April 20, 2011

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
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P.O. Box 5116
Norwalk, Connecticut 06856-5116

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street, First Floor
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Re: FASB File Reference No. 2011-150, Supplementary Document, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: Impairment

Dear Ms. Cosper and Sir David:

We appreciate the opportunity to comment on the Supplementary Document, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment (the Supplementary Document). Bank of America Corporation (BAC) provides a diverse range of banking and non-banking financial services and products domestically and internationally. We are the largest bank in the U.S. in terms of total assets and have significant retail and commercial lending businesses, both in the US and internationally. We are, accordingly, very focused on the efforts of the Financial Accounting Standards Board (the FASB) and the International Accounting Standards Board (the IASB, and together with the FASB, the Boards) to amend the guidance on credit impairment.

We support having a converged approach to impairment analysis for U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). Comparison of financial institutions in different jurisdictions will be difficult if the principles in this critical and complex area of accounting are not converged. In addition, entities such as BAC, with significant operations in multiple jurisdictions, will be required to maintain two different and complex systems and processes in order to comply with both U.S. and international reporting requirements.

The proposed model detailed in the Supplementary Document combines two dissimilar models, one which is driven by the adequacy of the allowance on the balance sheet and another which is driven by the relationship of interest income and credit losses on the income statement, resulting in a credit impairment allowance that has no conceptual basis and cannot easily be explained to users of the financial statements. In our view, this represents an unacceptable compromise. Therefore, we cannot support this model.
We believe that the primary objective of any new model for credit impairment should be to ensure the adequacy of the impairment allowance on the balance sheet while addressing underlying concerns about the timeliness of loss recognition. No model could have fully anticipated the unprecedented events of the last few years, but a robust model should provide the flexibility for preparers to respond to such events quickly once they are identified. Many within the financial services industry, including BAC, had reached the conclusion that the incurred loss model was inadequate and could not meet this objective. However, after much internal discussion and debate within BAC, we now believe that the current incurred loss model is conceptually sound and, with a few modifications, as described below, will best meet that objective while staying true to the conceptual notion that losses should be recognized when incurred, not when they are expected. Also, an incurred loss model is designed to measure credit losses that are inherent in a loan portfolio, which is consistent with the use of historical cost measurement. By comparison, an expected loss model is aligned more closely with the use of a fair value measurement. Consequently, in contrast to the views we have expressed in our previous comment letters on this topic, we now believe that the existing incurred loss model should form the underlying basis for any new impairment model. We no longer believe that a new model based on expected losses, which will inevitably cause significant operational challenges and a high degree of uncertainty for both preparers and users, is needed.

We believe that an approach based on incurred losses with the modifications described below would be superior to any of the models proposed in the Supplementary Document. However, we recognize that adoption of an enhanced incurred loss model may not have widespread support. We therefore also support the U.S. Banking Industry Proposed Credit Impairment Model set forth in a comment letter dated April 1, 2011 that was signed by fourteen of the largest U.S. banks, including BAC. We believe that this alternative model would achieve results that are not significantly different than the enhanced incurred loss model that we are proposing.

An enhanced incurred loss model would eliminate what is a major concern in the FASB’s “foreseeable future” approach, which is the imposition of an arbitrary limit on the expected loss horizon. We believe that if an expected loss approach is adopted, there is no conceptual basis for limiting the period over which the loss is calculated. Accordingly, losses expected to be incurred over the entire life of the loan would need to be recognized when the loan is originated or purchased. Invoking an arbitrary cut-off on the loss period will ultimately lead to bright lines and a rules-based application of the impairment guidance.

Similarly, although we understand the concept underlying the IASB’s time-proportional approach in that it seeks to match the credit impairment expense with the expected credit loss horizon, we believe that this alignment is very difficult to achieve in practice. We also believe that, while the objective of linking credit losses of financial assets to their original pricing is conceptually appealing, there is often no direct relationship between the two. Moreover, from a practical perspective, the time-proportional approach would be significantly more complex to implement and operate, without providing a significant improvement in the reliability of the impairment allowance. In addition, given the complexity in the approach, we believe that users of financial statements will find the concept challenging and will have a difficult time understanding how to evaluate the adequacy of impairment allowance on the balance sheet. Thus, in our view, the time-proportional approach proposed by the IASB would provide no incremental benefit to either an enhanced incurred loss model or a foreseeable future approach.
If the Boards were to develop an enhanced incurred loss model in accordance with our recommendation, we believe that the following modifications are necessary to ensure the adequacy of the allowance:

1. A lower threshold, perhaps "more likely than not", should be established for the recognition of impairment losses. We believe that the replacement of the "probable" threshold in the current impairment guidance with a lower recognition threshold will adequately achieve the objective of earlier recognition of credit losses. In addition, the allowance will provide a more accurate reflection of management's estimate of the credit losses within the portfolio while reducing the risk of premature loss recognition.

2. The loss emergence period incorporated into the measurement of incurred losses should not be arbitrarily truncated. Practice has evolved such that losses are considered to be incurred at the balance sheet date only if they are expected to emerge within a relatively short period of time (e.g., twelve months). This practice should be discouraged to avoid an arbitrary truncation of the loss emergence period, especially when the results contradict the reporting entity's best estimate of inherent losses.

