



LETTER OF COMMENT NO. 51



May 30, 2008

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Financial Accounting Standards Board  
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File Reference 1550-100: Preliminary Views – Financial Instruments with Characteristics of Equity

Mr Golden:

We appreciate the opportunity to comment on this Preliminary Views Regions Financial Corporation, with approximately \$144 billion in assets, is one of the nation's largest full-service providers of consumer and commercial banking, trust, securities brokerage, mortgage and insurance product services. Regions serves customers in 16 states across the South, Midwest and Texas, and through its subsidiary, Regions Bank, operates 1,900 banking offices and a 2,400-ATM network. Our investment and securities brokerage, trust and assets management division, Morgan Keegan & Company, Inc., provides services from over 450 offices.

#### General Comments

Regions supports the Board in its efforts to simplify the accounting requirements for issuers and their auditors. The engineering of financial instruments to suit the demands of both market participants and issuers has outpaced the current accounting conventions applied to these instruments. In some cases, instruments might have characteristics predominantly associated with debt but are being classified as equity under the existing framework. Clearly, these abuses should be corrected. However, we believe that simplification in the application of the accounting requirements for preparers and users shifts the burden of complexity to interpretation of financial statements by users. Moreover, for the financial instruments in question, we believe that the complexity generally lies in the instruments themselves. Accordingly, complexity cannot be eliminated from the equation. By shifting the interpretation of complexity to the user, financial statements will be less comprehensible to the average investor.

We view the proposed basic ownership approach as countering the Board's goal of providing more decision-useful information to investors by blurring what truly is an obligation of the issuer. While Regions agrees that the basic ownership approach appears to be the simplest of the approaches presented and would provide minimal structuring opportunities, we feel that this approach would result in dissemination of less relevant information to users of financial statements. Furthermore, we believe that defaulting to a definition for liabilities under the basic ownership approach would create difficulties in defining a concept for liabilities and blur the impact of obligations on a company's financial statements. In order to provide the most decision-useful information regarding liquidity, obligations and ownership, we believe that classifications should be based on both the economic characteristics and the ultimate settlement (regardless of the issuer's intent) from the perspective of the issuer, not the holder. These concepts are similar to the underlying principle of the ownership-settlement approach, which is the approach we support.

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Additionally, please find more detailed comments regarding the three alternative approaches presented in the Preliminary Views.

## Comments on the Basic Ownership Approach

As noted in paragraph 17 of the Preliminary Views document, certain perpetual instruments would be classified as liabilities. Regions believes that the Board has drawn an arbitrary line and applied a definitional characteristic to instruments that economically behave in the same manner as basic ownership instruments, so long as the issuer is a going concern. We believe that it would be more decision-useful to focus on an instrument's form of settlement in determining its classification.

As noted in paragraph 18 of the Preliminary Views document, the subordination characteristic of the basic ownership approach must be legally determined. Regions believes that this requirement will not only increase the legal influence in the accounting process but also add unnecessary complexity and costs with little perceived benefit in providing decision-useful information. We question whether this is an appropriate and necessary requirement, especially considering the condition of current financial markets.

In paragraph 28 of the Preliminary Views document, reference is made regarding the need to consider whether share-based-payment awards should be within the scope of any new standard. We recommend that any new such standard not include share-based-payment awards within its scope. The marketplace made a substantial investment in the accounting model required by Statement 123(R), as most public companies issue share-based-payment awards. This change required a tremendous amount of cost and effort by preparers, management, auditors, regulators, and other users. We believe that the current model for share-based-compensation is generally understood by all constituents. Wholesale changes would lead to additional confusion without substantive improvement in financial reporting.

The Board states in paragraph 59 of the Preliminary Views document, certain tentative conclusions regarding written call options, particularly differences in options which cash settle versus settling in shares. The Board concludes that the economics of both transactions are substantially the same and should be accounted for in a consistent manner. While this is true for the recipient of the written call options, we disagree that the transactions are identical for the issuer. Specifically, an option requiring cash settlement creates an obligation for the issuer to pay cash upon attainment of certain conditions. Share-settled awards do not create such an obligation; rather, they require issuance of additional shares of ownership of the Company. As a result, the issuer would be required to show a liability on its balance sheet where no obligation to the issuer exists.

If the Board chooses to adopt an approach such as the proposed basic ownership approach we request that adequate consideration is given to the significant changes a framework such as this would entail. Because the basic ownership approach is inconsistent with current accounting guidance, adopting this approach would also develop considerable inconsistencies with the current conceptual framework project.

Regions believes that the Board should adequately consider the impact of changes in framework specific to the banking industry, particularly the impact on the analysis of regulatory capital. For example, preferred stock issuances currently qualify as Tier 1 capital under federal banking regulations. If the basic ownership approach is adopted, these instruments would be reported as liabilities for GAAP purposes, creating a potential difference in GAAP versus regulatory reporting. Historically, other changes in GAAP have led to similar differences. For instance, the application of FIN 46 triggered de-consolidation of structures designed for



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issuances of trust preferred securities. The result was a situation where the instruments qualify as capital for regulatory purposes, but are reflected as liabilities for GAAP reporting. We believe that these types of differences lead to confusion among users of the financial statements and do not promote transparent financial reporting.

Additionally, the changes proposed through the basic ownership approach in distinguishing between liability instruments and equity instruments will significantly affect leverage ratios and other financial metrics. These changes will have significant implications, especially for debt covenants and performance measurements, though economically nothing has changed. If after substantial consideration the Board decides to move forward with an approach such as this, Regions requests that sufficient time is allowed for preparers and users to assimilate the impact to financial metrics and standards.

As stated above, Regions agrees that the basic ownership approach is simpler and easier to apply than the other two approaches that the Board considered in detail. However, we believe that this approach lacks the ability to provide the most decision-useful information. We encourage the Board to consider in a broader scope the balance of decision-useful information and complexity between the preparers and the users.

### Comments on the Ownership/Settlement Approach and REO Approach

Regions does not support the adoption of the ownership-settlement approach as currently drafted. Regions believes that a modified ownership settlement approach is preferable and we encourage the Board to consider alternatives and/or modifications to the approaches as proposed. The underlying principles of the ownership-settlement approach provide the most transparency into the true financial condition of the issuer. We suggest the Board modify the ownership-settlement approach to classify as a liability any contract or instrument that may be settled in cash, regardless of the issuer's intent or the probability of the form of settlement.

Regions does not support the reassessed expected outcomes (REO) approach. We believe the significant complexity in the application and interpretation would outweigh any perceived benefits.

Again, we appreciate the opportunity to comment on this preliminary views and we thank you for considering our views. If you have any questions about our comments or wish to discuss this matter further, please contact me at (205) 326-4972.

Sincerely,

/s/Brad Kimbrough

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