



Comerica Incorporated

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Muneera S. Carr
Executive Vice President and
Chief Accounting Officer

November 28, 2016

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Attention: Ms. Susan Cospers, Technical Director

Re: File Reference No. 2016-310: Exposure Draft of Proposed Accounting Standards Update – *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities*

Ms. Susan Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116
RE: File Reference No. 2016-310

Dear Ms. Cospers:

Comerica Incorporated, (“Comerica” or “we”) appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities* (the “Exposure Draft”). Comerica is a financial services company headquartered in Dallas, Texas. As of September 30, 2016, we are among the 50 largest U.S banking companies, with total assets of approximately \$74 billion, total deposits of approximately \$59 billion, total loans of approximately \$49 billion, and total shareholders’ equity of approximately \$8 billion. As of the same date, Comerica reported \$427 million and \$274 million of net derivative assets and liabilities, respectively. Of this amount approximately \$172 million of derivative assets were entered into for risk management purposes.

Comerica appreciates the Financial Accounting Standard Board’s (the “Board”) efforts to continuously improve accounting standards and generally supports the Exposure Draft’s proposed modifications to the conditions listed in Accounting Standard Codification 815: *Derivatives and Hedging*. We believe the Exposure Draft achieves the Board’s stated objectives to better align financial reporting of hedging

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relationships with the economics of risk management and reduces the overall complexity in the current hedge accounting model.

Comerica employs a variety of financial instruments for risk management purposes, including derivative instruments. Approximately 90 percent of Comerica's loans were floating at September 30, 2016. This creates sensitivity to interest rate movements due to the imbalance between the floating-rate loan portfolio and the fixed-rate debt instruments used to fund these loans. Activity related to derivatives is centered predominantly in the interest rate markets and mainly involves plain vanilla interest rate swaps that convert fixed-rate long-term debt to variable rates. Comerica also uses spot and forward foreign exchange contracts in addition to foreign currency swap agreements to manage foreign exchange rate risk from changes in the value of certain assets and liabilities denominated in foreign currencies. Comerica has been incurring significant costs, including costs associated with using a third-party service provider, to establish and maintain these simple and economically effective hedging relationships. These costs have resulted mainly from the extensive use of the long-haul method of hedge accounting because of the heightened risk of restatement and the overall burden of complying with documentation and assessment requirements including ongoing effectiveness monitoring under the current standard.

As a result of our experience, as outlined above, we are supportive of the administrative relief provided by the proposed amendments. Specifically, the amendments in the Exposure Draft which provide what we believe is a reasonable amount of time to complete documentation and initial quantitative assessments. In our experience, many if not all of our hedging relationships have been and continue to be highly effective. Accordingly, the amendments in the Exposure Draft that require that effectiveness assessments be updated only when facts and circumstances change and the option to perform qualitative assessments are welcome changes that will eliminate time-consuming analyses that historically have not had any impact on our hedging conclusions.

We view the amendments pertaining to risk component hedging as an improvement. Today, Comerica experiences volatility in our earnings as a result of the accounting model as opposed to underlying transaction itself. The ineffectiveness recorded each period is primarily the result of the requirement to use the entire contractual cash flow, which includes the credit spread in the fixed rate of our debt. We believe that the accounting results presented under the current hedging model does not faithfully represent an economically effective hedge. Therefore, the targeted improvement of permitting companies to use cash flows associated with the benchmark rate will allow for a better alignment between financial reporting and a company's risk management objectives.

The current list of rates represents the most commonly used benchmark interest rates. We are not aware of additional interest rates or alternatives to the current concept of benchmark interest rates.

Presentation and Disclosures

Net interest income is a key performance metric for many financial institutions that is highly scrutinized by investors and financial analysts. With the improvements being proposed to the hedge accounting model, we

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believe that the Board has made it possible for accounting to reflect the economic outcome of the hedging activity, particularly as it relates to interest rate risk. For simple hedging activity, the ineffectiveness should be nominal or completely eliminated. We therefore support the Board's conclusion on presentation and believe that true ineffectiveness of hedging strategies should be presented in net interest income and explained to investors. Under the current hedging model, we believe it is appropriate to record ineffectiveness in a different line item (e.g. noninterest income), because ineffectiveness typically is the result of a nuance in applying the accounting rules, rather than a reflection of the true performance of the actual hedging relationship.

Comerica believes the revised tabular disclosure presents the impact of a company's hedging portfolio on the income statement in a format that will be more widely understood. As this is simply a change in presentation of already disclosed information, this amendment should not have a significant impact on current systems and processes. In addition, Comerica agrees that providing cumulative basis adjustments related to fair value hedges will help users of the financial statements to understand the impact of our hedging portfolio. Comerica currently tracks this information separately and therefore expects to be able to disclose the information with minimal impact on current systems and processes. Comerica does not, however, maintain separate quantitative hedge accounting goals because management considers several factors in determining its hedging strategies.

Implementation and Adoption

Comerica also agrees with the Board's decision to propose the modified retrospective transition method. The costs of applying the full retrospective transition method outweigh the benefits, especially because the value of a hedging instrument should ultimately revert to zero during the life of the derivative.

Comerica considers the targeted improvements proposed by the Board as a step forward that aligns business objectives with financial reporting and removes onerous documentation requirements. We also believe that much of the information necessary to implement the proposed changes is readily available. As such, Comerica believes that the effective date should be no longer than one year from the release of the Exposure Draft. At a minimum, we would support the Board's decision to allow early adoption.

We appreciate the fact that one-time transition elections to modify hedge documentation permits existing hedging relationships to take advantage of the simplification of hedge accounting. However, we request the Board to clarify if documentation for each individual hedging relationship should be modified. We believe grouping similar hedging relationships will be a more efficient approach.

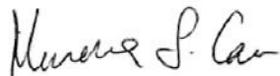
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We thank you for the opportunity to express our support for the project and recommendations regarding this proposal, and we respectfully request that the Board consider the points we have raised. Should you require further information or have any questions, please do not hesitate to contact me (telephone 214-462-6684;

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email address mscarr@comerica.com) or Mauricio Ortiz, Senior Vice President – Assistant Controller
(telephone 214-462-6757; email address maortiz@comerica.com)

Sincerely,

A handwritten signature in black ink, appearing to read "Muneera S. Carr". The signature is written in a cursive, flowing style.

Muneera S. Carr
Executive Vice President and Chief Accounting Officer

cc: David Duprey, Executive Vice President and Chief Financial Officer
Mauricio Ortiz, Senior Vice President and Assistant Controller