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VIA ELECTRONIC MAIL (**director@fasb.org**)

May 15th, 2013

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Attention: Ms. Susan Cosper, Technical Director

Re: File Reference No. 2013-220: Exposure Draft of Proposed Accounting Standards Update – *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

Dear Ms. Cosper:

Comerica Incorporated ("Comerica" or "we") appreciates the opportunity to comment on the Financial Accounting Standards Board's (the "Board" or "FASB") Exposure Draft of a Proposed Accounting Standards Update – *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* dated February 14, 2013 (the "Exposure Draft"). Comerica is a financial services company headquartered in Dallas, Texas. As of March 31, 2013, we are among the 50 largest U.S banking companies, with total assets of approximately $65 billion, total deposits of approximately $52 billion, total loans of approximately $45 billion, and total shareholders' equity of approximately $7 billion.

Comerica supports the Board's efforts to reduce complexity and provide users of financial statements useful, transparent, and relevant information regarding an entity's exposure to financial instruments. Comerica is pleased that the current exposure draft reflects improvements from the 2010 proposal[1] based on constituent feedback. The current accounting model for financial instruments makes a distinction in classification and measurement based on the legal form of the instrument, and we note that this model is widely understood by all constituents. We believe that the proposed single framework covering all types of financial instruments is not necessarily synonymous with reduced complexity. The Exposure Draft attempts to put forward objective criteria to determine classification and measurement in lieu of the intent-based criteria that is being used in the current accounting model. However, in practice, criteria similar to the proposed cash flow characteristics and business model assessment is implicitly used to drive judgment about the intent for holding such instruments. Generally, intent has been established through historical treatment and other factors and has not been applied based on the whim of management. Therefore, we believe that improvements as a result of the Exposure Draft are likely to be limited and will add

[1] Referring to the May 26, 2010 proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (File Reference No. 1810-100)

unnecessary complexity by introducing criteria that will require interpretation and may result in unintended consequences. Given the lack of implementation issues or widespread concern over complexity with the current accounting model, the changes proposed by the Exposure Draft appear to be focused more on form rather than substance.

Management's judgments about the expected realization of future value from financial instruments are fundamental drivers of amount and timing of future cash flows that a company expects to achieve. These judgments impact and inform the decisions of investors and stakeholders vis-à-vis expectations of performance and value. Disregarding such judgments, as has been suggested by some Board members[2], simply because of concerns that such judgments add to the complexity of the accounting model (e.g. concerns about treatment of reclassifications and "tainting") would be a disservice to investors and others placing reliance on the financial statements. Ultimately, a good accounting model must address and reflect business reality to be truly relevant and to provide decision-useful information to investors and others. As such, a good accounting model should be fluid. In particular, the classification and measurement model for financial instruments should be reflective of the business reality that while decisions to hold versus sell financial assets are primarily based on an entity's business model, those decisions could be impacted in the future by a changing economic and/or business environment. Comerica, as a "main street" bank, is in the business of lending money, accepting deposits and building long term relationships with its borrowers. The vast majority of our loan portfolio is for long-term investment, to be held for the foreseeable future for contractual cash flows, and loans are rarely sold. Our pricing reflects our business philosophy, as does our credit risk and interest rate risk management. We believe, based on interactions with our investors, that the current accounting model for the recognition and measurement of financial instruments has yielded the appropriate classifications of our financial instruments, primarily the loan and securities portfolios, and that it is well understood by the investor community.

Amortized Cost as an Appropriate Measurement for Loans

As it pertains to loans, we strongly support the Board's view, as expressed in the basis for conclusions, that simple debt instruments should be permitted to qualify for a measurement category other than fair value.[3] In particular, loans that, under an entity's existing and established business model, are not intended to be sold should be measured at amortized cost because the measurement is indicative of cash flows that an entity expects to realize and therefore is the most relevant measure. We recognize that loans, like other financial instruments, may include features that could significantly lever them. We agree that features which add leverage to an instrument or that are indexed to equity or commodity indices are not reflective of the return on simple debt instruments and therefore should be measured at fair value through net income. While we agree with the conceptual basis for the classification and the related measurement of such features, we are concerned about the proposed cash flow criterion that is intended to serve as a filter to determine which instruments have leverage. We believe that the analysis of contractual cash flows to determine whether they represent solely payments of principal and interest (the "SPPI test") introduces complexity by (a) creating another model to analyze embedded derivative features, (b) introducing the need to create "benchmark" or "hypothetical" instruments and (c) creating a host of likely unintended consequences as a result of the interpretation and application of the criteria as proposed.

