



---

**Comerica Incorporated**

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

VIA ELECTRONIC MAIL ([director@fasb.org](mailto:director@fasb.org))

September 27, 2010

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

**Re: File Reference No. 1810-100: Exposure Draft of Proposed Statement of Financial Accounting Standards – *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities***

Dear Mr. Golden:

Comerica Incorporated (“Comerica”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“The Board”) Exposure Draft of a Proposed Statement of Financial Accounting Standards - *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, dated May 26, 2010 (the “ED”). Comerica is a financial services company headquartered in Dallas, Texas. As of June 30, 2010, we are among the 50 largest U.S banking companies with total assets of approximately \$56 billion, total deposits of approximately \$40 billion, total loans of approximately \$41 billion, and total shareholders’ equity of approximately \$6 billion.

Comerica supports the Board’s efforts in reducing complexity and developing a uniform model for assessing impairments. However, we do not support a majority of the proposals in the ED because we believe that the results of the proposed accounting model will: (a) not be decision-useful to our investors (one of the main cited objectives of the project), (b) lack the representational faithfulness in depicting the cash flows and economics of the underlying instruments based on our business strategy, and (c) significantly impair the reliability and comparability of financial statements. Though we have several concerns about the business and capital impact of the proposed ED, we will keep our comments limited to the merits of the model from an accounting standpoint. Our detailed comments elaborating some of our concerns are noted below.

**Classification and Measurement**

Comerica as a “main street bank” is in the business of lending money and accepting deposits and building long term relationships with its customers. Our loans are made as long term investments to be held for the foreseeable future, held for their contractual cash flows and are rarely sold. Our pricing reflects our business philosophy as does our credit risk and interest rate risk management. Accordingly, our investors are most interested in our net interest margin, both current and expected, and our credit risk profile. These measures have high predictive and feedback value when it comes to the cash flows of our business. In strong support of our view, we have yet to receive a single question from our investors on the fair value of our loan portfolio in any investor conference since this ED has been issued. The net interest margin for a

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 2 of 10

traditional bank is the equivalent of a gross margin for a non-financial company. Accordingly, in addition to our period-end balance sheet, we also include average balance sheets in the management, discussion and analysis section of our regulatory filings to enable our investors to understand the yields and spreads that we are earning on our loans and deposits. We believe that this information enables our investors to develop their own expectation of future cash flows from our earning assets and place appropriate value on their investment in our company.

We believe that a measurement attribute based on fair value would be a misleading measure of such lending and deposit business activity for many reasons: (a) we don't expect to monetize or experience any of the changes in fair value that we will record in our financial statements, (b) the reliability and comparability of our financial statements will be compromised since most loans are not traded in active markets and different companies will likely use different assumptions within a range to value similar products based on their judgment, and (c) the change in the fair value of the loan portfolio typically includes changes in value as a result of changes in rates, credit, and liquidity. The current accounting model provides investors with a gross measure of how a company is performing with respect to rates (yields on their loan portfolio) and the credit quality and the quality of the underwriting at a bank (through the provision and the allowances for loan losses). Liquidity is discussed in qualitative terms. A fair value measure will attempt to combine the impact of all three risks and make it considerably more difficult for an investor to isolate the impact of any specific risk. For example, an investor may be alarmed by a value decline as a result of a change in liquidity even when the underlying portfolio has strong yields, good credit quality and the bank has the ability and business strategy to hold the asset until maturity. A fair value measure will not convey that the main driver of the decline in value, in this case, liquidity risk should not be the central concern in this situation.

During Board discussions, it was apparent that some Board members have a strong bias for fair value because they believe it is a leading indicator of portfolio quality and it provides a common denominator to measure loans with varying terms (prices, maturity etc.). Several failed companies, including Bear Sterns and Lehman, have used the fair value measurement attribute extensively and such fair-value based financial statements appear to have failed to provide their investors with the forward-looking information about their asset quality or liquidity. Equally troubling to us is that the Board also seems to believe that the current model relies too heavily on subjective classification of financial instruments (BC8), yet the Board is satisfied replacing a subjective classification with a highly subjective measurement attribute with the justification that this one-size-fits-all measurement attribute will result in an improvement in financial reporting.

