



Comerica Incorporated

Comerica Bank Tower
1717 Main Street, MC 6500
Dallas, Texas 75201

VIA ELECTRONIC MAIL (director@fasb.org)

April 5th, 2011

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

Re: File Reference No. 2011-150: Supplementary Document of Proposed Statement of Financial Accounting Standards – *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment*

Dear Technical Director:

Comerica Incorporated (“Comerica”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s and the International Accounting Standards Board’s (“The Boards”, “FASB”, “IASB”) Supplementary Document of a Proposed Statement of Financial Accounting Standards – *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Impairment*, dated January 31, 2011 (the “SD”). Comerica is a financial services company headquartered in Dallas, Texas. As of December 31, 2010, we are among the 50 largest U.S banking companies with total assets of approximately \$54 billion, total deposits of approximately \$40 billion, total loans of approximately \$40 billion, and total shareholders’ equity of approximately \$6 billion.

Comerica supports the Board’s efforts to ensure reserves are sufficient to cover all estimated credit losses and to address the concern with respect to the current guidance that reserves tend to be at their lowest level when they are most needed at the beginning of a downward-trending economic cycle (the “too little, too late” concern).

The objective of the current reserving methodology is to estimate and provide for incurred losses in the loan portfolio. The current model includes aspects of practicability such that larger loans with greater risk are individually evaluated whereas smaller homogenous loans are generally evaluated on a pool basis. The current model and objective are widely understood and industry practice has developed over the years to meet this objective. The current model could also be viewed as a ratable recognition model (typically 12 to 18 months of loss reserves) with increases which occur, generally lagging economic trends mainly due to the focus of the model on “current conditions”.

Both the pro-cyclical nature of the current reserving process as well as the lag factor in the current methodology needs to be addressed. Over the past months, it appears that a variety of models with diverse objectives have been considered including, but not limited to models which generate reserves sufficient to

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supposedly cover any and all future losses (life of loan reserves), reserve estimates that supposedly attempt to match up with revenue recognition (pricing based reserves), reserves up to the extent that one can generally reliably estimate (foreseeable future reserves), reserves recorded on a ratable basis and reserves recorded in lump sum on day-one. The variety of approaches that have been considered indicate a lack of (a) sound theoretical basis that achieves a specific objective and (b) appropriate practical considerations. There also appears to be a lack of general consensus among and within the various constituents on which impairment model makes the most sense. The one thing that seems to be clear is that no model is perfect.

OUR RECOMMENDATIONS

There are inherent limitations in any estimation process. Some of these include (a) future uncertainty which can cause actual results to vary significantly from the best estimates (b) systems and operational issues and (c) volume of information which introduces practicality issues. Given the backdrop that no single currently proposed model is perfect or has any clear advantages over another and the lack of precision that exists in any reserving process, we determined that it was best to recommend an approach as opposed to a specific model. Accordingly, we recommend that the FASB try to address the issue of reserving in a manner that adequately measures and provides for credit risk, is simple to implement (from a cost and day to day data management standpoints), easy to understand and promotes comparability. Generally speaking, the FASB's alternative model is closer to meeting certain of these characteristics but still needs additional work and clarity as outlined below.

Simple to implement

There is broad based consensus that neither the IASB model nor the common proposal will be easy to implement. It is fair to say that currently most, if not all, institutions lack the ability to systematically implement the proposed time-proportionate method. It has been difficult for institutions to comply with the simpler ASU "Receivables – Nonrefundable fees and other costs" Section 310:20 model which simply requires a ratable recognition of deferred fees and costs. The proposed models would require a new estimate be recognized on a ratable basis each period where several banks have struggled to recognize a constant amount over the life of a loan. It is evident that this impairment model would be very expensive and complex to implement. This expense and complexity may have been acceptable provided this methodology was clearly superior to other alternatives that have been proposed. For reasons noted later in this comment letter, in our view, this is clearly not the case. Relatively speaking, the FASB's model which will still require data analysis to determine probability of defaults over a long time horizon would be easier to implement.

Easy to understand and comparability

The FASB's "foreseeable future" model meets the objective of simpler to understand on a relative basis. Certain interpretative issues of the FASB model could be further simplified such that comparability is enhanced and the model is significantly simplified. Accordingly, we recommend that the FASB determine the bright line for what might be considered the "foreseeable future" as opposed to waiting for industry practice, regulators and auditors to set an informal bright line. While we try to achieve the noble goal of principles-based standard setting, the reality is that industry practice has always informally transformed many principles-based standards into rules. The reserving process is a good example of such practice, where many institutions today follow the informal rule of 12 to 18 months of losses depending on loan type.

