



September 30, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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By email to: director@fasb.org

Re: File Reference No. 1810-100

Director:

First Horizon National Corporation appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the "Proposed ASU"). We support the FASB's objective of 1) harmonizing the accounting treatment of loans and debt securities, 2) revising credit impairment guidance to facilitate improved recognition of credit losses and 3) improving the accounting for derivative and hedging activities. However, in our view several aspects of the Proposed ASU would not represent an improvement in accounting and financial reporting. A primary source of concern is the proposed application of "fair value" accounting in circumstances where a market value (whether based on observable or unobservable inputs) is not representative of the underlying value of the applicable financial instruments because the instruments are held for the receipt or payment of contractual cash flows (held for investment) rather than being held for sale or trading purposes. Another source of significant concern is that the credit impairment model included within Proposed ASU. We believe that the proposed model creates certain illogical results (i.e., credit loss recognition upon origination) and does not apply a more appropriate "full" expected loss model for financial assets, with expected losses being recognized over the life of the assets. We also believe that the Proposed ASU inappropriately links interest income recognition to the allowance for credit losses, resulting in less transparency and greater complexity in accounting and financial reporting. Finally, while we support the Proposed ASU's simplification of hedge accounting requirements, we believe that certain aspects of the proposed hedge accounting model can be further improved.

Our commentary on what we perceive to be the most important aspects of the Proposed ASU are more completely described below. Our responses to the questions presented within the Proposed ASU are included as an addendum to this letter.

Initial and Subsequent Measurement of Financial Instruments

We believe that a single accounting model can be structured to appropriately provide measurement principles for financial instruments. We believe the accounting model should

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follow a business strategy (management-intent) philosophy. Amortized cost is the most relevant measurement attribute for financial instruments held for the payment or collection of cash flows (i.e., held for investment). Fair value through earnings is the most relevant measurement attribute for financial instruments held for sale or trading purposes because this represents the estimated settlement value for these instruments. We do not consider fair value as a meaningful measurement attribute for financial instruments held for investment purposes. Rather, we consider amortized cost to be a more representative measurement attribute for financial instruments held for investment purposes because these instruments are held for the payment or receipt of contractual cash flows in accordance with management's business strategy (intent). In this circumstance, fair value does not reflect the form of realization for financial instruments held for investment.

Consistent with our views that accounting for financial instruments should follow a management-intent (business strategy) based philosophy, we believe that there are circumstances in which management's intent will change during the life of an instrument. Therefore, we believe that in situations where management's intent changes, reclassifications of financial instruments between amortized cost and fair value should be permitted. Appropriate disclosures regarding the reasons for the change of intent and related financial effects should be required when reclassifications occur.

We also support retention of a fair value election for financial instruments held for investment purposes in circumstances when accounting for the instrument at amortized cost would result in a mismatch in the financial statements and the election of fair value measurement through earnings would mitigate the effects of the mismatch on reported earnings. Appropriate disclosures should accompany instances when the fair value election is utilized similar to those required currently under ASC 825.

Consistent with our view that financial instruments held for sale or trading purposes should be measured at fair value, we agree that transaction costs should be expensed immediately for these items. We believe that transaction price should generally be the initial measurement for instruments held for investment purposes. For instruments held for investment purposes, we believe it is appropriate to measure these items at amortized cost, which would include premiums and discounts included with the transaction price as well as deferred costs and fees associated with originated assets. Premiums, discounts and net deferred costs and fees should be amortized to interest income or expense as appropriate.

Additionally, we do not agree that the proposed remeasurement approach for core deposit liabilities is relevant for presentation in the financial statements or in the footnotes. We believe that these liabilities, and all other deposit liabilities, are held for the payment of cash flows and accordingly should be recognized at amortized cost. Further, we believe that the proposed remeasurement approach is inconsistent with both the fair value and amortized cost measurement methodologies presented within the Proposed ASU and thus would introduce greater complexity in financial statements (rather than reducing complexity). The proposed approach introduces a number of factors (e.g., alternative funds rate, all-in-cost-to-service rate, and implied maturities) for inclusion within the measurement of core deposit liabilities, each of which would require a high level of time, resources and the application of judgment on a quarterly basis. Comparability between institutions will almost certainly be compromised due to the high level of subjectivity that would be required in making these estimates. Further, the failure of the Proposed ASU to recognize core deposits at fair value (as proposed for the assets they fund) represents an inherent conflict within the Proposed ASU that would serve to increase, rather than decrease the complexity of financial

statements. Given that core deposits (all deposits) will settle at their cost basis, we find that the effort and judgment that would be used in applying the proposed remeasurement approach is not justified in relation to providing investors with better information regarding the financial position of a financial institution.

We support the exclusion of commitments associated with a revolving line of credit issued under a credit card arrangement from the scope of the Proposed ASU if the related loans are intended for investment purposes by management. If the related credit card line of credit is intended for sale, the associated commitment should be recognized at fair value through earnings in the financial statements. We also believe that other similar revolving line of credit arrangements (e.g., home equity lines of credit and certain revolving lines extended to commercial borrowers) should be similarly excluded from the scope when management intends to hold the related loans for investment. It seems inconsistent to provide an exemption for unsecured credit card lines of credit when other lending arrangements are highly similar in nature (with the exception of being secured).

We also disagree with the Proposed ASU's requirement to account for a hybrid instrument in its entirety at fair value through earnings if it meets the existing bifurcation requirements of GAAP. We believe that it is more appropriate to continue the existing bifurcation process, with the host instrument being accounted for in accordance with the management-intent (business strategy) model described above.

Recognition and Measurement of Credit Losses

We generally support the concept that credit losses should be recognized earlier than permitted under current GAAP. However, for multiple reasons, we do not support the credit impairment model presented within the Proposed ASU and believe that re-consideration of the proposed recognition and measurement provisions is necessary. Primarily, we believe that future conditions and events should be included as part of the emergence period for the assessment of credit losses, thereby deriving a true "life-of-loan" estimate of credit losses. Such a model would naturally result in a more rapid recognition of credit losses in comparison to the "probable" loss model utilized currently. Appropriate disclosure of the inputs and assumptions used in the estimation of credit losses consistent with the requirements of the recently approved (pending adoption) Accounting Standards Update No. 2010-20, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20") would facilitate investors' understanding of the credit loss estimates, and future expectations embedded within those estimates. Such an approach would also better align the information needs of management and financial statement users with the accounting recognition and measurement model.

We believe that the Internal Accounting Standards Board's ("IASB") model of recognized expected credit losses over the life of the related asset is more appropriate as this approach better matches the recognition of income and expenses associated with financial assets. However, we disagree with the IASB's proposal to recognize expected credit losses as a reduction of interest income. We believe that recognition of credit losses within a separate line item in the statement of (comprehensive) income results in a more transparent presentation for financial statement users. We also find merit in the IASB's Expert Advisory Panel's proposed credit loss concept which de-couples interest income from credit losses while also creating a segmentation of the loan and debt securities held into "good" and "bad" components. "Good" loans and debt securities should follow a methodology similar to the

IASB's proposal (with the exception of a more appropriate separation of credit losses from interest income). "Bad" loans and debt securities would be treated similar to impaired loans today in that all expected life-of-loan credit losses would be recognized immediately.

While we generally support the IASB's credit impairment recognition model, we believe that the IASB's requirement to utilize probability-weighted possible outcomes in the measurement of expected credit losses is too broad and prescriptive in indicating the appropriate methodology for estimation of future credit losses. Such a requirement would result in a very complex and costly process to apply due to the quantity of information that would have to be considered. For many financial assets, expected credit losses could be measured using a combination of historical and current information with modifications for reasonable expectations of future events rather than developing a model based on complex multiple cash flow scenarios.

Regarding the impairment model included within the Proposed ASU, we believe that it would be inappropriate to immediately recognize a credit impairment upon origination of a financial asset not held for sale or trading purposes, as would occur under the Proposed ASU's model. Recognition at the time of origination would be illogical given that the loan would not have been made (or debt security purchased upon creation) if the borrower exhibited characteristics that indicated full collection of principal was not expected. Accordingly, we do not agree with the Proposed ASU's requirement to include financial assets that have been individually assessed for impairment, and have no indicators of impairment, within a separate pool-level analysis of credit risk. We believe that this would result in the recognition of credit impairment on newly originated financial assets solely because they are pooled with similar assets. We believe that the associated recognition of credit losses immediately upon origination would be an inappropriate outcome of the proposed model. We support the concept of assessing credit risk on financial assets and determining expected life-of-loan losses as of each reporting date with recognition of those losses over the expected lives of the assets. This evaluation should occur either on an individual asset basis for individually significant assets or on a pooled basis for individually insignificant, yet similar, asset types. We question the validity of determining estimated life-of-loan losses using a pooled approach when the asset is assessed individually for credit losses. All information related to the credit status of the asset, along with related current and expected economic trends should be utilized in estimating the life-of-loan credit losses for the asset when it is reviewed individually for credit impairment.