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[2] Paragraph BC 360
[3] Paragraph BC 109

Currently, guidance in ASC 815-15-25-26 is used to identify leverage (the “double-double test”). We acknowledge that this guidance has its limitations. These limitations include the requirement to perform the test for *every* possible scenario (including remote scenarios), a negative leverage test that provides too much latitude and a positive leverage test that includes assessment over timeframes that are not realistic investment horizons. Conversely, the SPPI test proposed in the Exposure Draft, while an improvement with respect to scenarios that need to be evaluated where the analysis is done based on reasonably possible as opposed to remote scenarios, contains flaws of its own – these include:

a. **A seemingly very low and unclear threshold of “more than insignificantly different” –** While we understand that a debt instrument should not have a negative return, except in the case of borrower default, and accordingly should not have significant negative leverage, we are concerned about how this guidance would apply to instruments that have market-based premiums and can be prepaid at par. We are very concerned that this low threshold will cause several financial instruments that have typical lending features such as step-up to default rates in certain credit circumstances to be fair valued through net income even though the business model is to hold such instruments for its contractual cash flows and the pricing reflects typical market terms.

b. **Contradictory guidance about the time horizon over which the SPPI test should be performed –** The implementation guidance in paragraphs 825-10-55-17 to 825-10-55-20 includes the phrases “contractual term,” “period of time covered by the interest rate” and “life of the instrument.” Practical application will result in a different time horizon for each of these terms. Further, it is unclear how prepayment and extension options would impact the time horizon for the SPPI test.

c. **Onerous threshold for interest rate resetting loans –** We do not agree that instruments with interest-rate frequency and reset mismatches should be considered to be instruments that have features that are not solely payments of principal and interest. It is not uncommon in the banking industry for the interest rate on variable rate loans to reset more frequently than the term of the index rate. Such loans are commonly held for their contractual cash flows and are priced accordingly to customer demand and accepted business practice in the industry. The application of the proposed guidance would appear to require that these loans be measured at fair value with changes in fair value recognized in net income (“FV NI”), which would not be the appropriate measurement attribute for such loans. Comerica’s loan portfolio is currently comprised of 85% variable rate loans, of which 75% are indexed to LIBOR. Our portfolio includes loans that reset on a daily basis to one month LIBOR. There is no interest rate available that will match the daily reset frequency. Our portfolio also includes loans that reset to the prime rate. As mentioned earlier, essentially all our business loans are held for their contractual cash flows. The Board should consider excluding from the analysis of the economic relationship between principal and interest, loans and other instruments with interest rates that reset more frequently than yearly and interest rate durations of less than a year.

d. **An unnecessary and complex comparison requirement –** The requirement to perform a comparison to a “benchmark” instrument resembles in application the quantitative analysis required under ASC 815 to determine the effectiveness of a hedging relationship, an analysis which is very complex. We are not clear how adding such quantitative analysis supports the stated goal of simplifying the accounting model for financial instruments. We believe the requirement is not operational for all financial instruments. For example, we do not believe that identifying a benchmark instrument is feasible in the case of loans that reset on a daily basis to one month

LIBOR. Furthermore, the proposed guidance states that a benchmark instrument should be one that has the "same contractual terms except for the contractual term under evaluation."[4] The use of the singular in *term under evaluation* seems to suggest that this would be an analysis done for each individual "modifying feature" in isolation. We believe that performing such analysis on a portfolio of financial instruments could be unduly burdensome. We are also unclear about the appropriate interpretation of whether the benchmark instrument would be a single comparable instrument whose terms (combined) represent consideration for the time value of money and credit, whether the FASB intends for this analysis to be done in isolation for each feature, and if any single feature could cause the entire instrument to be fair valued through net income.

e. **As proposed, definition of *principal* is too restrictive –** We would recommend changing the definition of principal contained in the Exposure Draft to the amount owed by the borrower (excluding accumulated due compensation for time value or credit risk). This change would avoid having loans acquired through a business combination or portfolios purchased at a value other than par fail the cash flow criterion. Without this change, it appears most purchased credit impaired ("PCI") assets would be measured at FV NI, while the Board has, in fact, proposed guidance for measuring impairment for PCI assets that would be measured under amortized cost.