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Measure of risk

Impaired loans

Considering the reserving process from a risk standpoint, there is agreement that loans with known impairment should be fully reserved for the amount of loss likely to be realized. Large balance loans with known impairment should and do receive management's attention in the reserving process. Accordingly, there are limited disagreements on the consideration of these loans in the reserving process. The life of such loans are generally shorter (the work-out period) as a result of the known impairment such that it is possible to develop a good estimate of the reserves as the foreseeable future and life of the loan gravitate towards the same timing. The currently proposed loan models complicate the issue of reserving for impaired loans as a result of the following:

- (a) As the population of loans subject to this analysis increases, there are two issues (1) the losses on these loans may not necessarily occur within the foreseeable future weakening the quality of the estimate and (2) the increase in the population may raise issues of practicality with measuring the reserves for the larger population of loans.
- (b) There is a lack of clarity in the definition of loans to be included in this population, and further on methodologies that could be used to measure impairment within this population.

Standard reserves for the performing portfolio

Principal balances of loans are charged-off when they are no longer deemed to be collectible. One could characterize the charge-off process as being the culmination of the loss recognition. Generally, the charge-off of a loan lags the reserving process or said differently, the reserving process though criticized for delayed recognition still precedes the charge-off process. Generally, the higher the confidence level needed to determine whether or not contractual amounts are collectible, the shorter the time frame of the loss recognition time horizon (higher confidence would translate into waiting until you are sure to take a loss). Therefore making changes to the "probability" threshold does in turn impact the time horizon for losses to manifest themselves. Though changes in the confidence threshold would result in operational issues in tracking historical data of loan performance, this appears to be an acceptable solution.

Additionally, consideration of future events enables the estimate to be comprehensive in the sense that all known facts are known. Consideration of future events could have either a positive or negative impact of the ending reserves depending on economic trends. Regardless, this consideration will reduce the impact of the lag factor in the reserving process.

Listed below are other issues with currently proposed models:

COMMON PROPOSAL MODEL

- (a) The definition of "bad book" as currently phrased is confusing and has interpretive issues. For example, some banks including Comerica, have a Special Assets Group. This group serves different functions at different banks – in some institutions, the group only handles impaired loans where as in other institutions, the group handles all loans which require special monitoring. Additionally, in still other banks, both these functions may be handled within the lending and credit group without the existence of a specialty group. A possible interpretation of the bad book could be that assets transferred to this group should be considered "bad". However, given the diverse

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- functions and diverse organizational structures, such an interpretation would clearly not be appropriate.
- (b) The interpretative issues would also result in lack of comparability as different institutions considered different loans within the risk spectrum to be “bad”. It also interesting to note that there are fewer interpretative issues with the regulatory definition of loans within a risk spectrum. Some of these definitions could formulate a basis of the segregation of loans.
 - (c) The definition of “bad book” may not capture the right population of loans and would be difficult to apply in practice. The Boards state that a change in the risk management objective would be a basis on which the loan could be considered “bad”.
 - (d) While the SD does give some examples of credit deterioration indicators in section B3, the examples provided are confusing in that the indicators are at different spectrums of delinquency and are either too late for example, enforcement of security interests (foreclosure, seizing collateral; debt restructuring; exercise of a call option; breach of debt covenants) or too early for example, contacting the debtor by mail, phone, or other methods, in making the assessment.
 - (e) Without more specific guidance on circumstances where transfers can be made between the “good” and “bad” book, there will be diversity in practice. Additionally, we also note the need for additional guidance on how transfers should be treated including how the allowance for the transferred loans would be impacted.

If the Boards choose to retain the common proposal model, a possible recommendation for the segregation of loans into the “bad” and “good book”, may be loans for which it is “expected that the creditor will not collect all contractual amounts due” without regard to size part of the bad book, this would include impaired loans (loans identified in ASU “Receivables” Section 310:10-35-16) and other loans the company deems to be problem loans.