Additionally, while we have not experienced the complexity associated with the accounting requirements of ASC 310-30 for purchase credit impaired loans, we understand that this accounting model (which is generally consistent with the model included in the Proposed ASU) is highly complex, requires significant judgment, consumes large amounts of resources and is difficult for financial statement users to comprehend. Thus, we do not support continuation of this form of credit impairment model within the Proposed ASU. We believe that a unified credit impairment model should exist for originated and purchased financial assets. Failure to conform the credit impairment model distorts credit metrics and reduces comparability between financial statement issuers. This lack of comparability has created regulatory requirements for special reporting and disclosure related to purchase credit impaired portfolios which consumes additional resources for little value being provided to financial statement users who find the existing model difficult to understand. We believe that purchased credit-impaired financial instruments should have the initial discount to fair value split between credit-related and other (e.g., interest rate) components. Subsequent increases in expected credit losses would be recognized as an increase to the credit allowance.

Subsequent decreases in expected credit losses should be recognized as a gain in the financial statements and clearly disclosed within the rollforward of the allowance for credit losses as such. Highlighting this amount would increase the transparency of amounts recognized in the financial statements while also avoiding the complexity of the current model.

In assessing the credit impairment for loans, we support continued measurement of collateral-dependent loans at the fair value of collateral less costs to sell, as indicated in the Proposed ASU. We also support the Proposed ASU's revision for the scope of application for the collateral-dependent approach to include all loans for which repayment is expected primarily or substantially through the operation of the collateral in comparison to the current requirement that repayment be expected solely through the collateral.

Regarding the Proposed ASU's requirement to remove a loan that undergoes a modification qualifying as a troubled debt restructuring ("TDR") from a pool is contradictory to the decision reached by the Board in Accounting Standards Update 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset—a consensus of the FASB Emerging Issues Task Force* ("ASU 2010-18"). If the Board believes that a loan modified as TDR should be removed from the associated pool, then we believe that explicit guidance should be issued to permit the inclusion of these loans in pools of similar loans also modified as TDRs. Such would be consistent with the existing guidance of ASC 310-10-35.

Finally, we also note that paragraph IG114 of the Proposed ASU indicates that "the allowance for credit losses established for each class of financial assets should be appropriate to cover the entity's estimate of the credit impairment for that class of financial assets at each financial reporting date." We note that the recently approved (pending adoption) ASU 2010-20 indicates that the "portfolio segment" is the level at which an entity documents and develops its methodology for assessment of credit losses. ASU 2010-20 also indicates that a "class" is generally a subcomponent of a portfolio segment. Thus, we believe there is a disparity between the use of the word "class" in the Proposed ASU and ASU 2010-20 that the Board should resolve in its redeliberation of the Proposed ASU.

Equity Method Criteria

We do not support the proposed additional criteria for application of the equity method. We believe that adding a "similar operations" criterion to the existing "significant influence" criterion will only create further complexity in the application of equity method or cost method accounting (if cost method accounting is retained for equity investments). Further, we believe that "significant influence" is (by definition) significant and therefore merits an accounting treatment different from other investments in equity instruments, regardless of whether the investee's operations are similar to the investor's operations. Moreover, we find that the proposed additional "similar operations" criterion is inconsistent with the consolidation guidance of ASC 810 in its consideration of variable interest entities (VIEs). A VIE must be consolidated if the criteria of ASC 810 are met regardless of whether the VIE's operations are similar to the operations of the primary beneficiary.

Accounting for and Impairment of Investments in Equity Securities

We support inclusion of equity investments within the scope of the Proposed ASU, but we believe that equity investments should also be measured utilizing a management-intent driven model. Equity instruments held for sale or trading purposes should be recognized at fair value through earnings. If not held for sale or trading purposes, equity investments providing the holder with significant influence over the investee should be accounted for under the equity method. Equity instruments held for investment purposes that do not meet the criteria for equity method accounting should be reflected at cost.

We also support harmonization of the recognition and impairment models for equity investments. However, the Proposed ASU fails to achieve complete harmonization for equity investments due to its exclusion of equity method investments from the proposed impairment models. All equity investments held for investment (either using the equity method or the cost method) should be reviewed for impairment upon the occurrence of triggering events that indicate a potential decline in value below cost. We also believe that prior impairments (up to initial cost) should be recoverable through earnings if circumstances indicate that a recovery in value has occurred. In the event that the proposed credit impairment model is adopted, we fail to see how it can appropriately address measurement of expected credit losses for equity investments measured at redemption value. These investments (similar to other forms of equity investments) have no contractual cash flows and thus making a prediction of estimated future cash flows would be extremely judgmental.

Interest Income Recognition

We believe that interest income should not be affected by the recognition of credit impairments. Interest income for financial assets should be based on the effective interest rate applied to the amortized cost balance. Asset yields are a critical component of assessing the profitability of a financial institution's earning assets. Inclusion of the allowance for credit losses within the base amount on which to apply the effective interest rate would decrease rather than improve the transparency of financial asset performance. Regardless of impairment model selected (either FASB or IASB), the inclusion of the allowance from credit losses within the amount on which to apply the effective interest rate would introduce a level of judgment and estimation within the recognition of interest income, which today is based on the contractual interest rate (adjusted for premiums, discounts and net origination costs/fees). Further, we believe that interest income recognition is well understood by financial statement users and the interest income recognition model within the Proposed ASU would only serve to confuse them in their assessments of entity performance.

We also note that adoption of the Proposed ASU's interest income recognition model would require integration of credit loss data within loan servicing systems. This would require extensive effort on the part of service providers to develop software that is capable of handling the additional requirements of the Proposed ASU (e.g., individual loan credit risk allowance, spreading of pooled loans credit risk allowance, quarterly credit updates, etc.).

These difficulties are highlighted for financial assets for which credit loss estimates are developed at a pool level. Since servicing systems calculate interest income at an individual asset level, under the Proposed ASU's model the credit allowance developed at a pool level must then be allocated to every asset in the pool so that the interest rate on the individual assets is applied to the amortized cost of the individual asset(s) reduced by the credit loss

allowance. The method of allocation will, due to differences in outstanding principal and interest rates on individual assets, affect the yield on the pool as a whole. Allocation methodologies could reasonably vary dependent upon which factor management considers most relevant in determining credit risk for a pool (e.g., balance, age, and credit score).

We also find the Proposed ASU's requirement to present a reversal of credit loss allowance associated with interest through credit impairment rather than interest income to indicate a flaw in the Proposed ASU's interest income recognition model as it would force a reclassification of interest income to provision expense, thereby adversely affecting the relevance of both amounts to financial statement users.

We also note that the Proposed ASU indicates that interest income recognition for deferred costs and fees should start at the beginning of the period following origination. We believe that amortization of these items to interest income should commence at the time of origination rather than being delayed. Further, we question why the Proposed ASU specifically requires the deferral of direct loan origination costs and fees, but does not have a similar requirement for debt issuance costs. Debt issuance costs are highly analogous to costs and fees related to the origination of a financial asset and, we believe they should be treated similarly through an amortization to interest expense over the life of the related debt.

Finally, the Proposed ASU's model for interest income recognition would compel a change in the determination of nonaccrual status for financial assets. Consistent with our views on the management-intent (business strategy) model for the classification and measurement of financial assets, we believe that the Proposed ASU should not provide guidance on the determination of nonaccrual status for financial assets. We believe that nonaccrual status is sufficiently defined, and well understood, in existing regulatory guidance.

Hedge Accounting

We support the FASB's efforts to reduce complexity in the application of hedge accounting via a reduction in the effectiveness threshold from "highly effective" to "reasonably effective". We also support the Proposed ASU's retention of the ability to hedge a specific risk (e.g., interest rate risk) for a hedged item. However, we do not support the elimination of the "shortcut" and "critical terms match" methodologies for the assessment of hedging effectiveness. With the detailed reviews of hedging activities conducted by regulatory bodies several years ago, and the related resulting guidance, we believe that application of the "shortcut" and "critical terms match" methodologies is now limited to only those relationships that qualify with the FASB's original intent in permitting the assumption of no ineffectiveness for a narrow set of hedging relationships. Thus, we believe that the accounting guidance in this area is well-developed and should be utilized within the proposed improvements to hedge accounting.