Comerica would support replacing the proposed SPPI test with the *clearly and closely related assessment* in the double-double test, albeit with some improvements. We believe that for the most part this guidance has demonstrated that it can be a viable option to identify instances where the terms of the debt instrument change the economic relationship of lending. Should the Board include a clearly and closely related assessment, we recommend the language under ASC 815-15-25-26 be simplified to focus on reasonably possible scenarios and on instruments with terms that are meant to provide *significant* positive or negative leverage over the *originally-expected life*.

Business Model Criterion

We support the Board's efforts to align the accounting treatment of financial instruments with their underlying business model. We understand the Board's intent is to provide the most relevant measurement attribute to users of the financial statement based on how the entity expects to realize the value of the financial instrument. In fact, in our opinion, the business model should be applied first, before the contract terms of the individual instrument are evaluated for classification. As currently proposed, we have several concerns with the business model criterion guidance. We urge the Board to evaluate or concerns from the perspective of implementation and auditability.

Our first concern pertains to the ability of entities to sell instruments measured at amortized cost without casting doubt about the initial classification of the instruments ("tainting"). It is our strong belief that accounting rules should not interfere with sound and responsible business practices. Neither should they contradict regulatory requirements intended to protect the public by improving the soundness of a financial institution. While sales to maximize collection of contractually due cash flows in the event of significant credit deterioration are considered consistent with the amortized cost classification, other examples make the criteria of permissible sales too restrictive. For example, the Exposure Draft specifically states that neither sales to manage credit exposure due to risk concentrations nor sales performed under the direction of banking regulators to a specific entity would be consistent with the objective of amortized cost

[4] Paragraph 825-10-55-19

classification. In our opinion, it is unreasonable to expect that an entity could foresee either of these two circumstances at the time of the original classification of the instrument. Further, we believe that the hold-to-collect business model is not compromised under either of these two examples. We are concerned that, because of the proposed guidance, auditors may call into question the initial classification of the instruments subsequently sold under the two examples presented, and by extension call into question the classification of the remaining instruments. We recommend that the Board revise its proposed guidance to remove the final sentence of paragraph 825-10-55-31, which reads "However, sales of financial assets that result from managing the credit exposure because of concentrations of credit risk would not be consistent with the objective of amortized cost classification." Similarly, we recommend the Board removes paragraph 825-10-55-34 which refers to entity-specific sales at the direction of regulators from the final standard.

The final standard should permit reclassification out of amortized cost for reasons that could not have been anticipated at the time of initial recognition. Being too restrictive in the types of sales that are *allowed* would "impair the extent to which an entity's financial statements faithfully represents its business model"[5] due to concerns regarding implicit tainting. As currently drafted, we are concerned that the perceived limitation in permissible reclassifications may have the unintended consequence of dictating business decisions.

Our second significant concern relates to the definition of a business model. Based on how a business model would be determined under the proposed guidance, we are concerned that some may infer that the business model is the equivalent of a business segment. This is particularly possible due to the similarities in the language pertaining to objective evidence to be considered which includes consideration of "how the performance of the business is reported to key management personnel" and "how management is compensated."[6] While we do not believe that it is the Board's intention that a business model's scope would necessarily be as far-reaching as that of an operating segment, to avoid unintended consequences we feel a more clear assertion is needed in the final language. We recommend the Board include guidance that states that the determination is intended to be made at a portfolio level consistent with how the entity manages its business activities, and not at operating segment level which could have multiple portfolios of financial instruments. This clarification would be helpful to alleviate potential discrepancies in the understanding of preparers, auditors and users. In our opinion, this change would also help mitigate confusion in practice as to when an entity has changed its business model requiring reclassification.

Our third concern relates to loan participations. Comerica provides loans and other products to large corporate clients. Loans are made to such clients with expectations that certain portions of these loans will be participated to other financial institutions – similar to reducing the risk of credit concentration outlined in our first concern. The level of participation that can be obtained from other institutions tends to vary. The Exposure Draft doesn't clearly address such business realities as when a loan is held with the objective of collecting contractual cash flows but there is some level of uncertainty about the proportion of the loan that will be held, nor does it address the unit of account issue which for a participation is an individual loan but for sales of similar financial assets may be performed at the portfolio level as outlined below. We believe that the accounting model should reflect such business realities and that the resulting accounting should align with the business objectives as opposed to being relegated to consequences that were meant as anti-abuse provisions.

