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Michael R. Spychala Senior Vice President and Controller

May 29, 2013

Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856

File Reference No. 2012-260

Dear Ms. Cosper:

M&T Bank Corporation ("M&T") appreciates the opportunity to respond to the Proposed Accounting Standards Update "Financial Instruments – Credit Losses." M&T is a bank holding company headquartered in Buffalo, New York that operates 725 domestic banking offices in New York, Pennsylvania, Maryland, Delaware, Virginia, West Virginia and the District of Columbia. M&T, with \$83 billion of assets and \$65 billion of deposits, offers a broad range of financial services to a diverse base of consumers, businesses, professional clients, governmental entities and other financial institutions.

In concept, we are generally supportive of the Board's attempt to reduce the complexity of the numerous existing impairment models by proposing a single measurement approach for credit losses. We believe the inconsistencies in the current impairment models create unnecessary confusion and that a consistent measurement approach would benefit financial statement users, preparers and auditors. We are concerned, however, that the Board's proposal does little to address the issues of pro-cyclicality and, to a degree, of delayed recognition of credit losses under current GAAP. Specifically, if banks could reasonably have predicted the severity of loan losses during the most recent financial crisis at the time those loans were originated, they would have avoided making such loans at the onset. Additionally, in many ways the Board's proposal will further add to the pro-cyclicality of loss recognition by extending the incurred loss model to a lifeof-loan loss model that is based predominantly on conditions that are currently existing or observable in the near term. We would support an approach based on the U.S. Banking Industry Model (originally introduced by the American Bankers Association's bank working group in 2011) which eliminates the concept of "probable losses" that have been "incurred" and replaces it with the concept of "expected inherent losses" that are "reasonably predictable" based upon an assessment of historical and current credit information and expected events and conditions. This approach also introduces a "credit risk adjustment" component to address inherent limitations in the credit forecasting process and the cyclical nature of macroeconomic conditions. Nevertheless. should the Board persist down the path of an expected lifetime loss model, we provide the following comments.

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Application to Acquired Loans

We support the Board's stated objective to reduce complexity by implementing a consistent measurement approach for the recognition of credit losses. However, the Board's proposal requires divergent accounting treatments for so-called purchased credit impaired ("PCI") loans as compared to other purchased loans. Incredibly, the Board's approach to accounting for credit losses associated with portfolios of acquired loans purchased at a premium completely ignores the basic economic assumptions underlying the purchase price associated with such loans. We are supportive of the gross-up method proposed for PCI loans, but we do not support the Board's rejection of a similar approach for non-PCI acquired loans for which an inherent amount of underlying credit losses also exist and have indeed been assumed in the fair value purchase price. The Board's ongoing propensity to repeatedly suggest recognizing assets and liabilities at fair value (even when such value is difficult to determine and irrelevant in day-to-day management of a company) and then to flippantly dismiss the use of fair value in a situation where it is actually relevant is alarming. As an active acquirer and market participant for such loans, we understand that expected credit losses are embedded in the transaction price (i.e. fair value) and believe that those credit losses should be accounted for consistently as an allowance for loan losses, whether the acquired loans meet the Board's misguided definition of PCI or not. In addition to creating confusion to financial statement users for disparate accounting approaches for similar transactions, we believe that the proposed model for the recognition of credit losses on non-PCI acquired loans essentially double-counts the credit losses embedded in the recorded fair value of those loans. Recognizing an additional allowance for non-PCI acquired loans that were just recorded at fair value (inclusive of an estimate of expected credit losses) would significantly misrepresent the economics of the purchase transaction. In support of this position, we note the following excerpt from paragraph BC48 of the IASB's "Financial Instruments: Expected Credit Losses" exposure draft:

"Requiring the entity to further deduct an amount from the transaction price that represents the same amount that it has already discounted from the contractual cash flows results in the entity double-counting its initial estimate of credit losses. The effect of this would be most apparent at initial recognition because the varying amount of the asset would be below the transaction price."

Subsequent recognition of expected credit losses that are already reflected in the carrying (fair) value of non-PCI acquired loans would imply an additional economic credit loss when no such event has occurred or is expected. The repercussion of such a model would be the separation of fair value and carrying value for non-PCI loans upon acquisition, as demonstrated below. The double-counting of credit losses would also impact deal pricing as the acquiring financial institution would end up with less capital solely due to an accounting convention. In addition to being counter-intuitive, such an approach would be unnecessarily confusing for financial statement users. At a minimum, we suggest that the Board consider a consistent approach to the recognition of credit losses on loans obtained by acquisition. We support the gross-up method for all acquired loans and believe the recognition of the expected credit losses in the allowance for loan losses would be transparent and readily understood by investors and other users of financial statements.

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Example: Company A buys a portfolio of non-PCI loans for \$103 with a par value of \$100. In determining the fair value of the assets purchased, Company A has estimated expected credit losses of (\$2) and positive adjustments for non-credit factors of \$5, on a discounted basis.