We support elimination of the requirement to perform quantitative hedging effectiveness assessments at inception and subsequently for hedging relationships. We believe that a qualitative assessment performed upon initiation of a hedging relationship is often sufficient to document that the hedging relationship will continue to be effective for the life of the hedged item and/or the hedging instrument. We believe that a re-assessment of hedging effectiveness should only be required in circumstances where the changes in the economic relationship of the hedging instrument and the hedged item create a doubt about the hedging relationship continuing to be "reasonably effective".

We disagree with the proposed prohibition on the de-designation of hedging relationships once established. We believe that requiring settlement of the hedging instrument or entry into an offsetting instrument will increase cost and complexity without improving the value of financial reporting. We note that termination of a hedge relationship through physical settlement of the hedging instrument will increase the costs of hedging.

We also note that effective termination of a hedging relationship through entry into a new, offsetting instrument will almost certainly require the acquisition of an "off market" derivative due to the requirement that the new derivative "fully offset" future changes in fair value of the original derivative. This requirement would increase both the cost of hedging and complexity in accounting.

Finally, we believe that the final standard revising hedge accounting, should (if shortcut and critical terms match methods are eliminated) include transition guidance as of the adoption date for hedging relationships that currently qualify under the short cut and critical terms match methods.

Presentation

Consistent with our views on measurement of financial instruments, we do not support the Proposed ASU's requirement to provide, for instruments recognized at fair value with changes in fair value included in other comprehensive income, a reconciliation from fair value to amortized cost on the face of the statement of financial position. Similarly, we do not support the reconciliation requirement for core deposits between amortized cost and remeasurement value. Such a requirement is unnecessary if the measurement model we propose is implemented. Further, providing this level of information on the face of the statement of financial position would only serve to introduce even more complexity within the financial statements, especially multi-period financial statements provided by SEC registrants.

Disclosures

As previously indicated, we believe that a measurement approach based on management intent (business strategy) is more appropriate for financial instruments than the approach outlined in the Proposed ASU. Thus, we believe that many of the disclosure (and statement of financial position presentation) requirements are unnecessary efforts to "bridge the gap" between a fair value measurement model and the more relevant amortized cost measurement attribute (i.e., the proposed core deposit liability disclosures). We believe that this model should be supplemented by a fair value election for financial instruments for which recognition at amortized cost would create a mismatch in the financial statements. Financial instruments held for sale or trading purposes are addressed in current disclosure requirements as are financial instruments recognized at elected fair value. For financial instruments measured at amortized cost, we believe that disclosure of the associated interest recognition methodology is appropriate.

Regarding other specific disclosure requirements within the Proposed ASU, we believe that the proposed disclosures related to the allowance for credit losses are unnecessary given the extensive new disclosure requirements of ASU 2010-10 (recently adopted by the Board),

which will be implemented in the near future. Further, as indicated in our comment letter on the Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820) – Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, we do not support the proposed quantitative disclosures for financial instruments that qualify as Level 3 measurements. We believe that such information would be costly to prepare and would often provide information of questionable value.

We also believe that the existing derivative disclosure requirements sufficiently address hedging relationships. Thus, we believe that any additional disclosures would be unnecessary for hedging activities. Finally, we believe that the proposed disclosures for equity method investments are also unnecessary. We believe that the proposed new criterion for application of the equity method to an investee is unnecessary and in conflict with consolidation guidance of ASC 810. Thus, we believe this proposed disclosure requirement should be removed from a final standard.

Effective Date and Transition

We agree that a cumulative effect transition methodology is appropriate for implementation of changes in accounting for financial instruments. A retroactive application would be extremely burdensome. We also believe that the cumulative effect should be applied to the initial statement of financial position at the time of adoption rather than the statement of financial position at the end of the immediately preceding period. Thus, we believe that the prior period end statement of financial position should not be restated for changes. Rather, the changes should be recognized as adjustments to that statement of financial position as the first accounting entries within the new fiscal period with an appropriate reconciliation of changes by statement of financial position line item included within the footnotes. We note that this transition approach has been utilized for numerous accounting standards in recent years.

We believe that the Proposed ASU's accounting guidance would require, at a minimum, three years for a complete implementation. The development of accounting systems required to address the entirely new linkage of credit impairment considerations with interest income recognition will take extensive time for development, testing and implementation for financial institutions. Further, development of new credit loss metrics, including historical loss data for pools of loans previously not included in pools (i.e., currently reviewed individually for impairment) will take a significant amount of time for development and implementation. Additionally, once system changes are complete, all controls must be documented and tested to satisfy Sarbanes-Oxley and regulatory concerns. Finally, completely new internal and external reporting mechanisms would need to be developed so that the magnitude of change and expectation of the effect on future results can be communicated. For these reasons and many others, the size and volume of tasks required for a financial institution to appropriately implement all of the changes within the Proposed ASU will be enormous.

Convergence With International Accounting Standards

Due to the significance of financial instruments for financial institutions worldwide, a desired global conformity of accounting methodologies within this industry and the potential adoption

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of International Financial Reporting Standards (“IFRS”) in the United States, we strongly believe that a final standard revising the accounting treatment of financial instruments should reflect a conformed standard of generally accepted accounting principles. Considering the magnitude of potential change and costs of transitioning to new accounting methodologies and disclosures for financial instruments, we believe it is imperative that the FASB and the International Accounting Standards Board achieve a converged standard in order to avoid a potential multiple adoption scenario whereby changes are made in the United States only to be subsequently revised shortly thereafter upon (potential) adoption of IFRS.

If you have any questions regarding the comments presented in this letter, please contact me at (901) 537-1937.

Sincerely,

/s/ Shawn P. Luke

Shawn P. Luke
Senior Accounting Manager
Chief Accounting Officer’s Division
First Horizon National Corporation

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Scope

Questions for All Respondents

Question 1: *Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?*

Response: We generally agree with the scope of the Proposed ASU's scope. We support efforts at harmonizing the accounting for debt securities and loans with regards to both income and impairment recognition. We believe that debt securities and loans (and related lending commitments) that management intends to hold for investment should be measured at amortized cost. If management's intent is to hold these instruments for sale or trading purposes, then they should be recognized at fair value through earnings. However, while our views differ with the Proposed ASU regarding the concepts of measurement and recognition, we support having a unified accounting model for debt securities, loans and lending commitments.

We note that a loan commitment related to a revolving line of credit issued under a credit card arrangement is excluded from the scope of the Proposed ASU. While we believe that all lending commitments for loans to be held for investment purposes should not be recognized in the financial statements, should the provisions of the Proposed ASU be implemented, we believe that other, similar revolving line of credit arrangements should also be exempted from the scope of the final standard. This would include home equity lines of credit and similar consumer and commercial revolving credit arrangements.

We also support harmonization of the recognition and impairment models for equity investments. However, the Proposed ASU fails to achieve complete harmonization for equity investments due to its exclusion of equity method investments from the proposed impairment models. We support inclusion of equity investments within the scope of the Proposed ASU, but we believe that equity investments should also be measured utilizing a management-intent driven model. Equity instruments held for sale or trading purposes should be recognized at fair value through earnings. If not held for sale or trading purposes, equity investments providing the holder with significant influence over the investee should be accounted for under the equity method. Equity instruments held for investment purposes that do not meet the criteria for equity method accounting should be reflected at cost. All equity investments held for investment (either using the equity method or the cost method) should be reviewed for impairment upon the occurrence of triggering events that indicate a potential decline in value below cost. We also believe that prior impairments (up to initial cost) should be recoverable through earnings if circumstances indicate that a recovery in value has occurred.

Question 2: *The proposed guidance would require loan commitments, other than loan commitments related to a revolving line of credit issued under a credit card arrangement, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update? If not, why?*

Response: We support the exclusion of commitments associated with a revolving line of credit issued under a credit card arrangement from the scope of the Proposed ASU if the related loans

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are intended for investment purposes by management. If the related credit card line of credit is intended for sale, the associated commitment should be recognized at fair value through earnings in the financial statements. We also believe that other similar revolving line of credit arrangements (e.g., home equity lines of credit and certain revolving lines extended to commercial borrowers) should be similarly excluded from the scope when management intends to hold the related loans for investment. It seems inconsistent to provide an exemption for unsecured credit card lines of credit when other lending arrangements are highly similar in nature (with the exception of being secured).

Question 3: *The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?*

Response: We agree that these contracts should be included within the scope of the Proposed ASU. We believe that the management-intent based model we have discussed should be applied to these contracts.

