May 10, 2013

Via electronic mail

Ms. Leslie F. Seidman, Chairman Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116

Mr. Hans Hoogervorst, Chairman International Accounting Standards Board 30 Cannon Street, First Floor London, EC4M 6XH United Kingdom

Re: File Reference No. 2012-260, Financial Instruments – Credit Losses (Subtopic 825-15)

Exposure Draft ED/2-013/3, Financial Instruments: Expected Credit Losses

Dear Ms. Seidman and Mr. Hoogervorst:

In an increasingly global financial marketplace, market participants, users and prudential regulators all recognize the need for a common set of high quality accounting standards related to credit impairment. While we acknowledge the difficulty inherent in reconciling disparate points of view, we strongly encourage the Boards to achieve convergence on what we believe is the most important MOU project. Although we continue to support an event-driven accounting framework for recognizing credit losses consistent with the proposal previously provided by members of the US banking industry¹, we acknowledge the need for a balanced approach that will broadly appeal to numerous constituents. While a converged standard may not necessarily lead to fully comparable results in practice, the differences between the models proposed by the Boards are far too great and will generate vastly different results. Ultimately, we believe compromise will be necessary by both Boards in order to achieve a converged credit impairment standard. We strongly encourage the Boards to renew their cooperation on this critically important matter.

There are several differences between the proposed models and we have several concerns with each of the proposed models. However, we believe a single fundamental change will help facilitate a compromise between the two Boards while simultaneously addressing many of the core concerns with the proposed models. Rather than measuring expected losses over the next 12 months or over the remaining contractual life, we recommend that the Boards amend the expected loss measurement period to the

¹ In April of 2011, Several members of the US banking industry proposed an alternative credit impairment model in response to the Supplementary Document: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: Impairment

greater of 12 months or the period that is reliably estimable and predictable. Such a compromise will have the following benefits:

- The conceptual basis for the recognition of credit losses would be maintained as credit quality would be more fully considered in the determination of the estimate of credit losses. Credit quality can be evaluated with commonly used credit quality indicators and portfolio and product characteristics, combined with appropriate loss estimation periods that contemplate expectations regarding current and future economic conditions. As a result, performing assets would not require immediate recognition of a less reliable estimate of expected lifetime credit loss content.
- The period that is reliably estimable and predictable would capture a substantial portion of expected credit losses for performing assets and all of the expected credit losses for non-performing assets as loss content tends to materialize earlier rather than later in the life of a financial asset. Moreover, during stressed economic environments, allowance levels would not be adversely impacted as expected credit losses should emerge more quickly and would already be reflected in the allowance, supplemented by oversight provided by internal risk management and prudential regulators.
- The reliability of expected credit loss estimates would be improved, particularly for long tenor and evergreen assets. Credit risk managers would be better able to validate and back test estimates to their satisfaction and to the satisfaction of banking regulators and auditors. Loss forecasting models must satisfy rigorous internal and regulatory modeling standards, including demonstrated accuracy in backtesting to historical results. Accordingly, reliable and predictable credit loss estimates would be measured in a well-controlled environment with a reasonable level of confidence.
- Existing loss estimation techniques could be leveraged. Many existing loss estimation methodologies are not suitable for long-term loss estimates and would not satisfy prudent model risk and validation requirements. Limiting the loss estimation period to the period of time which is reliably estimable and predictable would retain the ability of financial institutions to utilize many existing methodologies and retain the ability to capture all or a substantial portion of the expected loss content. Moreover, this would allow smaller, or less sophisticated, institutions to develop and implement loss estimation techniques that meet the standard.
- The measurement of losses over the remaining contractual life may adversely impact lending and directly inhibit long-term investment, which is an explicit factor that will be critically evaluated by the Financial Stability Board in their assessment of the implications of accounting standard setting. We believe this compromise will resolve this potential unintended consequence.
- The reliably estimable period will allay concerns that limiting measurement of expected credit losses to just 12 months would perpetuate the "too-little-too-late" concerns associated with the incurred loss model.
- An explicit transfer principle, as proposed by the IASB, would not be necessary as the period that is reliably estimable and predictable would, as noted above, consider the credit quality of financial assets at the reporting date, along with reasonable and supportable assumptions regarding current and forecasted events and conditions.

The ability to scrutinize the judgments of management through transparent disclosure of the assumptions used to measure expected losses, including the period that is reliably estimable and predictable, by asset class, will allay concerns related to earnings management and ultimately promote and improve comparability and consistency among preparers.

All parties agree that convergence on credit impairment is critically important. Accordingly, we encourage the Boards to renew their cooperation and consider incorporating our recommendation into their respective proposals. We acknowledge that no accounting model will completely resolve procyclical reserving concerns and loss estimates and estimation periods may vary, by product and across organizations. However, we believe that consistent practice will develop quickly through robust disclosure, coupled with the existence of proper risk governance and regulatory oversight. We believe our recommendation has a solid foundation in existing credit risk management practices in our industry, will more reliably reflect credit losses expected in the portfolio, better align recognition of credit losses to those periods where credit losses are expected in the portfolio, and provide more decision useful information about expected credit losses for investors and other users.

Sincerely,

Ally Financial Inc. RBS Citizens Financial Group, Inc.

Bank of America Corporation Regions Financial Corporation

Capital One Financial Corporation State Street Corporation

Citigroup Inc. SunTrust Banks, Inc.

Comerica Incorporated The PNC Financial Services Group, Inc.

JPMorgan Chase & Co. Wells Fargo & Company

KeyCorp Zions Bancorporation

Morgan Stanley

cc: Paul Beswick – Securities and Exchange Commission
Kathy Murphy – Office of the Comptroller of the Currency
Stephen Merriett – Federal Reserve Board
Robert Storch – Federal Deposit Insurance Corporation
Donna Fisher – American Bankers Association
David Wagner – The Clearing House