Time proportionate calculation

There are several flaws in the methodology associated with the time proportionate calculation including:

- a) Lack of a principle associated with timing of loss recognition. As currently proposed, this model would result in a straight line loss recognition which is neither related to how losses may manifest themselves in the portfolio nor related to income recognition.
- b) Insufficient reserves for certain asset classes where loss occurs earlier in the life of the asset (this then triggers the need for a dual calculation to set the floor adding additional complexity and costs)
- c) Weaker quality of estimates as preparers try to project life time losses which may be a difficult exercise for long-dated loans.
- d) We also seek clarification on how renewals would be factored into the calculation of the lifetime estimate of expected losses and circumstances when renewals would be considered part of the loans estimated life.
- e) The calculation would also be operationally difficult especially in the context of open portfolios where assets are constantly being added and removed from the portfolio over time. Significant system changes would be needed to be able to track movements in the portfolios in order to calculate the weighted average age and weighted average life each period. Most loan systems at Banks do not have the origination date of the loans recorded in the systems. This calculation would involve substantial cost and lead time to implement since these systems are not currently in place
- f) The dual calculation of the time proportionate method and the floor would also be overly burdensome for companies as they would be required to keep two sets of data and additionally would be required to update both sets of calculations each reporting period.

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FASB'S ALTERNATIVE MODEL

Foreseeable future

The SD defines foreseeable future as being the future time period for which reasonable and supportable information exists to support specific projections of events and conditions. Although a definition of the foreseeable future is provided, we are concerned that this period is not defined with enough specificity and so would lead companies to make subjective judgements with respect to the time period. We also note that management's judgment on the assessment is likely to be more speculative and subjective, the further out the time period for the foreseeable future. Our concerns are noted below:

- a) This would result in a lack of comparability among companies and in doing so would decrease the usefulness of the financial statements.
- b) This may lead companies to come up with different foreseeable future periods for similar types of assets.
- c) The proposed SD notes that the foreseeable future would be a fairly constant period that would not be expected to change significantly from period to period for a particular portfolio. This may however not be the case in all areas and we request the Board give consideration to the risk of unexpected events in the foreseeable future, for example, uncertain economic conditions. We also note that companies may be able to predict and so use a longer foreseeable future in good economic times and use a shorter foreseeable future during economic stress.

OTHER

Debt securities

The proposed SD states that the scope of the proposals in the supplementary document (for the FASB) would be applied to open portfolios of loans and debt instruments that are not measured at fair value with changes in value recognized in net income. We believe that the impairment model should not be applied to any securities carried at fair value and the existing guidance for other-than-temporary impairment should be used for securities carried at fair value with changes in fair value recognized in other comprehensive income. The Boards have yet to deliberate credit impairment requirements for financial assets that are evaluated individually. If the impairment model is adopted for securities carried at amortized cost, some practical expedient should be included for determining lifetime losses including the use of observable market price of the security or the fair value of collateral if the security is collateral independent.

While we are supportive of the Boards efforts to improve the current impairment model, we are however concerned that significant increases in the loan loss reserves to a much higher level (which may occur with using a life time estimate of loan losses) coupled with other regulatory changes from the Dodd-Frank Act and increased capital requirements will result in more expensive products to consumers. Further increases in customer costs will likely lead to further decreases in lending in the market place as consumers seek out alternative cheaper sources of financing. This will have the ripple effect of making it harder to attract capital to the Banking industry and thus decreasing capital and overall depressing the Banking industry further.

Additional time is also needed by preparers of the financials to adequately evaluate each of the models presented in the SD. Commercial loan portfolios have very different characteristics from mortgage and consumer portfolios, and we request the Board take the unique nature of loan portfolios into account when

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deciding on a model, to ensure it applies uniformly to all types of loans and situations. The implementation of changes in some aspects of the proposed guidance, like the common proposal model, carry a higher level of difficulty for unique portfolios. We recommend that the Board also consider the cost and benefit of implementation bearing in mind the unique nature of the portfolios and business practice.

We thank you for the opportunity to express our concerns regarding this proposal, and respectfully request that the Board consider our concerns. 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 Neeshta Kewada, Vice President - Accounting Policy (telephone (214) 462-6682; email address nkewada@comerica.com; facsimile no. (214) 462-6810).