Question 4: *The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?*

Response: We do not support the proposed additional criteria for application of the equity method. We believe that adding a "similar operations" criterion to the existing "significant influence" criterion will only create further complexity in the application of equity method or cost method accounting (if cost method accounting is retained for equity investments). Further, we believe that "significant influence" is (by definition) significant and therefore merits an accounting treatment different from other investments in equity instruments, regardless of whether the investee's operations are similar to the investor's operations. Moreover, we find that the proposed additional "similar operations" criterion is inconsistent with the consolidation guidance of ASC 810 in its consideration of variable interest entities (VIEs). A VIE must be consolidated if the criteria of ASC 810 are met regardless of whether the VIE's operations are similar to the operations of the primary beneficiary.

Questions for Users

Question 5: *The proposed guidance would require financial liabilities of investment companies to be measured at fair value with changes in fair value recognized as a net increase (decrease) in net assets. Do you believe that the effect on net asset value will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?*

Response: We have no comment as this topic is not applicable to FHN.

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Question 6: *The proposed guidance would require money market funds that comply with Rule 2a-7 of the Investment Company Act of 1940 to measure their investments at fair value rather than amortized cost. Do you believe that reporting those investments at fair value rather than amortized cost will provide decision-useful information? If yes, how will the information provided influence your analysis of the fund? If not, why?*

Response: We have no comment as this topic is not applicable to FHN.

Question 7: *The proposed guidance would require brokers and dealers in securities to apply the proposed guidance for measuring financial liabilities, which could mean that qualifying changes in fair value would be recognized in other comprehensive income. Do you believe that this will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?*

Response: We believe that broker-dealer operations should also be subject to a management-intent based model for measurement of financial instruments. Instruments utilized in the normal trading operations should be recognized at fair value through earnings. However, financial liabilities resulting from non-trading activities (e.g., debt used to finance operations) should be recognized at amortized cost.

Initial Measurement

Questions for All Respondents

Question 8: *Do you agree with the initial measurement principles for financial instruments? If not, why?*

Response: We agree that fair value should be the initial measurement principle for instruments held for sale or trading purposes. We also agree that transaction price should generally be the initial measurement for instruments held for investment purposes. For instruments held for investment purposes we do not agree that a departure from transaction price is appropriate in circumstances where fair value differs significantly from the transaction price because amortized cost represents the most meaningful measurement attribute for these instruments. In circumstances where other transaction elements cause a difference between transaction price and fair value for an instrument held for investment purposes, we believe that the total transaction value should be allocated between the elements based on a relative fair value approach with the amount allocable to the financial instrument establishing its initial amortized cost (exclusive of transaction cost considerations).

Question 9: *For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?*

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Response: As indicated in our response to Question 8 above, we believe that differences between the transaction price and fair value should not be recognized in net income for financial instruments held for investment. This is consistent with our position that amortized cost is the most relevant measurement attribute for financial instruments held for investment purposes.

Question 10: *Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?*

Response: We believe that fair value should be the initial measurement principle for instruments held for sale or trading purposes. We believe that transaction price should generally be the initial measurement for instruments held for investment purposes.

Question 11: *Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?*

Response: Consistent with our view that financial instruments held for sale or trading purposes should be measured at fair value, we agree that transaction costs should be expensed immediately for these items. For instruments held for investment purposes, we believe it is appropriate to measure these items at amortized cost, which should appropriately include related deferred costs and fees. The net deferred costs and fees should be amortized to interest income or expense as appropriate.

Question for Preparers and Auditors

Question 12: *For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?*

Response: We believe that the guidance provided in existing GAAP (ASC 820-10) and in the Proposed ASU is operational. However, we note that significant judgment may be required in specific circumstances in the application of the existing and proposed guidance. We also believe that creation of a “significance” concept for assessing differences is necessary. If such a concept is considered appropriate by the Board, additional guidance may be necessary because the existing guidance of ASC 820-10 does not include a “significance” concept.

Subsequent Measurement

Questions for All Respondents

Question 13: *The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or*

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payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

Response: We believe that fair value represents a meaningful measurement attribute for financial instruments held for sale or trading purposes. We do not consider fair value as a meaningful measurement attribute for financial instruments held for investment purposes. We consider amortized cost to be a more representative measurement attribute for financial instruments held for investment purposes because these instruments are held for the payment or receipt of contractual cash flows in accordance with management's business strategy (intent). In this circumstance, fair value does not reflect the form of realization for financial instruments held for investment.

Consistent with our views on measurement of financial instruments, we do not support the Proposed ASU's requirement to provide, for instruments recognized at fair value with changes in fair value included in other comprehensive income, a reconciliation from fair value to amortized cost on the face of the statement of financial position. Similarly, we do not support the reconciliation requirement for amortized cost to remeasurement value for core deposits. Such a requirement is unnecessary if the model we propose is implemented. Further, providing this level of information on the face of the statement of financial position would only serve to introduce even more complexity within the financial statements, especially multi-period financial statements provided by SEC registrants.

We also support retention of a fair value election for financial instruments held for investment purposes in circumstances when accounting for the instrument at amortized cost would result in a mismatch in the financial statements and the election of fair value measurement through earnings would mitigate the effects of the mismatch on reported earnings. Appropriate disclosures should accompany instances when the fair value election is utilized similar to those required currently under ASC 825.

Question 14: *The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?*

Response: We believe that interest income and expense, credit impairments and reversals and realized gains and losses should be recognized in net income for financial instruments not measured at fair value through earnings. However, we believe that amortized cost is the appropriate measurement attribute for financial instruments that are not held for sale or trading purposes. Further, as discussed in later responses, we do not support the Proposed ASU's model for 1) recognition of interest income and 2) credit impairments (and related recoveries) of debt securities and loans.

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Question 15: *Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?*

Response: We believe that a single accounting model can be structured to appropriately provide measurement principles for both financial assets and financial liabilities. We believe the accounting model should follow a business strategy (management-intent) philosophy. Amortized cost is the most relevant measurement attribute for financial instruments held for the payment or collection of cash flows (i.e., held for investment). Fair value through earnings is the most relevant measurement attribute for financial instruments held for sale or trading purposes. A fair value election should be provided for financial instruments that would otherwise qualify for amortized cost accounting in situations where measurement at amortized cost would result in a mismatch within the financial statements.

Question 16: *The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?*

Response: Consistent with our views that accounting for financial instruments should follow a management-intent based philosophy, we believe that there are circumstances in which management's intent will change during the life of an instrument. Therefore, we believe that in situations where management's intent changes, reclassifications of financial instruments between amortized cost and fair value should be permitted. Appropriate disclosures regarding the reasons for the change of intent and related financial effects should be required when reclassifications occur.

Question 17: *The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the remeasurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?*

Response: We do not agree that the proposed remeasurement approach for core deposit liabilities is relevant for presentation in the financial statements or in the footnotes. We believe that these liabilities, and all other deposit liabilities, are held for the payment of cash flows and accordingly should be recognized at amortized cost. Further, we believe that the proposed remeasurement approach is inconsistent with both the fair value and amortized cost measurement methodologies presented within the Proposed ASU and thus would introduce greater complexity in financial statements (rather than reducing complexity). Additionally, the valuation methodology presented within the Proposed ASU would require the use of highly judgmental inputs, creating a scenario whereby comparability between issuers of financial statements will be diminished.

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Question 18: *Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?*

Response: We believe that amortized cost should be the measurement basis for financial liabilities held for the payment of cash flows. We believe that a fair value election should be provided for financial liabilities that would otherwise qualify for amortized cost accounting in situations where measurement at amortized cost would result in a mismatch within the financial statements. Additionally, we believe that the Board should retain the existing guidance for the assessment of whether embedded derivatives should be bifurcated from a host financial liability.

Question 19: *Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?*

Response: We believe the investments in equity instruments such as Federal Home Loan Bank stock and Federal Reserve Bank stock should be recognized at amortized cost in the financial statements. These investments should be subject to impairment analysis whenever triggering events indicate that an other-than-temporary decline in value has occurred. We believe this is consistent with the current requirements of ASC 942-325-35-4. We do not believe that the impairment model included within the Proposed ASU is operational with respect to these investments because they do not have contractual cash flows, which are the basis for the Proposed ASU's impairment assessment.

Question 20: *Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?*

Response: We do not support the inclusion of accounting guidance related to deferred tax assets associated with debt financial instruments within the Proposed ASU. We believe that the Proposed ASU's scope should be limited to the recognition and measurement of financial instruments only. To include guidance associated with the recoverability assessment for deferred tax assets within the Proposed ASU serves to isolate a single component of accounting for income taxes from a more comprehensive assessment of the overall accounting for income taxes. Due to the judgmental nature of assessing the recoverability of deferred tax assets (whether related to financial assets or other matters), we believe that any changes should be undertaken as part of a more comprehensive project in assessing whether additional guidance is necessary in the performance of this assessment.

