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Technical Director
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Financial Accounting Standards Board
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Supplementary Document:
Accounting for Financial Instruments and Revisions to the Accounting for Derivatives and Hedging Activities - Impairment

We appreciate the opportunity to comment on the supplementary document related to Accounting for Financial Instruments and Revisions to the Accounting for Derivatives and Hedging Activities - Impairment (“the supplementary document”). BB&T Corporation and its subsidiaries offer full-service commercial and retail banking and additional financial services such as insurance, investments, retail brokerage, corporate finance, treasury services, international banking, leasing and trust.

We support the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) (collectively “the Boards”) in their ongoing efforts to identify a converged solution related to the accounting for the impairment of financial assets. As more fully discussed in this letter, we believe that the proposal outlined in the supplementary document represents a significant improvement over the proposals related to impairment outlined in the FASB and IASB exposure drafts issued during 2010 and 2009, respectively, and strikes an appropriate balance between the goals and objectives of each respective Board.

Notwithstanding our general agreement with the concepts outlined in the supplementary document, we believe that it is important to highlight that the relatively short comment period, coupled with the timing of the comment period (i.e. during most reporting entities’ annual reporting season), has likely prevented a significant portion of the Boards’ constituency from devoting the time necessary to analyze the potential impact of the Boards’ proposal and identify operational and/or interpretive issues that may arise in connection with the implementation of the proposal. We believe that the feedback provided by such analysis would greatly assist the Boards in evaluating whether the proposed accounting changes achieve their stated objectives, and likely would identify
areas where additional guidance is necessary in order to increase the consistency of application amongst reporting entities. Therefore, in the absence of an extension of the comment period related to the supplementary document, we strongly encourage the Boards to undertake extensive field testing of the proposal outlined in the supplementary document in order to ensure that all aspects of the proposal have been appropriately vetted.

In addition, while we understand the limited scope of the supplementary document, we believe that it is appropriate to reinforce the importance of establishing an impairment model that may be applied on a consistent basis to substantially all financial assets. In particular, we believe that the Boards must reconsider the current accounting model associated with acquired loans with deteriorated credit quality (“the SOP 03-3 approach”). Based on our experience related to applying the SOP 03-3 approach, we have concluded that the existing model is operationally challenging to apply and generally misunderstood by most financial statement users. We do not believe that the accounting model applied to acquired loan portfolios should be substantially different than the model applied to a reporting entity’s originated loan portfolio. As a result, we strongly recommend the Boards establish an impairment model that may be applied to substantially all financial assets, whether originated or purchased by the reporting entity.

We have provided additional feedback to the Boards in the responses to certain questions posed in the supplementary document as follows:

**Question #3 – Do you agree that for financial assets in the “good book” it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?**

In general, we believe that it would be appropriate to recognize an impairment allowance related to financial assets that have been classified as “good book” in a manner consistent with the approach outlined in the supplementary document. From a theoretical perspective, we believe that the methodology outlined in the supplementary document would clearly result in the recognition of impairment on a more accelerated basis as compared to the existing incurred loss model, while at the same time providing a more accurate depiction of the economics of a lending transaction (i.e. appropriately reflect the relationship between expected credit losses and the pricing of financial assets).

The Boards’ proposal provides reporting entities with two distinct expected loss methodologies for calculating impairment related to their good book (i.e. the foreseeable future and time-proportional approaches). We believe that the use of a “higher of” approach related to these methodologies will appropriately require reporting entities to reflect shorter-term expected losses in the allowance (i.e. those projected to be incurred in the foreseeable future), while at the same time requiring consideration of a portion of expected losses that may be incurred in later stages of the economic cycle. Such an approach appears to take a step in the direction of addressing concerns related to the procyclicality of the current incurred loss methodology.
Notwithstanding our general concurrence with the proposal, we have certain concerns related to the application of the time-proportional and foreseeable future models that are addressed in our responses to questions #4 and #9, respectively, below.

**Question #4 – Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?**

As indicated above, we have concluded that the relatively short length of the comment period, coupled with its timing during the annual reporting season for most reporting entities, has had a detrimental impact on the ability of most respondents to adequately evaluate the operationality of the proposals outlined in the supplementary document. Notwithstanding this concern, from a theoretical perspective we believe that the time-proportional approach could be structured in a manner that is operational for substantially all reporting entities, provided that the effective date of the final accounting standards provide adequate time for reporting entities to develop the information technology, credit and accounting resources that will be required to provide all necessary data.

However, in order to ensure a sufficient degree of comparability amongst reporting entities, we believe the Boards must provide additional interpretive guidance regarding the implementation of the time-proportional approach. While the calculation of weighted average age and life are relatively straight-forward for closed-end, fully amortizing loans, we have concluded that such calculations would be significantly more complicated for certain other types of loans (e.g. commercial loans with balloon payments, short-term working capital lines of credit, revolving credit portfolios, etc.) We strongly encourage the Boards to more fully evaluate these types of application issues in connection with field testing of the proposal, and develop principles-based guidance that may applied by reporting entities in connection with the application of the time-proportional methodology.