In addition to the conceptual concerns noted above, sweeping changes to the measurement attribute will also cause significant implementation issues. Management at most institutions (other than investment banks which primarily hold trading portfolios) has not given "fair value" the same emphasis as the Board. Accordingly, a fair amount of time and money will be spent developing and testing models for deriving fair value specifically and only for the purpose of financial reporting. The fact that fair value for individual loan portfolios is not currently tracked by management is another strong indicator that loan portfolios are held for investment and are not managed for their fair value.

We believe that any accounting model that deviates from reflecting the business reality of a transaction will lose the respect of both the readers and preparers of the financial statements. This is clearly the case with the proposed accounting model. Fair value is not the silver bullet that would have averted the financial crisis. We agree that fair value is the most relevant measure in limited instances when portfolios are held for taking advantage of short-term price movements, for derivative instruments and when there is an active

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 3 of 10

market for financial instruments which doesn't otherwise compromise the reliability of the measurement attribute. Fair value also has a place as a potential indicator to be considered along with other information in determining the performance of a portfolio. However, for all the reasons cited above, we cannot agree that "fair value" should be the primary measurement attribute for instruments that are held for long term contractual cash flows. We urge the Board to embrace the overwhelming negative feedback that they have received and reconsider their view on the measurement attribute in the proposed accounting model.

#### Other concerns

The proposed ED would also require most financial liabilities to be measured at fair value. We disagree with this proposal as most liabilities are held for the contractual term, cannot be transferred and changes in the fair value of liabilities cannot typically be monetized. This is particularly true for changes in a company's own credit risk. As mentioned earlier, we believe that the accounting model should first and foremost reflect business reality. Therefore, we believe using fair value as the primary measurement attribute to account for seemingly rare circumstances, where a company extinguishes a liability for greater than par or investors accept a settlement less than par is not appropriate. Instead, we recommend that liabilities should be primarily measured at cost and that a fair value measure including changes in a company's own credit risk, be utilized only in limited circumstances when such accounting model is appropriate (for example, when there is an expectation that such changes will be monetized).

We are also unclear about how the current classification guidance would apply to investment securities held by a bank for contractual cash flows as well as for liquidity. In certain limited instances and in conjunction with their asset liability management activities, a bank may sell certain investments in their portfolio. For the most part, these investments are held for the long term. We note that in the proposed model, fair value through the income statement is considered a default category; however such investments do not squarely fit one set of criteria or the other.

#### **Credit impairment**

We agree with the Board that the current impairment model could be improved to reflect losses expected over the life of a loan, but we simply do not support the model proposed by the ED as outlined below:

#### Day-one losses

Our primary concern is the upfront recognition of estimated credit losses. We understand that the Board is concerned by the timing delays in recognizing losses; however the proposed model swings the balance of loss recognition that is "too much too early". Under the proposed model, the main driver of loss recognition will be origination volume as opposed to economic trends and directional consistency. A higher level of loan origination will automatically result in greater day one loss recognition. The proposed model will make it harder for a user to understand the quality of a bank's underwriting. We believe that a balance needs to be struck such that incurred losses on pooled loans and all the current and expected losses associated with impaired loans are recognized without delay, however losses based on the full life of the loan for pooled loans which are not yet incurred should be accrued over the life of the loan. There are several areas in current GAAP where income and expense recognition are matched over the life of the assets, specifically Accounting Standards Codification ("ASC") 310-20 (formerly, FAS 91) related to direct origination expenses and income. We believe this piece of loss recognition should follow those guidelines as it will result in better matching of losses with income recognition.