Question 21: *The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to*

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convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

Response: We have no comment as this topic is not applicable to FHN.

Questions for Users

Question 22: *Do you believe that the recognition of qualifying changes in fair value in other comprehensive income (measuring the effects of subsequent changes in interest rates on fair value as well as reflecting differences between management's and the market's expectations about credit impairments) will provide decision-useful information for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows? If yes, how will the information provided influence your analysis of an entity? If not, why?*

Response: We do not believe that recognition of financial instruments held for the payment or collection of contractual cash flows at fair value with changes in fair value being included in other comprehensive income will present decision-useful information for users of financial statements. We believe that financial instruments should be measured consistent with management's intent. If held for sale or trading, fair value is the most relevant measurement attribute because this reflects the expected cash flows from the instrument. If held for investment, amortized cost is the most relevant measurement attribute because it reflects the ultimate cash flows to be received or paid upon settlement of the instrument.

Question 23: *The proposed guidance would establish fair value with all changes in fair value recognized in net income as the default classification and measurement category for financial instruments. An entity can choose to measure any financial instrument within the scope of this proposed Update at fair value with all changes in fair value recognized in net income, except for core deposit liabilities which must be valued using a remeasurement approach. Do you believe that a default classification and measurement category should be provided for financial instruments that would otherwise meet the criteria for qualifying changes to be recognized in other comprehensive income? If not, why?*

Response: We believe that creation of a default classification of fair value through earnings for financial instruments is inappropriate. We believe that the measurement methodology should reflect the expected cash flows to be received upon settlement of the financial instrument. Accordingly, fair value is the most meaningful measurement attribute for instruments that are held for sale or for trading. Instruments held for the payment or receipt of cash flows should be recognized at amortized cost. We believe that a fair value option is appropriate in circumstances where accounting for instruments at amortized cost would create an accounting mismatch in the financial statements.

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Question 24: *The proposed guidance would provide amortized cost and fair value information on the face of the financial statements. The Board believes that this would increase the likelihood that both measures are available to users of public entity financial statements on a timely basis and that both measures are given equal attention by preparers and auditors. Do you believe that this approach will provide decision-useful information? If yes, how will the information provided be used in the analysis of an entity? If not, would you recommend another approach (for example, supplemental fair value financial statements in the notes to the financial statements or dual financial statements)?*

Response: We believe that the measurement model as outlined in our response to Question 23 should be reflected in the financial statements as such a model would best reflect the cash flows expected to occur upon settlement of the financial instruments included in the financial statements. If a full set of fair value financial statements is desired by the Board, we believe that such information can be included within the footnotes of the financial statements without causing any negative affects on our assessment of borrowers' ability to repay their loans.

Question 25: *For hybrid financial instruments that currently would require bifurcation and separate accounting under Subtopic 815-15, do you agree that recognizing the entire change in fair value in net income results in more decision useful information than requiring the embedded derivative to be bifurcated and accounted for separately from the host contract? If yes, how will the information provided be used in the analysis of an entity? If not, for which types of hybrid financial instruments do you believe that it is more decision useful to account for the embedded derivative separately from the host contract? Why?*

Response: We believe that hybrid financial instruments held for sale or trading purposes should be recognized at fair value in their entirety with no bifurcation assessment required. For financial instruments held for investment, we believe that the current accounting guidance related to the assessment of embedded derivatives with hybrid financial instruments is the most appropriate recognition methodology.

Question 26: *IFRS 9 requires hybrid financial assets to be classified in their entirety on the basis of the overall classification approach for financial assets with specific guidance for applying the classification approach to investments in contractually linked instruments that create concentrations of credit risk. Also, for hybrid financial liabilities, the IASB, in order to address the effects of changes in the credit risk of a liability, tentatively has decided to retain existing guidance that requires embedded derivatives to be bifurcated and accounted for separately from a host liability contract if particular conditions are met. Do you believe that the proposed guidance for hybrid financial instruments or the IASB's model for accounting for financial hybrid contracts will provide more decision-useful information? Why?*

Response: We believe that the related host contract should be accounted for either at fair value (if held for sale or trading purposes) or amortized cost (if held for investment). In circumstances where the host contract should be accounted for at fair value, we believe that the entire contract should be accounted for at fair value without requiring the separate bifurcation and recognition of the related derivative. We believe that a model requiring bifurcation of embedded derivatives meeting certain criteria provides more decision-useful information than a model that requires the entire hybrid contract to be measured at fair value. Required

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measurement at fair value fails to present that portion of the contract that will ultimately be settled in cash at its cash settlement amount, which is the most relevant measurement attribute.

Question 27: *Do you believe that measuring certain short-term receivables and payables at amortized cost (plus or minus any fair value hedging adjustments) will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?*

Response: Consistent with our views regarding the application of a management-intent based model for classification and measurement of financial instruments, we believe that short-term receivables held for sale or trading should be measured at fair value through earnings. In the event that short term receivables are not held for sale or trading purposes, recognition at amortized cost represents the most meaningful measurement attribute. Generally, amortized cost would represent the most meaningful measurement attribute for short-term payables as these items are not sold and the amortized cost will almost always reflect the amount of expected cash outflow.

Questions for Preparers and Auditors

Question 28: *Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?*

Response: We believe that a management-intent (business strategy) based model for the recognition and measurement of financial instruments is more appropriate than the Proposed ASU's model. Instruments that are held for sale or trading purposes should be measured at fair value through earnings. Instruments that are held for investment (receipt or payment of cash flows) should be measured at amortized cost. We further believe that reclassification between categories should be permitted when management's intent (business strategy) changes for financial instruments. A fair value election should also be permitted for financial instruments for which amortized cost accounting would create a mismatch in the financial statements. We support this model for recognition and measurement because it best reflects the ultimate manifestation of cash flows for an enterprise that holds or has issued the related financial instruments.

Question 29: *Do you believe that measuring financial liabilities at fair value is operational? If not, why?*

Response: The fair value for financial liabilities that have a market-trading mechanism (i.e., trading liabilities, derivatives and issued bonds) generally have sufficient market-based information on which to base a determination of fair value. However, many financial liabilities lack such market-provided inputs and thus are subject to valuation utilizing significant (if not entirely) unobservable inputs. Such unobservable inputs may experience a sizeable range of potential outcomes, creating a large degree of uncertainty associated with the fair value estimate. In circumstances where management intends to fulfill the obligation through payoff of the liability, we believe that fair value is not a relevant measurement attribute for the financial liability. The fair value of a financial liability is a relevant measurement attribute in situations where accounting for the liability at amortized cost would result in an accounting mismatch in

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the financial statements. Thus, we support inclusion of a fair value election for financial liabilities for such circumstances.

Question 30: *Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?*

Response: For a financial institution, the restrictions placed on amortized cost classification by the Proposed ASU would result in all financial liabilities being recognized at fair value (either through earnings or other comprehensive income). As stated previously, we believe that amortized cost is the most relevant measurement attribute for financial liabilities for which management intends to satisfy the obligation through payoff. Thus, we believe that the Proposed ASU's restriction on the use of amortized cost for financial liabilities is inappropriate.

Question 31: *The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is operational? Do you believe that the remeasurement approach is clearly defined? If not, what, if any, additional guidance is needed?*

Response: We do not believe that the measurement approach for core deposit liabilities is appropriate or operational. The proposed approach introduces a number of factors (e.g., alternative funds rate, all-in-cost-to service rate, and implied maturities) for inclusion within the measurement of core deposit liabilities, each of which would require a high level of time, resources and the application of judgment on a quarterly basis. Comparability between institutions will almost certainly be compromised due to the high level of subjectivity that will be required in making these estimates. Further, the failure of the Proposed ASU to recognize core deposits at fair value (as proposed for the assets they fund) represents an inherent conflict within the Proposed ASU that would serve to increase, rather than decrease the complexity of financial statements. Given that core deposits (all deposits) will settle at their cost basis, we find that the effort and judgment that would be used in applying the proposed remeasurement approach is not justified in relation to providing investors with better information regarding the financial position of a financial institution.

