

June 29, 2004

Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1102-100

National City Corporation appreciates the opportunity to comment on the FASB's exposure draft "Share-Based Payment" issued March 31, 2004. National City, headquartered in Cleveland, is one of the nation's largest financial holding companies. We operate through an extensive distribution network in Ohio, Illinois, Indiana, Kentucky, Michigan, Missouri and Pennsylvania, and serve customers in selected markets nationally. Our primary businesses include commercial and retail banking, consumer finance, asset management, mortgage financing and servicing and payment processing. National City utilizes a variety of stock-based payments including stock options and restricted shares as integral components of employee compensation.

National City agrees with the Board's conclusion that employee services received in exchange for equity instruments gives rise to recognizable compensation cost and that pro forma disclosures of the fair value of stock option grants are not an adequate substitute for recognizing such compensation cost in the financial statements. Effective January 1, 2003, National City implemented the fair value method of accounting for stock-based compensation as we believe that this method better presents the economic results of these transactions.

We agree with the Board's conclusion to eliminate the alternative of accounting for share-based payments under APB No. 25. This alternative results in inconsistent financial reporting for similar transactions. Similar transactions should be accounted for consistently by all registrants in order to enhance investors' understanding of the impact of share-based compensation arrangements. We agree that financial reporting will be improved by this exposure draft.

We concur with the Board's conclusion that the fair value of options can be measured with an option-pricing model with sufficient reliability. We currently use the Black-Scholes model to value our stock options and believe that this model provides a reasonable estimate of the fair value of our stock awards. We believe that registrants should not be required to adopt a lattice model for valuing stock options. We

acknowledge that the lattice model may provide better flexibility for valuing the characteristics of employee stock options. However, we believe that investors would benefit more from disclosure of the valuation model and significant assumptions utilized than from mandating the use of a single model. If use of a lattice model is required, we request that a sufficient transition period be provided for registrants who previously utilized the Black-Scholes model. Detailed data on employee exercise patterns and post employment termination behavior will need to be gathered as inputs for the lattice model.

We agree with the Board's conclusion that the estimate of expected volatility should be based on information other than historical volatility. Abnormalities may exist in historical volatility that should be isolated for purposes of estimating future volatility. Or, the registrant's business may change resulting in a change in expected future volatility. We believe that the FASB has provided sufficient guidance on estimating volatility within the implementation guidance of this exposure draft.

We agree with the Board's conclusion that compensation cost be recognized in the financial statements over the requisite service period. However, we do not agree with the Board's conclusion on accounting for awards with graded vesting. The Board's conclusion that awards with graded vesting are in substance separate awards, each with a different fair value measurement and requisite service period, would require separate accounting which would increase the burden of administering these awards. The outcome of accounting for these grants as separate awards would be an acceleration of the compensation cost recognized over the requisite service period (i.e. higher compensation cost in the earlier years). We believe the additional cost to administer grants with graded vesting will not justify the benefit of a more precise allocation of what is ultimately an estimate of compensation cost over the requisite service period.

We disagree with the Board's recommendation that compensation cost be recognized net of expected forfeitures and revised if subsequent information indicates the actual number of forfeitures differs from the initial estimate. It will be difficult to accurately estimate forfeitures resulting in frequent changes in these estimates. Furthermore, forfeitures do not have a material impact on the recognized compensation cost. We believe that the additional precision from estimating forfeitures at the onset is not worth the additional effort required to subsequently adjust these estimates to actual as they occur. We believe registrants should be permitted to continue to account for forfeitures as they occur providing that this policy is disclosed.

We disagree with the Board's recommendation that excess tax benefits associated with exercises of stock options should be recognized in the cash flow statement as a financing cash inflow and an offsetting operating cash outflow. We believe that these excess tax benefits are better presented as a reduction of taxes paid consistent with the current treatment and with economic reality. We do not believe that the proposal to "gross-up" the cash flows reflects the economic substance of this transaction or enhances the reader's understanding of the registrant's cash flows. We would support footnote disclosure of the excess tax benefits associated with stock option exercises.

We concur with the FASB's efforts to achieve convergence with International Accounting Standards on accounting for share-based payments. It is important for investors to be able to compare the financial results of US and international companies when making investment decisions.

Finally, given the complexity of this standard, we would suggest that the Board consider providing a longer period for public companies to transition to this new standard. A required implementation date of the first quarter of 2005 will be challenging given the complexity of this standard. During the first quarter, finance professionals will be dedicated to their yearend financial reporting thereby limiting the time available to study this standard, collect the necessary data and implement a new option-pricing model for the first quarter reporting period.

Thank you for the opportunity to share our views on the share-based payments exposure draft. We support the FASB's effort to improve the current accounting for stock options and agree with many of the proposals in the exposure draft. We believe that many who oppose the accounting proposed in this exposure draft do so not out of principle but out of concerns that their companies will reduce the level of stock option grants, or their company's stock price will decline, if compensation expense is recognized for these instruments. We encourage the FASB to recognize the obvious conflict of interest in such opposition and to stay the course on improving the accounting for share based payments.

Sincerely,

Jeffrey D. Kelly
EVP & Chief Financial Officer