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 4 of 10

### Future events

The proposed ED states that “in determining whether a credit impairment exists, an entity shall consider all available information relating to past events and existing conditions....an entity shall not forecast future events or economic conditions that did not exist at the reporting date in determining whether a credit impairment exists”. As a result, companies are not allowed to consider future events in their impairment analysis. The Board’s reasoning as stated in BC175 is that “it would be difficult for an entity to accurately forecast expected cash flows through the life of a financial asset on the basis of forecasted future events”. The Board’s reasoning here associated with the difficulty in forecasting future events would fundamentally apply more so to the proposed expanded fair value accounting model, and yet the Board has reached a contradictory conclusion in that matter. While we generally agree that forecasting future events is difficult, we also note that it would be inappropriate to ignore reputable, published economic data that serves as both leading and lagging indicators in considering the total mix of information available when determining the credit impairment for financial instruments. An arbitrary cut-off based on past and current events will result in a pro-cyclical model which is incomplete and lagging in the analysis of credit impairment. We understand the Board’s concern that other forward looking data that deal with broader economic trends (for example, unemployment statistics which may not be available and difficult to predict) should be excluded from the analysis. We recommend that the Board obtain additional information about the types of forwarding looking data that is available during the scheduled field studies and roundtables, give consideration to this information and develop some principles to enable preparers to determine the basis on which some of this information should be incorporated into their impairment analysis.

### Charge-offs and recoveries

The proposed ED would require a company to write-off a financial asset in which the company has no reasonable expectation of recovery and to reduce the allowance for credit losses by the amount written off. The ED also requires that a recovery of a financial asset previously written off shall be recognized in net income. Since write-offs are based on estimates, one would expect that results that vary from estimate would be trued up in a manner similar to the original accounting. The Board’s model would treat a write-off and a subsequent recovery differently. We are unclear about the basis for this treatment. We also note that most loss curves incorporate both charge offs and recoveries in the curve and this would be difficult to separate.

### Operational concerns

From an operational perspective, the proposed impairment model would require companies to run multiple cash flow models as the underlying financial instrument would be recorded at fair value but the impairment model would be based on more historical and existing cash flows. Users will likely find the use of different models confusing.

The proposed ED requires that in circumstances where a specific financial asset is individually evaluated and it is determined that no credit impairment exists, the company should also determine if credit impairment exists when the financial asset is aggregated with other financial assets (that have similar characteristics). This seems to be an excessive requirement particularly since an assessment of impairment on an individual basis is normally an accurate and thorough assessment done based on the distinctive characteristics of an individual financial asset relative to assessment done on collective pool basis. We believe that such analysis will result in incremental operational issues and costs without benefit.

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 5 of 10

We recommend that the Board consider aligning some aspects of the proposed model with the International Accounting Standards Board's ("IASB") proposed impairment model and effectively incorporate the best of both models, specifically with regard to consideration of future reasonable expectations in the impairment analysis and recognizing the impairment loss over the life of the financial asset.

## **Interest Income**

### Gross versus net reporting

In our opinion, the net interest margin is an indicator of our performance with respect to achieving competitive pricing and generating interest earning assets in our business, whereas the provision for credit losses is a measure of the quality of our underwriting and credit monitoring. These two measures reported on a gross and independent basis enable the reader of the financials statements to understand whether the bank is earning an appropriate return on its assets based on the credit risks that are being undertaken. Different companies have different philosophies. Some are willing to take greater credit risk and earn a higher margin but also carry a higher provision based on the risk. An investor should be able to decide how their personal investment strategy may align with that of the companies in which they choose to make an investment. The proposed ED would reduce the transparency in these measures by requiring that "the amount of interest income to be recognized in net income for financial assets be determined by applying the effective rate of the financial asset to the amortized cost balance net of any allowance for credit losses. We believe that gross versus net reporting of these measures will sustain the transparency that is important in these metrics.

