**B+C+D+E**	**F**	**G**	**B+C+D+E+F+G**
	Quarterly Provision for Loan Losses	Loan Loss Allowances	Initial Adoption Adjustment to Retained Earnings	1/1/2020 Loan Loss Allowances	Quarterly Provision for Loan Losses	Gross Write-offs Less Recoveries	3/31/2020 Loan Loss Allowances	Quarterly Provision for Loan Losses	Gross Write-offs Less Recoveries	6/30/2020 Loan Loss Allowances
JP Morgan Chase	$ 1.4	**$ 14.3**	$ 4.3	$ 18.6	$ 8.3	$ (1.5)	$ 25.4	$ 10.5	$ (1.6)	**$ 34.3**
Bank of America	$ 0.9	**$ 10.2**	$ 3.3	$ 13.5	$ 4.8	$ (1.1)	$ 17.1	$ 5.1	$ (1.2)	**$ 21.1**
Wells Fargo	$ 0.6	**$ 10.5**	$ (1.3)	$ 9.2	$ 3.8	$ (0.9)	$ 12.0	$ 9.5	$ (1.1)	**$ 20.4**

HOW DOES THE UNPRECEDENTED ECONOMIC UNCERTAINTY CREATED BY COVID-19 AFFECT BANKS' ESTIMATES UNDER CECL?

The increases in all three banks' provisions for loan losses from 1Q 2020 to 2Q 2020 reveal the uncertainty that these and other banks are facing in implementing CECL during the global pandemic. In our example above, the banks' 1Q estimates of loan loss allowances conveyed the banks' expectations regarding losses over the entire life of the loans. Thus, the additional large increase in the banks' provisions for loan losses in 2Q constitutes a significant shift in the banks' expectations for the impact of COVID-19 on the economy.

At a time when little, if any, certainty exists about what the future will look like, projections of the economic conditions affecting collectability, and thus estimations of expected loan losses, are highly subjective. The three banks' disclosures emphasize the difficulty of estimating loan loss allowances under CECL during the pandemic and the potential for future changes to those estimates. For example, JP Morgan Chase disclosed that its 2Q estimate "reflected a more protracted downturn with a slower recovery of U.S. real GDP"[15] than in 1Q. JP Morgan Chase also significantly increased its forecast unemployment rates through 2021.[16]

In addition, in its 1Q 2020 financial statements, Wells Fargo disclosed:

> Based on economic conditions at the end of first quarter 2020, it was difficult to estimate the length and severity of the economic downturn that may result from the COVID-19 pandemic and the impact of other factors that may influence the level of eventual losses and corresponding requirements for future amounts of the allowance for credit losses, including the impact of economic stimulus programs and customer accommodation activity. The ultimate impact of the COVID-19 pandemic will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic. The pandemic could continue to result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly if the impact on the economy worsens.[17]

[15] JP Morgan Chase, 2Q 2020 10-Q.

[16] Ibid.

[17] Wells Fargo, 1Q 2020 10-Q.

Notably, Wells Fargo made this disclosure outside of the "risk factors" section of its 10-Q, which some financial statement users dismiss as "boilerplate."

Underscoring the uncertainty around the future of the economy and the subjectivity underlying estimates, the three banks' forecasts for economic conditions differed in 1Q 2020. JP Morgan Chase initially forecast a solid recovery in the second half of 2020, whereas Bank of America and Wells Fargo forecast the continuation of a recession through 2020.[18]

Based on these respective forecasts, JP Morgan Chase increased its loan loss allowances by $8.3M (or 45 percent of its 1/1/2020 loan loss allowance), while Bank of America and Wells Fargo each recorded slightly lesser percentage increases ($4.8M or 35 percent of Bank of America's 1/1/2020 loan loss allowance, and $3.8M or 42 percent of Wells Fargo's 1/1/2020 loan loss allowance).[19]

Looking forward, banks that adopted CECL in January 1, 2020, should eventually find that their adoptions help mitigate increases in their loan loss allowances due to COVID-19 in future accounting periods, because their beginning-of-period allowances are higher under CECL than would have been the case under the incurred loss model. The other banks may find that continuing to record loan loss allowances under the incurred loss model masks the extent of COVID-19-related expected loan losses for a time, only to require large loan loss provisions as the realization of losses approaches.