Presentation

Questions for All Respondents

Question 32: *For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?*

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Response: As stated previously, we believe that the default measurement attribute for financial liabilities should be amortized cost. Financial liabilities intended for trading or sale purposes should have the full amount of credit risk, including entity-specific credit risk, included within net income. In situations where financial liabilities are measured at fair value, such as when the fair value election is used because measuring the liability at amortized cost would create an accounting mismatch (as we propose), we believe that accounting for an entity's own credit risk within the fair value mark through earnings may, itself, create an accounting mismatch. This is primarily the case in consolidated securitization variable interest entities when, the associated assets are measured at fair value through earnings and the related debt is also measured at fair value through earnings. Including entity-specific credit risk within earnings for the fair value mark on the debt would create an accounting mismatch. Thus, in circumstances where the inclusion of entity-specific credit risk within earnings would create an accounting mismatch, we believe it is appropriate for the entity-specific credit risk to be included in OCI rather than net income.

Question 33: *Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.*

Response: We believe that both models included in Appendix B of the Proposed ASU reflect the difficulties and complexity that can be apparent in assessing entity-specific credit risk. Method 1 presents a linkage of entity-specific credit risk to debt credit ratings. However, rating agencies typically use historical data in performance of rating assessments, and thus, by definition, there will be a corresponding lag in the issuance of a revised rating in comparison to market conditions. Thus, market factors will create a change in general credit spreads during this time that may be difficult to distinguish from changes in entity-specific credit risk occurring upon release of the revised rating. Method 2 relies upon the existence of benchmarks (other similar entities with the same credit rating) for the determination of entity-specific credit risk. In some industries this may be difficult due to the lack of reasonable benchmarks. Further, similar debt instruments (e.g., senior and/or subordinated) may not have been issued by entities with the same credit standing. Additionally, market perceptions of risk can vary considerably between apparently similar entities in the same industry and thus, finding an entity with the "same credit standing" may present challenges. Due to this complexity, we believe that in instances where an entity must segregate its own credit risk from general credit risk, appropriate flexibility be provided in calculating the amount of entity-specific credit risk, which should be accompanied by appropriate disclosures of the inputs and methodology.

Question 34: *The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size,*

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be used? If so, please explain why another index would better measure the change in the price of credit.

Response: See our response to Question 33.

Questions for Users

Question 35: *For financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income, do you believe that the presentation of amortized cost, the allowance for credit losses (for financial assets), the amount needed to reconcile amortized cost less the allowance for credit losses to fair value, and fair value on the face of the statement of financial position will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?*

Response: We believe that amortized cost is the most relevant measurement attribute for financial instruments held for the payment or receipt of contractual cash flows. Financial instruments held for sale or trading purposes should be recognized at fair value through earnings. Should the Proposed ASU become effective with financial instruments recognized at fair value, we believe that presentation of amortized cost for financial instruments intended for payment or receipt of cash flows would be relevant information for analysis of an entity's assets and liabilities. The balance of the allowance for credit losses would also be a relevant item for presentation, but a full reconciliation of all differences between fair value and amortized cost would not be necessary.

Question 36: *Do you believe that separately presenting in the performance statement significant changes in the fair value of financial liabilities for changes in an entity's credit standing (excluding the changes in the price of credit) will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why? Do you believe that changes in the price of credit also should be included in this amount? If so, why?*

Response: We believe that financial liabilities should be recognized at fair value through earnings if held for sale or trading purposes, inclusive of changes associated with entity-specific credit spreads, because this represents the cash flows to be paid upon liquidation of the liability. Similarly, financial liabilities held for the payment of cash flows should be recognized at amortized cost as this is most representative of the cash flows to be paid upon settlement.

Credit Impairment

Questions for All Respondents

Question 37: *Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?*

Response: We do not believe that the objective of the credit impairment model as described in paragraph 36 of the Proposed ASU is clear or appropriate. We believe that the recognition of credit losses should reflect management's expectation regarding the ultimate collectability of financial assets measured at amortized cost. Estimated credit losses should be based on past

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events, current circumstances, and management's expectation of the effects that future events will have on collectability.

We also note that paragraph IG114 of the Proposed ASU indicates that "the allowance for credit losses established for each class of financial assets should be appropriate to cover the entity's estimate of the credit impairment for that class of financial assets at each financial reporting date." We note that the recently approved (pending adoption) Accounting Standards Update No. 2010-20, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20), indicates that the "portfolio segment" is the level at which an entity documents and develops its methodology for assessment of credit losses. ASU 2010-20 also indicates that a "class" is generally a subcomponent of a portfolio segment. Thus, we believe there is a disparity between the use of the word "class" in the Proposed ASU and ASU 2010-20. We believe the Board should resolve this issue in its redeliberation of the Proposed ASU.

Question 38: *The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s).*

The IASB Exposure Draft, Financial Instruments: Amortised Cost and Impairment (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss.

Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

Response: We believe that it would be inappropriate to immediately recognize a credit impairment upon origination of a financial asset not held for sale or trading purposes. Recognition at the time of origination would be illogical given that the loan would not have been made (or debt security purchased upon creation) if the borrower exhibited characteristics that indicated full collection of principal was not expected. In this aspect we believe that the IASB's model of recognized expected credit losses over the life of the related asset is more appropriate as this approach better matches the recognition of income and expenses associated with financial assets. However, we disagree with the IASB's proposal to recognize expected credit losses as a reduction of interest income. We believe that recognition of credit losses within a separate line item in the statement of (comprehensive) income results in a more transparent presentation for financial statement users. We also find merit in the IASB's Expert Advisory Panel's proposed credit loss concept which de-couples interest income from credit losses while also creating a segmentation of the loan and debt securities held into "good" and "bad"

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components. “Good” loans and debt securities follow a methodology similar to the IASB’s proposal (with the exception of a more appropriate separation of credit losses from interest income). “Bad” loans and debt securities would be treated similar to impaired loans today in that all expected life-of-loan credit losses would be recognized immediately. In assessing the credit impairment for loans, we support continued measurement of collateral-dependent loans at the fair value of collateral less costs to sell, as indicated in the Proposed ASU. We also support the Proposed ASU’s revision for the scope of application for the collateral-dependent approach to include all loans for which repayment is expected primarily or substantially through the operation of the collateral in comparison to the current requirement that repayment be expected solely through the collateral.

Question 39: *Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?*

Response: We agree that changes in foreign exchange rates, changes in expected prepayments or changes in a variable interest rate should not give rise to a credit impairment as these items do not directly affect the ability of a debtor to repay the principal amount of a debt.

Question 40: *For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?*

Response: We believe that accounting standards should not require use of a specific methodology in the determination of historical losses for financial assets assessed using a pool approach.

Question 41: *Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?*

Response: While we have not experienced the complexity associated with the accounting requirements of ASC 310-30 for purchase credit impaired loans, we understand that this accounting model (which is generally consistent with the model included in the Proposed ASU) is highly complex, requires significant judgment, consumes large amounts of resources and is difficult for financial statement users to comprehend. Thus, we do not support continuation of this model within the Proposed ASU. We believe that a unified credit impairment model should exist for originated and purchased financial assets. Failure to conform the credit impairment model distorts credit metrics and reduces comparability between financial statement issuers. This lack of comparability is now creating regulatory requirements for special reporting and disclosure related to purchased credit impaired portfolios which consumes additional resources for little value being provided to financial statement users who find the existing model difficult to understand. We believe that purchased credit-impaired financial instruments should have the initial discount to fair value split between credit-related and other (e.g., interest rate)

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components. Subsequent increases in expected credit losses would be recognized as an increase to the credit allowance. Subsequent decreases in expected credit losses should be recognized as a gain in the financial statements and clearly disclosed within the rollforward of the allowance for credit losses as such. Highlighting this amount would increase the transparency of amounts recognized in the financial statements while also avoiding the complexity of the current model.

Question 42: *If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?*

Response: We do not agree with the Proposed ASU's requirement to include financial assets that have been individually assessed for impairment (and have no indicators of impairment) within a separate pool-level analysis of credit risk. We believe that this would result in the recognition of credit impairment on newly originated financial assets solely because they are pooled with similar assets. We believe that recognition of credit losses immediately upon origination is illogical. We support the concept of assessing credit risk on financial assets and determining expected life-of-loan losses as of each reporting date with recognition of those losses over the expected lives of the assets. This evaluation should occur either on an individual asset basis for individually significant assets or on a pooled basis for individually insignificant, yet similar, asset types. We question the validity of determining estimated life-of-loan losses using a pooled approach when the asset is assessed individually for credit losses. All information related to the credit status of the asset, along with related current and expected economic trends should be utilized in estimating the life-of-loan credit losses for the asset when it is reviewed individually for credit impairment.