### Reversal of interest income

A loan agreement contractually represents payment of interest and a repayment of principal. Upon default of a borrower, typically a bank receives some but not all of the expected return (interest) and expects to recover some but not all its investment (principal). The current non-accrual model ceases revenue recognition and reverses income that may have been recognized when a potential loss is identified. Typically, a loan is placed on nonaccrual when it is past due 90 days or more. The current model is well-understood. We recognize that the current model may result in a delay in adjusting revenue and accrual of interest on loans that may default in the next quarter. Therefore, we understand the Board's reasoning for requiring accrual of interest on amortized cost net of the allowance. However, our concern is that in addressing the timing issue, the proposed model which would reduce interest income associated with the allowance for loan losses based on life of the loan will also prematurely cut-off revenue recognition for the portion of the loan portfolio that is currently performing. The proposed model will be difficult to implement without significant system changes. Companies may potentially have to perform manual entries to reverse interest income associated with the allowance which could lead to larger incidence of errors. Ultimately, though the proposed model may prevent the timing delay, the bottom line income recognition is still the same under both models. Therefore, we don't believe that the cost benefit justifies this limited improvement.

We are also concerned that recoveries of interest income from borrowers who become current will not be recognized in interest income (thereby understating interest income) since the proposed model requires all recoveries to be recorded through provision and reversed to the allowance for loan losses.

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 6 of 10

### Regulatory difference

While we understand that the difference between GAAP and regulatory accounting is not necessarily a concern for the Board, we would still like to point out that the proposed model would vary from current regulatory definitions for non-accrual and adds to the operational burden of companies by requiring that companies keep track of two sets of reporting data.

### **Core Deposit Liabilities**

We believe that the Board's conclusion on the remeasurement of core deposit liabilities as a 'current value' appears to be a 'means to an end'. Essentially, the Board recognized early in the project that most users would not support fair value for assets without some type of similar offsetting measure for liabilities. This would supposedly provide a better and balanced measure of how changes in certain risks were impacting the balance sheet. The Board's proposed model for accounting for deposit liabilities is based less on conceptual merits and more to achieve the overall goal of what they believed to be an appropriate measurement attribute for assets.

Clearly, deposits are a cheap source of funding for banks. Similar to loans, the true value of the cheap funding manifests itself in the interest margin. We believe that our average balance sheet and related interest expense information generally provides adequate historical information for users to understand the impact of deposits on our financial statements. Determining the fair value or current value of this liability is riddled with complexity because: (1) the liability includes other intangibles that are inherently hard to bifurcate, and (2) the true benefit of the cheap source cannot be measured relative to an alternative source of funds but how such deposit balances are truly utilized and invested in earning assets.

We also note that the alternative funds rate is defined as being "a rate associated with the next available source of funds if core deposits are not an available source of funds". Companies would find it difficult to find an alternative source of funds comparable to their size and implied maturity of their deposit base so any rate used for this analysis would effectively be meaningless.

Ultimately, any measure determined by the Board will be a hypothetical value based on several subjective assumptions that will simply be discounted by users because: (a) it will not be reliable, (b) it will not be the true value of deposits as a source of funding as explained earlier, and (c) there will be a lack of comparability between companies because of the subjective assumptions making it difficult for users to perform benchmarking studies. We therefore recommend that a better approach may be to provide the reader of the financial statements with some additional information about the composition of funds in the deposit base, average maturity of time deposits, how interest rates are set and paid. These additional disclosures will enable users to get a flavor of the future sources of funding.

From an operational perspective, we note that while deposit studies are conducted periodically by institutions, performing a 'current value' calculation on a periodic basis will add significant operational burden to the company without much benefit for the user as described earlier. Additionally, the definition of core deposits exclude transient and surge balances which would result in additional analysis to segregate deposit balances.

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 7 of 10

## **Loan Commitments**

We do not agree with the proposed method of accounting for loan commitments. We believe that the scope exception for revolving lines of credit issued under a credit card arrangement should be extended to other loan commitments.