HOW WILL ADOPTING CECL IMPACT BANKS' REGULATORY CAPITAL AND LENDING DURING AND AFTER THE PANDEMIC?

To illustrate the effects of the regulatory capital phase-in periods for CECL adopters, Table 3 below provides an example of loan loss allowances recognized annually for the purposes of regulatory capital under three different scenarios: no relief, three-year relief, and five-year relief.

- *No relief*: (From ASU 2016-13) Records the one-time increase in loan loss allowances upon adoption of CECL and annual provision for loan losses calculated using CECL.
- *Three-year relief*: (From federal bank regulators' February 2019 final rule) Spreads the one-time increase in loan loss allowances upon adoption of CECL over the year of adoption plus the following three

[18] JP Morgan Chase, 1Q 2020 10-Q; Bank of America, 1Q 2020 10-Q; Wells Fargo, 1Q 2020 10-Q.

[19] Ibid.

years; records annual provision for loan losses calculated using CECL.

- *Five-year relief*: (From federal bank regulators' March 2020 interim final rule) Two-year delay period due to pandemic plus three-year relief period as stated above.
  - Delays recognition of one-time increase in loan loss allowances due to CECL for two years and spreads the one-time increase over the four years following the delay period.
  - During the two-year delay, records 75 percent of annual provision for loan losses recognized under CECL and spreads the remaining 25 percent over the four years following the delay period.
  - Following the two-year delay, records annual provision for loan losses calculated using CECL.

The illustration below assumes that, starting from a pre-CECL loan loss allowance of $3,000, an entity adopting CECL as of 12/31/2019 would see a $1,000 increase to the provision for loan losses in 2020, and the annual provision for loan losses would be $100 each year.

As illustrated in Table 3, under either the three-year relief or the five-year relief scenarios, the full impact on regulatory capital for firms that adopt CECL in 2020 is delayed until 2026, when the effects of CECL adoption will be fully integrated into regulatory capital.

Table 3
Comparison of Recorded Loan Loss Allowances Under Different Scenarios

Assumptions		
January 1, 2020 CECL Adoption Retained		
Earnings Adjustment	1,000	**A**
Annual provision for loan losses (2020-2026)	100	**B**

Loan Loss Allowances Impact on Regulatory Capital by Year

	No Relief			**Three-Year Relief**[20]			**Five-Year Relief**[21]				
Year	**A**	**B**	**A+B**	**C=0.25*A**	**B**	**B+C**	**D=0.25*A**	**E=0.75*B**	**F=0.25* (2*E)**	**B**	**B+E+F**
	Initial CECL Adoption	2020-2026 Provision for Loan Losses	**No Relief**	Initial CECL Adoption	2020-2026 Provision for Loan Losses	**Three-Year Relief**	Initial CECL Adoption	2020-2021 Provision for Loan Losses	2020-2021 Loan Loss Transition	2022-2026 Provision for Loan Losses	**Five-Year Relief**
2020	$ 1,000	$ 100	**$ 1,100**	$ 250	$ 100	**$ 350**	$ -	$ 75	$ -	$ -	**$ 75**
2021	$ -	$ 100	**$ 100**	$ 250	$ 100	**$ 350**	$ -	$ 75	$ -	$ -	**$ 75**
2022	$ -	$ 100	**$ 100**	$ 250	$ 100	**$ 350**	$ 250	$ -	$ 12.5	$ 100	**$ 362.5**
2023	$ -	$ 100	**$ 100**	$ 250	$ 100	**$ 350**	$ 250	$ -	$ 12.5	$ 100	**$ 362.5**
2024	$ -	$ 100	**$ 100**	$ -	$ 100	**$ 100**	$ 250	$ -	$ 12.5	$ 100	**$ 362.5**
2025	$ -	$ 100	**$ 100**	$ -	$ 100	**$ 100**	$ 250	$ -	$ 12.5	$ 100	**$ 362.5**
2026	$ -	$ 100	**$ 100**	$ -	$ 100	**$ 100**	$ -	$ -	$ -	$ 100	**$ 100**
Cumulative Allowance	$ 1,000	$ 700	**$ 1,700**	$ 1,000	$ 700	**$ 1,700**	$ 1,000	$ 150	$ 50	$ 500	**$ 1,700**