Par value	\$ 100
Expected credit losses	(2)
Non-credit adjustments	 5
Fair value	\$ 103

The resulting carrying values of the loans purchased under the Board's proposal versus the gross-up method are depicted in the following table.

	Board's <u>Proposal</u>	Gross-up <u>Method</u>
Par value	\$ 100	\$ 100
Amortizing purchase premium	3	5
Expected credit losses recognized in ALLL	(2)	(2)
Carrying value	101	103
Difference	2	
Fair value	\$ 103	\$ 103

The double-counting of the expected credit losses under the Board's proposal results in the divergence of the carrying value from the fair value. We support maintaining the integrity of the transaction price reflected in the carrying value of acquired loans achieved through the gross-up method, as this amount is most indicative of the economic value of the asset to market participants at the date of acquisition. We also believe this presentation would be transparent and, accordingly, more useful to investors. We would concur with the Board's proposal to recognize expected credit losses for originated loans through the allowance as a reasonable and practical approach that would also be easily understood by users of financial statements.

In summary, we do not believe the Board's objective of consistent recognition of expected credit losses is met with the proposed accounting standard. Specifically, the divergent accounting treatment for so-called PCI and non-PCI acquired loans will continue to add confusion and unnecessary complexity to the recognition and reporting of credit losses for purchased loans.

Application to Debt Securities

We are generally supportive of the proposal with respect to the measurement and recognition of credit losses on debt securities through use of an allowance rather than direct write-down of the carrying value of individual securities that is usually based on highly subjective assumptions. We believe that such an approach allows for a more accurate representation of a Company's expected credit losses at any point in time than the current method of reducing the amortized cost basis of an

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credit losses at any point in time than the current method of reducing the amortized cost basis of an individual debt security. Paragraph 825-15-25-5 of the exposure draft cites that "an estimate of expected credit losses shall always reflect both the possibility that a credit loss results and the possibility that no credit loss results." This statement implies that the Board would expect that there would be some level of allowance for all debt securities, even investment securities where full realization is highly anticipated, including but not limited to U.S. Treasury and agency-backed securities that are explicitly or implicitly backed by the full faith and credit of the U.S. government. The Board has provided a practical expedient that allows a company to not recognize credit losses when both the fair value is greater than (or equal to) the amortized cost basis and the expected credit losses are insignificant. However, that expedient does not alleviate the issue when the fair value of such securities declines below the amortized cost basis due to changes in interest rates or other non-credit factors. As a result, it appears to be the Board's expectation that if a U.S. government or agency-backed security's fair value drops below its amortized cost an allowance for credit losses would be established. We believe similar issues will exist for high-quality nongovernment bonds for which no credit losses could reasonably be anticipated in the foreseeable future.

Application to Demand Loans

The proposed standard does not address the time horizon for assessing expected credit losses on non-maturity loans. Such loans allow the bank to require full repayment of the borrowing on demand and, as such, do not have a maturity date. The Board should consider developing guidance for estimating expected credit losses on such loans to avoid differences in practice that may arise. We would support a shorter duration analysis for demand loans given that, in practice, such loans are generally subject to an annual credit review process to determine if the bank should continue to extend credit to the customer.

Definition of Nonaccrual

In response to question 15, we believe the Board's requirement to place an asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest may result in an unintended departure from the current definition as set forth by bank regulatory authorities that is universally understood by preparers and users of bank financial statements. Specifically, regulatory guidance requires that a loan be placed on nonaccrual status when payment in full of principal and interest is not expected. In applying that guidance, the number of days that a borrower is delinquent is also given consideration. We believe the use of "not probable the entity will receive substantially all of the principal or substantially all of the interest" versus "not expected to receive payment in full of principal and interest" could be interpreted differently and result, unnecessarily, in a significant increase in the reported amount of nonaccrual loans. This again appears to be a situation where the Board is offering change for the sake of change and not because it is a meaningful improvement. The concept of nonaccrual loans and the application of that concept has not posed widespread problems for financial institutions nor users of their financial statements. We recommend adopting the bank regulatory definition of nonaccrual to ensure consistency in practice and ease of understanding.

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Troubled Debt Restructurings

With respect to question 16, we find the continued identification and reporting of Troubled Debt Restructurings ("TDRs") to not be a relevant designation. We do not believe it is necessary to have a special designation to ensure the measurement of impairment on such loans, as the impairment has occurred regardless of any modification of contractual loan terms. Furthermore, tracking of loan modifications designated as TDRs is operationally cumbersome and, in our view, provides little usefulness to investors as the situations resulting in TDRs oftentimes improve, at which point the borrower would no longer be considered troubled. We also note that IFRS does not contain the concept or guidance relating to TDRs.

We appreciate the opportunity to comment on this exposure draft.

Very truly yours,

Michael R. Spychala Senior Vice President and Controller