



LETTER OF COMMENT NO. 98

August 15, 2008

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Financial Accounting Standards Board  
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File Reference 1590-100: Exposure Draft – Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133*

Mr. Golden:

We appreciate the opportunity to comment on this Exposure Draft. Regions Financial Corporation (“Regions”), 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 400 offices.

Overall, Regions supports the Board in its efforts to simplify accounting for hedging activities and address practice issues related to hedge accounting that have arisen under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“FAS 133”). It is our belief that the revised approach provided in this Exposure Draft will not be an effective step towards meeting these objectives. Though the proposed revisions appear to address and/or simplify a number of issues that have developed over the past decade, we believe the practice issues that will result from the implementation of this proposed guidance will significantly reduce the intended benefits of this Statement, particularly the usefulness of reported financial information. While we understand the Board’s motivation for quickly addressing the complexity of FAS 133, we question the reasonableness of implementing additional guidance that is not representative of International Financial Reporting Standards (IFRS). Given the implied mandate of adopting IFRS and the explicit mandate of International convergence, we believe it is illogical to implement the Statement proposed in this Exposure Draft. In the past seven to ten years the FASB has released numerous accounting standards and amendments addressing this topic. While this guidance is criticized for being complex and long, the standards have been implemented at significant costs and are currently understood as the business practice. If the current time-line continues, U.S. companies would be required to implement IAS 39 and a potentially revised version of IAS in the years following the implementation of this standard. We do not believe it makes sense to implement three standards

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in a short period of time on the same topic and ask you to consider the significant costs of this interim change which would heavily outweigh any perceived benefits.

If the Board decides to move forward with the Statement proposed in this Exposure Draft, we request that some of the underlying principles included in this guidance be reconsidered and/or further explained.

### Hedged Risk

Regions requests the Board take time to consider all aspects of accounting for derivatives, including hedge accounting. We perceive that the original purpose of hedge accounting was to align accounting for the hedged item with an entity's risk management strategy. For example, at most banks management typically desires to modify cash flows for both assets and liabilities to arrive at a desired interest rate sensitivity. The Board's view, as noted in paragraph A19, would force entities to maintain the hedging relationship. This requirement would restrict prudent risk management and would not be in coordination with the entity's desire to manage its risk. The original accounting model reflected the entity's motivation for entering into such transactions by impacting both the balance sheet and income statement categories of the hedge item. Our opinion is that this presentation is fundamental to a user's ability to evaluate the impact of future rate movements in the market place, assess the impact on future cash flows, and gauge management's ability to manage the business.

As noted in paragraph A57 of this Exposure Draft, most hedge strategies today do not hedge credit risk due to legitimate concerns about self-dealing and insider information. Regions does not believe that reflecting credit risk in the valuation of the hedged item can accurately depict management's motivation for entering into the transaction. We are of the opinion that presenting the value fluctuations due to credit changes in earnings will increase costs to entities entering into prudent risk management strategies and will not provide meaningful or relevant information to financial users. The fair value approach to hedge accounting described in the proposed Statement leads us to believe that the Board is more concerned with promoting fair value accounting for hedged items than providing a framework to improve the accuracy and usefulness of accounting for legitimately hedged economic risks (e.g., interest rate risk for a portfolio loans). Although the proposed standard may be simpler in concept than FAS 133, we believe that limiting "hedge accounting" to changes in the total fair value of a hedged item oversimplifies hedge accounting and actually misrepresents the specific risks being hedged. Therefore, we suggest that the FASB retain "bifurcation-by-risk" hedge accounting.

A related concern is the Exposure Draft's lack of discussion as to how this proposed Statement will affect Derivative Implementation Group guidance that is currently the business practice. One such example is the ability to continue using the first-payments-received technique for identifying the hedged forecasted transactions. If the Board wishes to discontinue the use of this technique we question how it intends for entities to assess the variability in interest cash flows associated with default over the hedge term. We also are perplexed as to what would be necessary in order to practically determine the probability of cash flows over a long time horizon (e.g., two years).