We also believe that the Boards should consider requiring a consistent method for determining and allocating losses under the time-proportional approach in order to increase consistency of application amongst reporting entities. The current proposal currently provides a significant degree of flexibility related to the approach used to allocate expected losses on a time-proportional basis, including the ability to choose between a straight line or annuity basis, the ability to choose between a discounted or undiscounted approach if a straight-line approach is used, and the ability to use a discount rate that ranges from the risk-free interest rate to the effective interest rate of the underlying financial assets if a discounted approach is being used. We believe that providing such a significant degree of flexibility will lead to widely varying estimates of impairment under the time-proportional approach, leading to decreased financial statement comparability and transparency. Further, while we understand that the Boards would require disclosure of the methods and assumptions used to determine and allocate losses under the time-proportional approach, we do not believe that such disclosures would effectively overcome the lack of comparability between reporting entities that would arise if the proposal outlined in the supplementary document was adopted as written.
Technical Director

The Boards indicated that this flexibility was driven by a concern related to the differing “systems and levels of sophistication” of reporting entities. While we understand the Boards’ concerns in this regard, we do not believe that a requirement to use an annuity approach based on an estimated effective interest rate would represent an insurmountable obstacle for reporting entities that have the level of sophistication required to make other estimates outlined in the proposal (e.g. estimated lifetime expected losses, weighted average age and life of their financial asset portfolios, etc.). We believe that consistency in application must be one of the Boards’ primary objectives as they move toward their goal of establishing updated accounting guidance related to impairment. In meeting this objective, we believe that the time-proportional approach must be modified to provide more structure to ensure consistent application by reporting entities, thereby increasing comparability and transparency.

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?

From a conceptual perspective, we concur with the Boards’ conclusion that it is appropriate to differentiate between the “good book” and “bad book” based on an analysis of an entity’s credit risk management objectives related to a given financial asset or portfolio of assets. Given the significant level of judgment necessary in determining whether an entity’s credit management objective has changed from receiving regular payments from the debtor to recovery of the financial asset, we believe that a principles-based methodology represents the most logical approach to take in distinguishing between these types of financial assets.

While we recognize that the Boards attempted to provide insight into the development of the general principle described above, we are concerned that the examples noted in paragraph B3 of the supplementary document do not provide reporting entities with sufficient information to translate this principle into a well documented process that may be applied on a consistent basis. Further, we are concerned that the examples noted in paragraph B3 will be interpreted by some to represent “rules” that must be followed in all situations, as opposed to factors that should be considered in determining whether an entity’s credit risk management objective has changed related to a given financial asset.

We recommend the Boards consider developing a comprehensive list of factors that should be considered in determining whether an entity’s credit risk management objectives have changed. Such a listing should provide specific guidance, but should clearly indicate that these factors are not considered determinative and that the facts and circumstances of each situation must be carefully weighed in determining whether a financial asset should be transferred from the good book to the bad book, or vice versa.

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?

b. Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the “good book” only in circumstances in which there is evidence of an early loss pattern?

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.

As indicated in our response to question #3, we have concluded that the requirement to record the higher of the impairment indicated by the time-proportional or foreseeable future approach appears to achieve the FASB’s objective of ensuring that the amount of the allowance for credit losses is adequate to cover expected credit losses before they occur, while at the same time achieving the IASB’s objective of reflecting the relationship between the pricing of a financial asset and expected credit losses.

We recognize the challenges associated with establishing a definition of “foreseeable future” that may be applied by substantially all reporting entities on a consistent basis throughout all phases of the economic cycle. While we believe that a standard definition of “foreseeable future” (i.e. twelve months, twenty-four months, etc.) has the potential to positively impact the comparability of allowance estimates amongst reporting entities, such an approach fails to recognize that significant changes in economic conditions impact a reporting entity’s ability to reasonably project future events and conditions. We believe that significant changes in economic conditions from period to period have the potential to significantly impact an entity’s definition of foreseeable future (as was the case during certain phases of economic downturn that began during late 2007.)
believe these challenges represent a significant obstacle to establishing a standard definition of foreseeable future.

We believe that the Boards must carefully balance the benefits associated with establishing a standard definition of foreseeable future with the need to provide reporting entities with flexibility in defining the foreseeable future during periods of significant economic change. We believe that the Boards could balance these competing objectives by developing a principles-based methodology that may be used to determine the foreseeable future at each reporting date. Consistent with our views related to distinguishing between good book and bad book, we believe that such an approach would need to be supplemented with specific interpretive guidance to assist reporting entities in translating the principles outlined by the Boards into a framework that could be applied on a consistent basis from period to period.

We believe that the concepts outlined in the supplementary document represent a significant improvement over those outlined in the previous exposure drafts issued by the Boards. We acknowledge that the development of the principles-based guidance described in this letter, coupled with related field testing would likely have a detrimental impact on the Boards' ability to issue final authoritative guidance related to financial instruments during the 2nd quarter of 2011. However, we believe that devoting additional time to this endeavor will ultimately result in the issuance of a high-quality accounting standard that may be applied by all reporting entities on a consistent basis, thereby increasing the overall transparency of the accounting for financial instruments.

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Henry R. Sturkie, III
Assistant Corporate Controller