In granting the scope exception for revolvers related to credit card arrangements, the Board noted that the requirement was not practical as these typically had small balances, high volumes and a revolving nature. Other loan commitments such as commercial lines of credits and revolving arrangements share similar characteristics except that these typically have larger balances. While the size of balances of individual credit card loans may be insignificant, the portfolio sizes in these instances could be substantial, making this less of a differentiating factor. Practical limitations and implementation challenges that the Board has considered for potential borrowers of credit card arrangements also apply to other commitments for the following reasons:

- Typically, pricing for individual customers is relationship based. Multiple considerations including other term loans, amounts kept in deposit accounts and the overall relationship with a borrower are taken into account when pricing commitments for revolvers and lines of credit. Fair value from an ASC 820 standpoint would therefore involve exiting the relationship as a whole. It is not clear how a fair value for the commitment can be estimated in isolation. We also note that other relationship based instruments such as deposits will not truly be recorded at fair value in the proposed ED.
- There are a variety of very subjective assumptions that would have to be made to determine the fair value of such revolving facilities including estimated utilization, term of commitment and interest rates, among other factors. The key assumption that would have the most impact on a valuation is utilization which is generally out of the control of the financial institution and driven by the individual needs of each borrower, making it very difficult to estimate.

From an operational perspective, the ability of the current information systems to track commitments to lend, which are not approved revolvers or lines of credit, is mixed. In many instances, certain banks manually track loan pipeline information particularly for large commercial credits. Generally, higher volume loans such as mortgage loans have better loan tracking systems because of the standardized processing and documentation requirements. Commercial loans tend to be unique, generally involve non-standard documentation, and have a varying timetable from initiation to closing and funding. Current footnote disclosures of loan commitments are diverse, inconsistent and based on fair value definitions that are not consistent with ASU 820. Therefore, these disclosures do not serve as a good barometer of existing system capabilities to make these estimates.

Based on the two items noted above, we question the cost and benefit of tracking and estimating this fair value. We believe that readers of financial statements will be better served with additional disclosure by highlighting fees earned on unused revolvers and lines of credit, and perhaps disclosure of overall utilization rates for portfolios.

While the Board has provided a definition of commitments in the glossary, we are unclear on how this definition should be applied in practice. For example, it is unclear on how the definition would apply to a lending arrangement that has been conditionally approved subject to additional requirements such as appraisals, clear title and environmental assessments. We are unclear if these conditions would be considered 'pre-specified terms and conditions'. Typically, these commitments would not be legally

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 8 of 10

binding until the borrowers have fulfilled the conditional requirements. From a timing standpoint, the commitment would be very close to funding at this stage which further makes the cost/benefit questionable.

In paragraph IG 83, the Board states that initial measurement of a loan commitment should be at transaction price unless an entity determines that there is reliable evidence indicating fair value is different from transaction price. We note, based on the discussion above, that except for a few isolated instances where loan commitments are issued for loans that can be sold in secondary markets (currently limited to conforming residential loans), generally there is no reliable evidence of fair value.

We recognize that the Board has considered the accounting for loan commitments in the past including whether various types of loan commitments meet the definition of a derivative and whether it is possible to apply characteristic-based definitions to various types of loan commitments. Historically, commitments have followed rule-based accounting similar to the scope exception currently proposed for credit card revolving arrangements. Given the complexity involved in making a characteristic-based differentiation in loan commitments, we recommend that the Board continue the previous accounting for loan commitments whereby commitments for standardized loans with a secondary market, such as residential mortgage loans held for sale, are carried at fair value with expanded disclosures for all other types of loan commitments.

### **Equity method accounting**

Equity investments are held by banks for many reasons including proprietary trading, strategic investments, and investments to achieve certain community reinvestment and tax credit goals. We note that while the Board has generally used the business model to determine classification and measurement for other financial instruments such as loans and debt securities, the criteria for the classification and measurement of equity method interest is inconsistent and depends on whether the operations of the investee are related to the investor's consolidated operations.

Equity method of accounting is effectively a one-line consolidation. This method of accounting makes sense based on the level of influence (as opposed to control) being exercised over the investee. Control is one of the primary determining factors for the purposes of consolidation accounting under either the voting interest or variable interest entity model. Consolidation is not contingent upon whether "operations" of a wholly or substantially owned subsidiary are related. Therefore, we do not understand why such additional criterion is imposed upon equity method of accounting which is simply an extension of consolidation accounting.