Sincerely,

/s/ Muneera S. Carr

Muneera S. Carr
Senior Vice President and Chief Accounting Officer

cc: Elizabeth S. Acton, Executive Vice President and Chief Financial Officer
Neeshta Kewada, Vice President - Accounting Policy

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Appendix A

We have addressed questions that we consider to be more pertinent to Comerica.

Question 1

Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

Comerica's Response:

Each of the proposed approaches (common proposal model as well as the FASB's alternative model) deals with this weakness. It is potentially possible that the mechanics of the common proposal may result in reserves that are lower than reserves that would have been recognized in the current incurred loss model (say current incurred loss model has eighteen months reserve due to difficult economic conditions, life time loans on a pro-rata basis are not greater than the floor – this may result in a delayed recognition of expected losses if the new model doesn't cover even the incurred losses).

Generally any model that permits the consideration of future events should not lag in recognition of impairment. The FASB's alternative model does so with a simpler approach. Changing the threshold of "probability" for recognition of losses will also address this weakness. In considering how the probable threshold is incorporated in the current model, it appears that the probable threshold impacts the current models in two areas – (1) generally losses considered to be probable are typically expected to manifest themselves over a shorter time horizon – currently informally considered to be a 12 to 18 month time horizon (2) loans that are currently on non-accrual are also generally considered to be the ones where the "probable" threshold that all cash flows will not be collected is met, if the size criteria is met, then this becomes a determinative factor in whether an individual evaluation is required. Change in the threshold of confidence of collectability, therefore will increase the time horizon over which losses are expected to manifest themselves.

Question 4

Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

Comerica's Response:

We do not believe the time proportionate approach would be operational for most companies. As noted in our comment letter most loan systems do not currently have the information needed to perform the time proportionate calculations and nor do they have the software or programming language set up to deal with this dynamic calculation. In fact, several companies have had issues with implementing ASU "Receivables – Nonrefundable fees and other costs" Section 310:20 and ASU "Receivables – Loans and debt securities acquired with deteriorated credit quality" Section 310:30 which has similar characteristics. This would require system changes and updates in most companies systems to produce the calculations required. We also believe that in an open portfolio this would require considerable tracking of assets as assets are constantly moving within the portfolio. Furthermore companies would be required to perform dual calculations and update these calculations each reporting period. We believe that the Board could better address their concern over the lack of adequate and timely reserves by revising the common proposed model. This would address their concerns and also address operational concerns expressed by companies.

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Question 5

Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

Comerica's Response:

Due to the concerns noted below, we question the usefulness of the information provided by the common proposed model. As described in Question 1, the time proportionate method in many circumstances would result in an artificial smoothing of losses that would not be indicative of how losses occur during the loans life. This would not give users of the financial statements useful information for decision making purposes since the pattern of the loss is not reflective of what occurs in reality. The common proposed model also requires an estimate of lifetime expected losses for portfolios of loans. For most companies this estimate of lifetime losses is difficult, if not impossible to predict, especially over long periods of time. As a result, the calculation would use information that is a 'best guess' by companies due to the estimation process and assumptions made by companies which may not be comparable or very reliable. The good book and bad book concept introduced by the Boards leaves the analysis of what constitutes the good and bad book up to a company's risk management strategy. Since each company may manage its assets differently based on their unique portfolios, this may lead to a lack of comparability between companies. We also believe that by not providing guidelines on the foreseeable future period, information that is provided by one company for similar portfolios may be different from another company based on their ability to estimate losses into the future and therefore may not be comparable from one company to another company, resulting in less meaningful information. We have detailed in our comment letter some proposed revisions to the common proposed model so that more useful information is provided. In summary we would suggest an approach that recognizes expected losses over a foreseeable future period with more clarification provided on how the foreseeable future period is defined.

Question 6

Is the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

Comerica's Response:

We believe that the guidance provided by the Board with respect to the differentiation of the good and bad book is too broad and leaves the delineation up to companies' risk management strategies. We believe the Boards should provide more clarification or guidelines to differentiate these two books to ensure the information provided is comparable between companies. We suggest that the Boards differentiate these books by considering loans for which it is "expected that the creditor will not collect all contractual amounts due" without regard to size, part of the bad book, this would include impaired loans (loans identified in ASU "Receivables" Section 310:10-35-16) and other loans the company deems to be problem loans.