As this guidance is an integral part of many institutions' risk management strategy we implore the Board to provide clarifying language accordingly.

#### The Hedging Framework

On the surface, the Board appears to be offering what could be described as a temporary fair value option. The option is elected as long as the hedging instrument is in place. The effectiveness testing, both at inception and ongoing as circumstances require, significantly complicates the accounting model. Regions believes the guidance in this Exposure Draft should improve how accounting standards reflect economic reality, not drive economic reality. We would propose eliminating effectiveness testing and instead measure the hedged item and hedge as outlined with changes in fair value recognized in other comprehensive income. Although ineffectiveness would still result in income statement volatility, this volatility would be related to market factors not hedged. We believe this result is more palatable than volatility merely due to an accounting change (i.e., failing effectiveness testing).

If effectiveness testing is not removed, Regions believes that modifying the effectiveness threshold necessary for applying hedge accounting from *highly effective* to *reasonably effective* could lead to significant costs (e.g., documentation and support for auditors) due to the inherent judgment that will be necessary to determine whether a hedging relationship is reasonably effective. Though the proposed Statement would require a qualitative effectiveness evaluation at inception of a hedging relationship which would also be required going forward only if circumstances suggest that the hedging relationship may no longer be reasonably effective, we believe ongoing quarterly reassessments will be necessary to ensure that no such circumstances exist. A change in credit or other liquidity components or valuations could lead to more questions on effectiveness and could increase the number of the quantitative tests performed. Furthermore, asserting a reasonable offset over a long-term will be undoubtedly impossible as the effectiveness assessment must include factors that the hedge does not contemplate. This leads us to question how preparers can assert reasonable effectiveness when so many unforeseeable market forces impact valuations. All the more reason we believe that assessments of effectiveness should be eliminated and preparers should be allowed to continue to hedge specific economic risks.

This is particularly evident in cash flow hedges of a pool of variable rate loans. As stated previously, we believe it to be impossible to reliably estimate that offset over a long term period (as evidenced by the current credit cycle). For example, if we constructed a hypothetical derivative that could project such cash flows, the change in the hypothetical derivative when compared to the change in the actual derivative would result in ineffectiveness. If credit risk is incorporated into the hedge valuation as well as the related valuation allowance, it would appear as though credit risk is double counted. This also leads us to question what impact the incorporation of credit risk in the hedge valuation would have on the related allowance for loan losses.

Regarding the Board's decision to eliminate discontinuing hedge accounting by de-designating the hedging relationship, we noted that the changes necessary to achieve the same financial



results that are currently being obtained under FAS 133 depend solely on the manner in which the hedging relationship is documented. Although the documentation requirements have been changed it appears that the underlying hedging result is the same. Regions believes that eliminating the ability to de-designate while retaining the ability to achieve the same financial results increases transaction costs and provides no meaningful improvement in the usefulness of reported financial information.

Regions also believes that the elimination of the shortcut method and critical terms matching prior to releasing a principles based approach to hedged risk will lead to significant compliance costs and operational implementation issues when accounting for the hedging relationship without providing a corresponding improvement in the usefulness of financial information. We feel these costs are embedded in the complicated nature of independently determining the changes in fair value of the hedged item for fair value hedges and the present value of the cumulative change in expected future cash flows on the hedged transaction for cash flow hedges. This will especially be true for entities that have not invested capital in systems that can adequately capture changes in fair value. Entities will be forced to deal with complexities not yet confronted, leading to increased cost and risk of noncompliance. Additionally, changes in the fair value of an entity's own credit worthiness will be mainly a subjective calculation, as the credit default swap markets are either not available or in some cases unreliable for such information.

As stated above, Regions agrees that the revised accounting approach for hedging activities provided in this Exposure Draft is less complex. However, we believe that the timing of the overall project for hedge accounting should be delayed considering the timing of International convergence.

Again, we appreciate the opportunity to comment on this Exposure Draft 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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