3. The requirement for definitive evidence to support the recognition of impairment losses should be softened. IAS 39 requires objective evidence that a financial asset is impaired and provides a list of events that are indicators of impairment. Although U.S. GAAP does not contain similar language, practice has evolved such that events of a similar nature are often viewed as triggers that provide objective evidence of impairment. Softening the requirement for definitive evidence to support loss recognition by, for example, eliminating such triggers, will enhance the incurred loss model by ensuring that inherent losses are identified on a more timely basis.

4. Current projections of economic events that would impact the measurement of incurred but not reported losses and that are reasonably supportable should be incorporated into the measurement of the impairment allowance, as future economic conditions could have a significant impact on both the number of losses that will emerge and the severity of those losses. For example, rising unemployment rates will negatively affect the ability of borrowers who are unemployed today to regain employment in the future, thereby increasing the number of losses that will emerge. Declining home prices will increase the loss expected to result from foreclosing on mortgage loans that are currently in default, thereby increasing the severity of incurred losses. We believe it is inappropriate to ignore these types of emerging economic trends.

5. There should be an explicit acknowledgement that significant judgment may be required in determining the impairment allowance, especially in the face of predicted economic downturns or recoveries. This would provide sufficient flexibility to enable preparers to respond quickly to changes in economic conditions. Disclosures pertaining to judgmental adjustments to the allowance would provide information that allows users of the financial statements to better understand how the impairment allowance was developed and what factors management considers important.

If neither an enhanced incurred loss model nor the U.S. Banking Industry Proposed Credit Impairment Model are pursued by the Boards, we would prefer the FASB's foreseeable future model to either of the combined model or the time-proportional approach as outlined in the Supplementary Document. Conceptually, we believe that the foreseeable future model is superior to the other alternatives in the Supplementary Document as it will recognize at the balance sheet date the full amount of credit impairment losses expected to occur within the reasonably foreseeable future based on an assessment of
future cash flows that are not expected to be collected. This will satisfy the objective of ensuring that the allowance for credit losses is always sufficient to absorb credit losses when they occur. The foreseeable future approach will also provide more flexibility to enable preparers to respond more quickly to changes in economic conditions. As noted above, we believe that the time-proportional component of the model proposed in the Supplementary Document provides no incremental benefit and will significantly increase operational complexity.

To improve operationality of the foreseeable future model, we recommend the following enhancements:

1. More clarity should be provided as to the meaning of the term “foreseeable future” to reduce the likelihood of widely divergent interpretations across international jurisdictions.

2. The phrase “credit losses expected to occur within the foreseeable future”, which implies a life-of-loan timeline for the impairment allowance, should be modified to “credit losses that can be reasonably predicted to occur within the foreseeable future”. This emphasizes the limitations of the foreseeable future model and the somewhat arbitrary restriction that this concept imposes on the period over which losses are forecast.

3. There should be an explicit acknowledgement that significant judgment may be required in determining the impairment allowance, especially when there are predicted economic downturns or recoveries.

We also have a number of comments that we believe are applicable regardless of which credit impairment model is ultimately adopted.

1. We agree with the concept of differentiating debt instruments into two categories, a “good book” and a “bad book”, for purposes of the impairment analysis. However, we believe that the bad book should be defined as those loans for which the lender does not expect to collect all amounts contractually due. In our view, this definition is based on the characteristics of the asset, which we believe is a more appropriate basis for this purpose than the definition proposed in the Supplementary Document, which is based on management’s intention as to how they will manage the asset.

2. The notion of nonaccrual status should be incorporated into GAAP and should be aligned with the bad book. That is, loans for which the lender does not expect to collect all amounts contractually due should be placed on nonaccrual status and classified within the bad book with an appropriate impairment allowance. Nonaccrual status is widely used and understood by both preparers and users of financial statements in the U.S. and by risk managers on an international basis. We therefore believe that this concept could be usefully extended by incorporating it within a converged impairment model.

3. We support the Boards’ efforts to create a single impairment model for all financial instruments measured at amortized cost. In our view, this would represent a significant improvement to the current approach of evaluating impairment based on whether the instrument is a loan or security. Thus, moving to a single impairment model will reduce complexity and promote a consistent approach to impairment analysis among the different types of debt instruments. However, we do not believe that the same model should be applied to securities that are measured at fair value through
OCI. Instead, we believe that the existing impairment model currently used in accordance with U.S. GAAP should be retained.

4. We believe that operational concerns about the accounting for loans that have been purchased at a discount due to credit quality can be significantly reduced by fixing the effective yield of the loans on the acquisition date based on cash flows that are expected to be received at that time. If expected cash flows change after acquisition, the impact of that change should be recorded as an impairment allowance if the change is negative or as additional yield when realized, typically after the recorded investment in the loan has been reduced to zero, if the change is positive. We would be happy to discuss this issue in more detail with the Boards.

We believe that the importance of credit impairment in the context of the Boards’ financial instruments project cannot be overemphasized, and we greatly appreciate the significant amount of time and effort that the Boards have devoted to this topic.

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We appreciate the opportunity to express our views in this letter. Should you have any questions, please feel free to contact Randall Shearer (980.388.8433) or me (980.387.4997).

Sincerely,

John M. James
Senior Vice President and
Corporate Controller

cc: Charles H. Noski, Chief Financial Officer
    Neil A. Cotty, Chief Accounting Officer
    Randall J. Shearer, Accounting Policy Executive