Questions for Users

Question 43: *The credit impairment model in this proposed Update would remove the probable threshold. Thus, an entity would no longer wait until a credit loss is probable to recognize a credit impairment. An entity would be required to recognize a credit impairment immediately in net income when an entity does not expect to collect all of the contractual cash flows (or, for purchased financial assets, the amount originally expected). This will result in credit impairments being recognized earlier than they are under existing U.S. GAAP. Do you believe that removing the probable threshold so that credit impairments are recognized earlier provides more decision-useful information?*

Response: We agree that a new approach to credit impairment recognition is warranted. We believe that a more rapid recognition of credit losses is appropriate in circumstances when an entity does not expect to collect all of the contractual cash flows on a loan or debt security. In this situation, we believe that the credit impairment proposal of the Expert Advisory Panel has substantial merit. The proposed model would classify loans for which all contractual cash flows are no longer expected to be collected into a "Bad" loan portfolio for which all expected life-of-

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loan credit losses would be recognized. A “Good” loan portfolio would have periodic recognition of credit losses over the expected lives of the associated loans.

Question 44: *The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectability of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on impairment proposes an expected loss approach and would require an entity to estimate credit losses on the basis of probability-weighted possible outcomes.*

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would provide more decision-useful information?

Response: We do not support limiting the estimation of credit losses to current and historical factors only. Such a limitation prevents the credit loss estimate from equaling management’s actual expectations regarding the ultimate collectability of financial assets. We believe that inclusion of expectations for the impact of future events on the estimated collectability of financial assets is more appropriate.

Question 45: *The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Do you agree with that approach?*

Response: Consistent with our response to Question 44, we believe that credit loss rates on pools of financial assets should be determined through consideration of the impact of future events on the collectability of the financial assets. Historical loss rates developed over a full rotation of the credit cycle may be useful inputs in determining the potential and anticipated effects of future events on existing financial assets.

Questions for Preparers and Auditors

Question 46: *The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectability of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on*

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Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

Response: We do not support limiting the estimation of credit losses to current and historical factors only. Such a limitation prevents the credit loss estimate from equaling management's actual expectations regarding the ultimate collectability of financial assets. We believe that inclusion of expectations for the impact of future events on the estimated collectability of financial assets is more appropriate. We believe that models already exist for the consideration of future events in the assessment of credit risk on loan portfolios. Such models have been developed as part of management's strategic forecasting processes. However, we believe that the IASB's requirement to utilize probability-weighted possible outcomes is too broad and prescriptive in indicating the appropriate methodology for estimation of future credit losses. Such a requirement would result in a very complex and costly process to apply due to the quantity of information that would have to be considered.

Question 47: *The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?*

Response: Consistent with our response to Question 46, we believe that credit loss rates on pools of financial assets should be determined through consideration of the impact of future events on the collectability of the financial assets. Historical loss rates developed over a full rotation of the credit cycle may be useful inputs in determining the potential and anticipated effects of future events on existing financial assets.

Interest Income

Questions for All Respondents

Question 48: *The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?*

Response: We believe that interest income should not be affected by the recognition of credit impairments. Interest income for financial assets should be based on the effective interest rate applied to the amortized cost balance. Asset yields are a critical component of assessing the

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profitability of an institution's earning assets. Inclusion of the allowance for credit losses within the base amount on which to applying the effective interest rate would decrease rather than improve the transparency of financial asset performance. Regardless of impairment model selected (either FASB or IASB), the inclusion of the allowance from credit losses within the amount on which to apply the effective interest rate would introduce a level of judgment and estimation within the recognition of interest income, which today is based on the contractual interest rate (adjusted for premiums, discounts and net origination costs/fees). Further, we believe that interest income recognition is well understood by financial statement users and the interest income recognition model within the Proposed ASU would only serve to confuse them in their assessments of entity performance.

We also note that adoption of the Proposed ASU's interest income recognition model would require integration of credit loss data within loan servicing systems. This would require extensive effort on the part of service providers to develop software that is capable of handling the additional requirements of the Proposed ASU (e.g., individual loan credit risk allowance, spreading of pooled loans credit risk allowance, quarterly credit updates, etc.).

These difficulties are highlighted for financial assets for which credit loss estimates are developed at a pool level. Since servicing systems calculate interest income at an individual asset level, under the Proposed ASU's model the credit allowance developed at a pool level must then be allocated to every asset in the pool so that the interest rate on the individual assets is applied to the amortized cost of the individual asset(s) reduced by the credit loss allowance. The method of allocation will, due to differences in outstanding principal and interest rates on individual assets, affect the yield on the pool as a whole. Allocation methodologies could reasonably vary dependent upon which factor management considers most relevant in determining credit risk for a pool (e.g., balance, age, and credit score).

Question 49: *Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?*

Response: Consistent with our response in Question 48, we believe that interest recognition should not be coupled with credit loss recognition. Inclusion of interest for which collection is not expected within the allowance for credit losses would introduce an allowance component that is unrelated to the amortized cost of the associated financial asset. We also find the Proposed ASU's requirement to present a reversal of credit loss allowance associated with interest through credit impairment rather than interest income to indicate a flaw in the Proposed ASU's interest income recognition model as it would force a reclassification of interest income to provision expense, thereby adversely affecting the relevance of both amounts to financial statement users.

Question 50: *The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be*

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recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

Response: Yes, the model for interest income recognition for financial assets should be the same for all financial assets. We believe that the current model for interest income recognition as based on the contractual interest rate (adjusted for premiums, discounts and origination costs/fees) is the most appropriate methodology.

Question 51: *Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?*

Response: Given our views that the current interest income recognition model is appropriate, we do not believe that additional guidance would be necessary if it is retained. If the Board continues with the interest income recognition model included in the Proposed ASU we believe that additional examples would be appropriate including: 1) revolving loan structures, 2) assets pooled for credit impairment assessment, and 3) application to debt securities.

Questions for Users

Question 52: *Do you believe that the method for recognizing interest income on financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?*

Response: We believe that reduction of the amortized cost of an asset for the related allowance for credit losses will adversely affect the ability to evaluate the profitability of financial assets held by a borrower. We would prefer that interest income and credit losses be decoupled and recognized independently in the statement of (comprehensive) income as this represents a more transparent presentation of these components of earnings.

Question 53: *The method of recognizing interest income will result in the allowance for credit impairments presented in the statement of financial position not equaling cumulative credit impairments recognized in net income because a portion of the allowance will reflect the excess of the amount of interest contractually due over interest income recognized. Do you believe that this is understandable and will provide decision-useful information? If yes, how will the information provided be used? If not, why?*

Response: We believe that the allowance for credit losses should reflect the estimated uncollectible portion of the amortized cost of a financial asset. Inclusion of interest that has been billed but is not expected to be collected within the allowance for credit losses will distort the balance of the allowance account and make it more difficult to discern management's expectations regarding credit losses. This occurs because the Proposed ASU's requirements would result in a portion of the allowance for credit losses being unrelated to the amount of estimated uncollectible amortized cost.

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Question 54: *The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Thus, the recognition of a credit loss would result in a decrease in interest income recognized. Similarly, a reversal of a previously recognized credit loss would increase the amount of interest income recognized. The IASB Exposure Draft on Impairment proposes that an entity calculate interest by multiplying the effective rate established at initial recognition by the amortized cost basis. The IASB's definition of amortized cost basis is the present value of expected future cash flows discounted by the effective interest rate established at initial recognition and, therefore, includes credit losses recognized to date. Thus, as initially expected credit losses are allocated over the life of the instrument, the amount of interest income decreases.*

Both the FASB's and the IASB's models for interest income recognition are similar in that the recognition of an impairment reduces the amount of interest income recognized. However, as noted in the questions above, the timing of credit impairments and the determination of the effective interest rate differ in the two proposed models. Thus, the amount of interest income recognized under the two proposed models will differ. Do you believe that the FASB's model or the IASB's model provides more decision-useful information? Why?

Response: We do not consider either the FASB's or the IASB's model to be appropriate for the recognition of interest income for financial assets. See our response to Question 52.

Question 55: *Do you agree that an entity should cease accruing interest on a financial asset measured at fair value with qualifying changes in fair value recognized in other comprehensive income if the entity's expectations about cash flows expected to be collected indicate that the overall yield on the financial asset will be negative? If not, why?*

Response: We believe that an entity should cease accruing interest at the time that collection of future interest is no longer expected rather than "nonaccrual status" representing a mathematical result of the inclusion of credit loss estimates within the process for recognition of interest income. We believe that existing regulatory standards provide sufficient, well-understood, guidance related to the determination of non-accrual status for loans made by a financial institution.

Hedge Accounting

Questions for All Respondents

Question 56: *Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?*

Response: We support the FASB's efforts to reduce complexity in the application of hedge accounting via a reduction in the effectiveness threshold from "highly effective" to "reasonably effective". We do not believe that additional guidance associated with the determination of "reasonably effective" is necessary given that practice will evolve in this area similar to the accounting practices and interpretations that were created in response to the creation of the "highly effective" threshold.