Typically, equity method investments tend to be non-marketable investments that are not traded in active markets. This would require companies to estimate its fair value using assumptions and estimates that are very subjective. The resulting measure would have low reliability and would be operationally expensive and time-consuming to generate. In most instances, such as low income housing partnerships, the resulting equity investment will not be sold and thus, the reported fair value will never be realized. Such investments are held to meet the needs of borrowers in certain communities and for their tax benefits and therefore, we believe that any modifications to this accounting model should be based on the business purpose of these transactions. Lastly, although the proposed ED provides factors to determine whether the operations of the investee are considered related, we note that these are subject to interpretation and will introduce subjectivity into the assessment. This would also create comparability issues between companies.

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 9 of 10

### **Initial measurement**

The proposed ED notes that when the transaction price of a financial instrument is significantly different from the fair value at initial measurement the company shall determine if the difference is due to other elements in the transaction. In instances where the company is not able to identify another element in the transaction, the entire difference between the transaction price and the fair value is recorded in net income. We do not agree that significant differences between transaction price and fair value should be recorded in income for instruments where subsequent changes in fair value are recognized in other comprehensive income. We are concerned that the proposed guidance for initial measurement would not be operational for most companies for the following reasons:

- Companies would be required to determine if there is a significant difference between the transaction price and fair value by performing an instrument level analysis for large portfolios of loans.

The proposed ED gives various factors to consider when assessing the difference. One of the factors noted in IG8 are “prevailing rates offered to other borrowers or offered by other lenders for similar financial instruments.” This would be a difficult assessment to make since most companies are not privy to other lenders business and pricing strategies. Further for certain financial instruments there is no active market to obtain such information.

- We are also concerned that there will be implementation issues as auditors and companies go about assessing whether a difference is “significant”.

### **Hedging Accounting**

In general Comerica supports the overall proposed changes to accounting for derivatives and hedging and applauds the Boards efforts to simplify the accounting for hedging. We are supportive of the proposed change that requires the hedging relationship to be “reasonably effective” rather than “highly effective” and we are also supportive that the ED will continue to allow bifurcation by risk since companies more often hedge changes in specific risk. The former will allow companies an easier method to analyze hedging relationships. Finally, we recommend that the Board clarify how hedging relationships that fail the “highly effective” relationship test before the effective date but pass the “reasonably effective” test for the current period will be treated at transition.

### **International Accounting Standards Convergence**

An accounting model should be selected for its conceptual merits and because it results in clear and transparent reporting of the essence of the transactions to the reader of the financial statements. We do not necessarily believe in convergence simply to have a common standard if such accounting standard is not one that has a high quality. While the future of international convergence remains uncertain, it is fair to say that a high quality converged standard is ideal in the long run. Towards this end, we are supportive of the convergence efforts of the Board and the IASB. Currently, there are several areas where the ED is inconsistent with international accounting standards. We note that the IASB’s proposed exposure draft is more reflective of a company’s business model. If the ED is implemented as proposed, the accounting model may disadvantage companies in the United States in comparison to their international competitors and the lack of convergence will cause inconsistency with foreign subsidiaries and affiliates as different accounting would be applied within the group. This will cause operational issues for companies who may have to maintain different sets of books. We urge both boards to continue their efforts toward convergence, take into consideration the comments received, focus their efforts on developing a model that reflects the business model and the best of both accounting models, before issuing a final standard.

Comerica Incorporated  
Comments: File Reference No. 1840-100  
September 27, 2010  
Page 10 of 10

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](mailto:mscarr@comerica.com); facsimile no. (214) 462-6810) or Neeshta Kewada, Vice President - Accounting Policy (telephone (214) 462-6682; email address [nkewada@comerica.com](mailto: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, Comerica Inc.  
Neeshta Kewada, Vice President - Accounting Policy, Comerica Inc.