Question 8

Do you agree with the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

Comerica's Response:

While we do not disagree with the proposed requirement to differentiate between two groups for the purpose of determining the allowance, we believe that how these books are defined may impact whether or

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not it is feasible to estimate the allowance based on the methodology noted once the loans are classified within each of the books. If the population of “bad book” rises simply by virtue of the definition, then there will be operational issues on whether the impairment allowance can be appropriately estimated due to the sheer volume of loans and also because the life of these loans is likely to be beyond the reasonable foreseeable future. We are also concerned that looser definitions will lead to a lack of comparability. If the Boards continue down the common proposed model path, we suggest the Boards consider defining the good and bad book as noted in Question 6 with the allowance for the good book based on a foreseeable future concept similar to what is proposed as being the floor (with no time proportionate calculation) with upfront loss recognition for the bad book. This would address the Board objectives while using a more appropriate model.

Question 9

The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed model. Specifically, on the following issues:

- (a) Do you agree with the proposal to require a floor for the impairment allowance related to the ‘good book’? Why or why not?
- (c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?
- (d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?
- (e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.
- (f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a ‘ceiling’ should be established for determining the amount of credit impairment to be recognized under the ‘floor’ requirement (for example, no more than three years after an entity’s reporting date)? If so, please provide data and/or reasons to support your response.

Comerica’s Response:

- (a) In general we are supportive of the floor concept and the notion of foreseeable future. We however would suggest that this apply to the good book population without requiring the need for performing the time proportionate calculation for the reasons mentioned in Questions 1, 4 and 5. We believe this would adequately capture the appropriate amount of loss each period in a time frame companies can reasonably estimate and so meet the Boards concerns over the lack of adequate and timely reserves.
- (c) We are also supportive of floor calculation and the minimum time period proposed by the Board in the calculation (losses expected to occur over foreseeable future with a 12 month minimum period) as this approach would allow companies to capture losses in a time period in which they can reasonably estimate the expected losses.
- (d) We believe there may be circumstances (like economic conditions) where the foreseeable future period may change from period to period. Companies may be able to better predict expected losses during good economic times and so use a longer foreseeable future during this period. Similarly companies may use a shorter foreseeable future during economic stress due to the lack of general predictability when there is more uncertainty.
- (e) Generally, we would expect the foreseeable future period to be a period that is greater than twelve months, however some assets may have shorter lives and so this may lessen the foreseeable future period to less than twelve months.

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(f) While we generally we do not consider it necessary to include a ceiling as most companies are only able to estimate losses for a short time period, we do however think that as currently worded there are several interpretative issues. There may be a motivation for regulators and in some instances auditors to second guess the timeframe that could be considered the “foreseeable future”. It may be helpful if the Board provided some clarification, similar to the informal guidance used in determining probability of cash flows when designating a cash flow hedging relationship (generally the ceiling for management’s ability to forecast cash flows for this purpose has been deemed to be 5 to 7 years). The ceiling may also help reduce the comparability issues between companies.

Question 10

Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

Comerica’s Response:

We believe this will depend on the loan portfolio. Typically in the case of consumer loans where losses occur early on in the asset’s life, we would expect the floor amount to be higher during the earlier years than the time proportionate amount. In contrast losses occur towards the end of the life for commercial loans, for example, loans with balloon payments. In this case, we would expect the time proportionate amount to be higher than the floor earlier on in the assets life and as a result it is unlikely that the floor would be operational during this stage.

Question 13

Would you prefer the FASB’s approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the FASB’s approach (i.e. to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?

Comerica’s Response:

We are more supportive of the FASB’s alternative model to recognizing losses (i.e. recognizing all expected losses in the foreseeable future) in comparison to the common proposal. We believe the FASB’s alternative model while operationally simpler to implement achieves the Board’s objectives with respect to recognizing the appropriate amount of losses over time. We are supportive of the foreseeable future concept and the use of supportable forecasts of future events in the assessment. This approach would also allow companies to capture losses in a time period in which they can reasonably estimate the expected losses. While we agree in general with the FASB’s alternative model, we suggest the Boards provide additional guidance to simply the model and reduce interpretative issues that will arise. We also believe the common proposal introduces too much complexity into the calculation through the use of the time proportionate method, in addition to requiring that companies recognize losses each period which may not be reflective of true loss patterns of loans. The common proposal also brings with it subjectivity and therefore a lack of comparability especially in the areas of life of loan estimates and in defining the good and bad book. For these reasons we prefer the FASB’s alternative model.