[5] Paragraph BC 132
[6] Paragraph 825-10-55-28

Finally, we have concerns regarding how to operationalize the proposed guidance regarding *Pools of Similar Financial Assets*[7]. The Exposure Draft acknowledges that there may be situations where an entity must recognize a pool of financial assets prior to making a determination of which assets will be sold and which will be held for collection. In these circumstances the proposed guidance would allow an entity to classify the assets pro-rata based on general expectations. While conceptually this would appear appropriate, operationally entities will need to know how to account for the specific assets. As outlined above, in many such instances the proportionality of actual sales will vary from amounts originally expected to be sold. Such differences could result from changing conditions in the marketplace and demand/supply of specific loan products. We recommend the Board consider including a provision, similar to other existing guidance, whereby an entity is allowed a period of one year to make a final determination regarding the classification of individual assets that were acquired as part of a pool or business combination.

Held for Sale Indicators and Tax Credit Entities

The Exposure Draft contains guidance regarding indicators to be used in determining if an investment which qualifies for the equity method of accounting under existing guidance is considered to be held for sale[8]. Based on this guidance, if an investor has identified a potential exit strategy and defined a time at which it expects to exit, the investment would be considered held for sale and should be measured at FV NI. We are concerned that as an unintended consequence this guidance may be applied to tax credit entities. We do not believe that FV NI is the appropriate classification for tax credit investments. Further, we believe this guidance would prove contradictory to other projects that the Board has recently undertaken[9]. We recommend the board include a scope exception for investments in tax credit entities.

Parenthetical Presentation Requirement of Fair Value for Items Measured at Amortized Cost

We disagree with the requirement to parenthetically report the fair value of instruments measured at amortized cost on the face of the financial statements. To do so will be confusing to readers of the financial statements. These instruments qualify for measurement under amortized cost because it is the more relevant measurement, but a parenthetical presentation of fair value could be perceived as the two measurements having equal relevance. Disclosure in the footnotes should provide sufficient information for those readers who chose to incorporate the fair value of loans into their analysis.

Disclosure Requirements for Core Deposit Liabilities

Consistent with our comments on the Board's project on Disclosures about Liquidity Risk and Interest Rate Risk[10], we have concerns regarding the implied weighted-average maturity period requirement. As defined in the Exposure Draft, the *Implied Weighted-Average Maturity* disclosure requirement represents management's assessment of the weighted-average expected life of deposits. For most financial

[7] Paragraph 825-10-25-30
[8] Paragraphs 323-10-15-20 and 21
[9] File Reference No. EITF-13B: *Proposed Accounting Standards Update—Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)*
[10] File Reference No. 2012-200: *Exposure Draft of Proposed Statement of Financial Accounting Standards – Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk*

institutions, this assumption is based on deposit studies that are expensive to update. Performance of such studies with any amount of frequency would be cost-prohibitive. Therefore, expected maturities may be based on studies conducted at different points in time, possibly adding a degree of staleness to the assumption and also will impact the comparability of the analyses between institutions. Additionally, despite the effort expended in performing studies, consumer behavior often defies historical trends and could be significantly different than expectations, diluting the value of the results of such analysis. Lastly, expected maturities for commercial loan assets are much more difficult to predict and will be based on entity-specific assumptions which may not reflect actual results. With all these factors taken into account, it is hard to see the usefulness of this disclosure.

Due to diversity among financial institutions, we are also concerned regarding the comparability of information regarding what is considered a core deposit, what management's assessment of expected life is for deposits (particularly deposits with no stated maturity), and the computation of the *All-in-Cost-to-Service Rate*. Therefore, we question the usefulness of this information and would ask the Board not to include this requirement.

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We thank you for the opportunity to express our concerns regarding this proposal, and we respectfully request that the Board consider the points we have raised. Should you require further information or have any questions, please do not hesitate to contact me (telephone 214-462-6684; email address mscarr@comerica.com; facsimile no. 214-462-6810) or Mauricio Ortiz, Vice President - Accounting Policy (telephone 214-462-6757; email address maortiz@comerica.com; facsimile no. 214-462-6810).

Sincerely,

Muneera S. Carr

Muneera S. Carr
Executive Vice President and Chief Accounting Officer

cc: Karen Parkhill, Vice Chairman and Chief Financial Officer
Mauricio Ortiz, Vice President - Accounting Policy