Statement by FDIC Chairman Jelena McWilliams on the Interim Final Rule on Applicability of Annual Independent Audits and Reporting Requirements for Fiscal Years Ending in 2021

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The COVID-19 pandemic and the ensuing business closures led to widespread economic disruptions throughout the country. In response, the U.S. government established a number of programs to reduce economic and financial strains, which led to large cash increases in our banking system.

Throughout the pandemic, the FDIC has manifested flexibility in its regulatory approach to reflect both the unprecedented economic conditions and the unique government response. For example, the FDIC has taken a number of steps to facilitate banks' participation in the Paycheck Protection Program (PPP), such as making narrow adjustments to regulatory capital and deposit insurance assessment rules.

As of the end of the second quarter, banks held $482 billion in PPP loans. PPP loans are fully guaranteed by the U.S. Small Business Administration (SBA), with an expectation that a large number of these loans will be forgiven if they meet certain criteria. Banks have continued to hold these loans on balance sheet until completing the SBA's loan forgiveness process. As a result, some banks have crossed certain regulatory thresholds that, absent regulatory adjustments, would result in a material increase in compliance costs for a short-term basis.

PPP is the largest direct government program that has resulted in large temporary increases in total consolidated assets at certain banks, but other government programs have also8 contributed, along with other factors.

To avoid imposing increased compliance costs as a result of temporary asset growth, today the FDIC is considering an interim final rule (IFR) that would temporarily "freeze" an insured depository institution's (IDI) total consolidated assets for purposes of determining whether the IDI is subject to the requirements of Part 363 of the FDIC regulations for fiscal years ending in2021. More specifically, the IFR provides that an IDI can calculate consolidated total assets for any fiscal year ending in 2021 based on asset size as of December 31, 2019.

Given the challenges associated with the COVID-19 pandemic, the unique nature of PPP and the loan forgiveness process, and the urgency with which banks were encouraged to process PPP loans in order to help American businesses and individual employees, I support the IFR. The relief only applies on a time-limited basis for fiscal years ending in 2021, and relieves certain banks of incurring material costs to comply with new audit and reporting requirements on a one-time basis.

In addition, the FDIC is actively considering similar targeted adjustments to further mitigate unintended consequences resulting from pandemic-related government programs.

Thank you to the staff for all of your work on this rulemaking.