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We do not support the elimination of the “shortcut” and “critical terms match” methodologies for the assessment of hedging effectiveness. With the detailed reviews of hedging activities conducted by regulatory bodies several years ago, and the related resulting guidance, we believe that application of the “shortcut” and “critical terms match” methodologies is now limited to only those relationships that qualify with the FASB’s original intent in permitting the assumption of no ineffectiveness for a narrow set of hedging relationships. Thus, we believe that the accounting guidance in this area is well-developed and should be utilized within the proposed improvements to hedge accounting.

Question 57: *Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?*

Response: We support elimination of the requirement to perform quantitative hedging effectiveness assessments at inception and subsequently for hedging relationships. We believe that a qualitative assessment performed upon initiation of a hedging relationship is often sufficient to document that the hedging relationship will continue to be effective for the life of the hedged item and/or the hedging instrument. We believe that a re-assessment of hedging effectiveness should only be required in circumstances where the changes in the economic relationship of the hedging instrument and the hedged item create a doubt about the hedging relationship continuing to be “reasonably effective”.

Question 58: *Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?*

Response: We believe that a reduction of the effectiveness assessment threshold from “highly effective” to “reasonably effective” is the primary reason that fewer hedging relationships would be discontinued under the Proposed ASU’s hedging requirements in comparison to existing requirements.

Questions for Users

Question 59: *Do you believe that a hedge accounting model that recognizes in net income changes in the fair value and changes in the cash flows of the risk being hedged along with changes in fair value of the hedging instrument provides decision-useful information? If yes, how would that information be used? If not, why?*

Response: We believe that aligning the recognition and measurement of the hedged item and the hedging instrument provides decision-useful information. We note that this alignment would be transparent for hedging activities through existing derivative disclosure requirements.

Question 60: *Do you believe that the proposed changes to the hedge accounting model will provide more transparent and consistent information about hedging activities? If yes, why and*

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how would you use the information provided? If not, what changes do you disagree with and why?

Response: We believe that simplification of hedge accounting requirements will lead to a better alignment of reported results with management's risk management strategies. For this reason, we believe that the proposed changes to the hedge accounting model will provide more transparent and consistent information about an entity's hedging activities.

Questions for Preparers and Auditors

Question 61: *Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?*

Response: We have no comment as this topic is not applicable to FHN.

Question 62: *Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?*

Response: We do not foresee any significant operational concerns or constraints in determining when a fair value hedging relationship may no longer be reasonably effective in the absence of a requirement to perform an assessment of hedge effectiveness at each reporting period. For fair value hedging relationships, hedge effectiveness would be assessed by default as both the hedging instrument and the hedged item would be marked to fair value for fair value changes associated with the hedged risk. Note our prior response to Question 56 in which we express our support for continuation of the "shortcut" and "critical terms match" hedging methodologies given the level of interpretation that has now limited the application of these methodologies to hedge relationships that conform to the FASB's original intent in developing these methods. As we do not have cash flow or foreign currency hedges we make no comment regarding these hedging relationships.

Question 63: *Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?*

Response: We disagree with the proposed prohibition on the de-designation of hedging relationships once established. We believe that requiring settlement of the hedging instrument or entry into an offsetting instrument will increase cost and complexity without improving the value of financial reporting. Entry into a new, offsetting instrument will almost certainly require the acquisition of an "off market" derivative which, by nature, increases both the cost of hedging and complexity in accounting.

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Question 64: *Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?*

Response: As indicated in our response to Question 63, we believe that prohibition of de-designation of hedging relationships is the primary issue with the Proposed ASU's provisions for termination of hedging relationships. We also believe that the requirement for a new derivative to "fully offset" future changes in fair value of the original derivative will require the use of an "off market" derivative that will increase cost and complexity. Requiring concurrent documentation of de-designation does not pose significant additional burdens in comparison to existing requirements.

Disclosures

Question for All Respondents

Question 65: *Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?*

Response: As previously indicated, we believe that a measurement approach based on management intent (business strategy) is more appropriate for financial instruments than the approach outlined in the Proposed ASU. Thus, we believe that many of the disclosure (and statement of condition presentation) requirements are unnecessary efforts to "bridge the gap" between a fair value measurement model and the more relevant amortized cost measurement attribute (i.e., the proposed core deposit liability disclosures). We believe that this model should be supplemented by a fair value election for financial instruments for which recognition at amortized cost would create a mismatch in the financial statements. Financial instruments held for sale or trading purposes are addressed in current disclosure requirements as are financial instruments recognized at elected fair value. For financial instruments measured at amortized cost, we believe that disclosure of the associated interest recognition methodology is appropriate.

Regarding other specific disclosure requirements within the Proposed ASU, we believe that the proposed disclosures related to the allowance for credit losses are unnecessary given the extensive new disclosure requirements recently adopted by the Board, which will be implemented in the near future. Further, as indicated in our comment letter on the Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820) – Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, we do not support the proposed quantitative disclosures for financial instruments that qualify as Level 3 measurements. We believe that such information would be costly to prepare and would often provide information of questionable value.

We also believe that the existing derivative disclosure requirements sufficiently address hedging relationships. Thus, we believe that any additional disclosures would be unnecessary for hedging activities. Finally, we believe that the proposed disclosures for equity method investments are also unnecessary. Consistent with our response to Question 4, we believe that the proposed new criterion for application of the equity method to an investee is unnecessary

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and in conflict with consolidation guidance of ASC 810. Thus, we believe this proposed disclosure requirement should be removed from a final standard.

Questions for Users

Question 66: *For purchased financial assets, do you believe that the requirement to disclose the principal balance, the purchaser's assessment of the discount related to credit losses inherent in the financial instrument at acquisition, any additional difference between the amortized cost and the principal balance, and the amortized cost in each period will provide decision-useful information? If yes, how will the information provided influence your analysis of an entity? If not, why?*

Response: Consistent with our views that credit impairments should be measured on a similar basis, we believe that purchased credit-impaired financial instruments should have the initial discount to fair value split between credit-related and other (e.g., interest rate) components. Subsequent increases in expected credit losses would be recognized as an increase to the credit allowance. Subsequent decreases in expected credit losses should be recognized as a gain in the financial statements and clearly disclosed within the rollforward of the allowance for credit losses as such. Such a presentation requirement would fulfill a requirement for transparency in determination of the allowance for credit losses without creating the significant disclosure burden that would result from implementation of the Proposed ASU's requirements.

Question 67: *Are there any other disclosures that you believe would provide decision-useful information and why?*

Response: We do not believe any additional disclosures would be decision-useful.

Effective Date and Transition

Questions for All Respondents

Question 68: *Do you agree with the transition provision in this proposed Update? If not, why?*

Response: We agree that a cumulative effect transition methodology is appropriate for implementation of changes in accounting for financial instruments. A retroactive application would be extremely burdensome. We also believe that the cumulative effect should be applied to the initial statement of financial position at the time of adoption rather than the statement of financial position at the end of the immediately preceding period. Thus, we believe that the prior period end statement of financial position should not be restated for changes. Rather, the changes should be recognized as adjustments to that statement of financial position as the first accounting entries within the new fiscal period with an appropriate reconciliation of changes by line item included within the footnotes. We note that this transition approach has been utilized for numerous accounting standards in recent years.

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Question 69: *Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?*

Response: We have no comment as this topic is not applicable to FHN.

Questions for Preparers and Auditors

Question 70: *How much time do you believe is needed to implement the proposed guidance?*

Response: We believe that the Proposed ASU's accounting guidance would require, at a minimum, three years for a complete implementation. The development of accounting systems required to address the entirely new linkage of credit impairment considerations with interest income recognition will take extensive time for development, testing and implementation for financial institutions. Further, development of new credit loss metrics, including historical loss data for pools of loans previously not included in pools (i.e., currently reviewed individually for impairment) will take a significant amount of time for development and implementation. Additionally, once system changes are complete, all controls must be documented and tested to satisfy Sarbanes-Oxley and regulatory concerns. Finally, completely new internal and external reporting mechanisms would need to be developed so that the magnitude of change and expectation of the effect on future results can be communicated. For these reasons and many others, the size and volume of tasks required for a financial institution to appropriately implement all of the changes within the Proposed ASU will be enormous.

Question 71: *Do you believe the proposed transition provision is operational? If not, why?*

Response: We believe that the proposed transition provision is operational, given sufficient lead time for the adoption of a final standard. However, as stated in our response to Question 68, we believe that the statement of financial position should be adjusted in the first period of adoption (with appropriate reconciliation in the footnotes) rather than being retroactively revised.