[20] In February 2019, regulatory agencies issued a final rule, permitting banks to phase-in the initial impact of CECL adoption on regulatory capital over a three-year transition period (25 percent each year).

[21] In March 2020, regulatory agencies issued an interim final rule amending the final rule issued in February 2019 to allow banks who adopt CECL in 2020 to delay the impact on regulatory capital for two years, followed by the three-year transition period from the final rule.

Some argue that decreases in banks' regulatory capital and lending capabilities resulting from the CECL standard will exacerbate the pandemic-induced economic downturn by reducing bank lending capabilities.[22] To slow the spread of COVID-19, state and local governments have required many businesses to remain closed for prolonged periods, resulting in large employee layoffs and unemployment approaching the peak levels seen during the Great Depression. Given the slowdown of business activities and high and increasing unemployment rates, many businesses and individuals require loans to maintain adequate liquidity.

While the regulatory capital delay temporarily mitigates the potential disruption of CECL on banks' lending capabilities, even without an economic crisis, CECL requires banks to record increased loan loss allowances, which in turn decreases regulatory capital and restricts lending capabilities.

Even so, it is important to note that the health of banks does not change with the adoption of CECL. Instead, CECL merely requires banks to report information about expected loan loss allowances earlier than they would have reported under the incurred loss model. Given that the banks' financial health does not change as a result of the adoption of CECL, some experts suggest that bank regulators should consider permanently changing regulatory capital requirements as a more effective solution to constraints in lending capabilities arising from CECL.

Beyond raising concerns about the impact on economic recovery, the adoption of CECL may give rise to litigation, regardless of whether banks' CECL estimates fully incorporate all currently available information. Even in this case, it is entirely possible that these estimates will turn out to differ substantially from realized losses, leading to litigation alleging that banks made these estimates in bad faith. Given the stresses that COVID-19 has placed on banks, allegations may arise that banks managed CECL estimates either down to maintain profitability and capital, or up to take a big bath or create a cookie jar reserve for managing future earnings.

If banks under-estimate expected loan loss allowances under CECL in early reporting periods, their future realized credit losses will exceed their loan loss allowances, decreasing their future profitability and capital available for lending. If banks over-estimate expected loan loss allowances under CECL in early reporting periods, their future realized credit losses will be less than their loan loss allowances, resulting in releases of those allowances and increasing future profitability and capital available for lending.

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[22] Financial Stability Institute, "Reflections on regulatory responses to the Covid-19 pandemic," April 2020, *available at* https://www.bis.org/fsi/fsibriefs1.pdf.

CONCLUSIONS

Loan loss allowances during the current COVID-19 pandemic—a sharp and highly uncertain economic and social crisis—will be larger and more difficult to estimate than they were during the 2007–2009 financial crisis.

Due to the uncertainty surrounding the COVID-19 pandemic, entities adopting CECL will experience difficulty in estimating loan loss allowances, leading to potential claims (with the benefit of hindsight) that estimates were made in bad faith.

While regulatory agencies are allowing banks to delay the impact of the CECL adoption on regulatory capital, this is only a temporary solution to effects of the new standard on lending capabilities. The adoption of CECL does not alter the health of banks—CECL merely reports information that banks should already know. Instead, regulatory agencies may need to consider changing the regulatory capital requirements as a more permanent solution.