

September 30, 2010

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference 1810-100: Exposure Draft - Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

We appreciate the opportunity to comment on the Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (ED). Regions Financial Corporation ("Regions" or "the Company"), with approximately \$135 billion in assets, is one of the United States' 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 approximately 1,800 banking offices and a 2,200-ATM network. We provide brokerage services and investment banking through over 300 offices of Morgan Keegan & Company, Inc.

Regions would like to provide several comments for your consideration, the most significant of which are that:

- The ED is counter to the presentation proposal issued by the International Accounting Standards Board (IASB) despite recent confirmation of the importance of the convergence efforts by the Board and IASB, as well as the G-20 and the Basel Committee on Banking Supervision.
- Financial instrument accounting should align with the overall business intent and with management's objectives. For example, loans to be held for the collection of principal and interest should be accounted for at amortized cost, not at fair value.
- Fair value is relevant only when reliable, and we believe fair value is only reliable in transparent and liquid markets.
- Fair valuing financial instruments, specifically loan instruments, would increase costs to transact because entities would have to include expected volatility in fair value and costs to de-risk into the price.
- An impairment loss model should include the ability to reasonably incorporate future expectations that are expected to impact future cash flows.
- Interest and credit measures are distinctly managed and should continue to be recognized and presented separately.

• We estimate costs to implement this ED in terms of millions, decreasing shareholder value and outweighing the perceived benefits to the investor community. Additionally, our informal discussions with banking analysts and investors indicate they do not agree with the fair value presentation recommended in the ED which is directly counter to the constituent input received by the Board. We urge the Board to seek input from a diverse investor group (concentrating on those who follow financial markets) in addition to the original input received.

General Comments

As a banking institution, Regions supports accounting for financial instruments based on an entity's business model. With the exception of subsidiaries engaged in trading activities, Regions' business model primarily involves holding financial instruments until their maturity. As such, we believe that the amortized cost approach, subject to impairment for collectability, to accounting for such instruments most accurately reflects the value of the applicable instruments to the Company and provides information that is representationally faithful to the users of our financial statements. Additionally, we support the life of loan concept in regards to estimating credit losses as well as simplifying accounting for derivative instruments and hedging activities.

In light of the IASB and FASB convergence project, Regions requests that the Boards work closely together to propose a more unified approach to accounting for financial instruments. This topic is arguably the most significant accounting issue to be dealt with in recent history. The changes to accounting for financial instruments included in the ED from an operational and financial statement impact perspective are of an unprecedented magnitude for the banking industry. It is critical to the success of the convergence effort that the Boards issue a final standard that is substantially similar. We believe that the ED's approach to carry all financial instruments at fair value represents a significant divergence and taints the convergence efforts to date. A unified approach is preferable considering the high costs associated with implementing sweeping accounting change. Overall, we believe this approach should adhere to the underlying principle that accounting should convey management's business model, not drive or change it.

We ask that the Board consider an accounting model for financial assets with the following principles:

- Financial assets are presented net of an "allowance for expected credit losses," where the unrecognized losses are presented as a component of accumulated other comprehensive income.
- The allowance for expected credit losses is determined based on management's expectations of credit losses over the expected life of the financial asset ("expected losses").
- Expected losses should be determined based on available information regarding the financial assets and market data. The estimated future outcome should be based on reasonable expectations and reasoned judgment. Discounting future cash flow projections at the financial asset's effective interest rate or a reasonable proxy for discounting future cash flows may be used to determine expected losses.
- The analysis of expected losses may be performed to a portfolio of financial assets or the individual asset.

- Expected losses should be amortized into earnings over the expected life of the financial asset using a level yield method. The cumulative losses recognized through earnings ('accumulated losses') at any reporting period should be sufficient to cover incurred losses.
- The difference between expected losses and accumulated losses should be recognized as a component of accumulated other comprehensive income.
- · Changes in accumulated losses based on changes in estimates should be recognized as an adjustment to earnings in the period in which the change in estimate is made.
- · Changes in the difference between expected losses and accumulated losses should be recognized as an adjustment to other comprehensive income.

For example, assume that ABC Company loans XYZ Corporation \$1 million, bearing 5% interest that is payable at the end of 2 years. ABC has determined that the expected losses on the loan are \$10,000 over the 2-year period. The loan (\$1 million) would be reflected net of the allowance for expected credit losses (\$10,000) in the asset section of the balance sheet at \$990,000. The \$10,000 of unamortized expected losses on day 1 of the loan would be reflected as an immediate decrease to stockholders' equity as a reduction to other comprehensive income. Assuming no changes in the estimate of the allowance for expected credit losses ABC will recognize \$10,000 in accumulated losses by the end of year 2.

We believe that such an accounting model would match the interest income recognition for most financial assets while providing users of financial statements the entity's view of expected future cash flows. Also, total net assets would be appropriately stated, providing users the information necessary to assess the entity's ability to absorb changes in management's estimate of future losses and changes in current economic conditions. Flaws with this accounting model may be its complexity in terms of the recognition of expected losses. We believe that this pattern of recognition is present in other accounting models and can be supported. Another flaw may be the period over which expected losses are estimated; the longer the time horizon covered by an estimate of the future, the more imprecision is introduced. However, we believe that losses must be estimated over the life of the loan in order to provide users adequate information in assessing an entity. The financial statements should be accompanied by adequate disclosure that provides a user the necessary information to assess management's estimates, the validity of those estimates, and the impact of those estimates.

Fair Value Measurement and Classification

Regions does not agree with the proposed changes to the measurement and classification principles for financial instruments. Accounting for financial instruments using only a fair value methodology is an inappropriate balance sheet measure for instruments whose economic and business purpose does not support a fair value concept. Specifically, the proposed ED is problematic for the following reasons:

Financial instrument accounting should align with the overall business intent and with management's objectives. Accounting for changes in factors such as market volatility, and changes in risk premiums in illiquid markets through equity reduces the reliability of the financial statements by introducing additional level 3 measurements, of which investors are highly skeptical. Further, differences in valuation inputs currently are inconsistent with the banking business model and place the complexities of valuation into the economic and

business decision model. The economic decisioning for financial instruments such as loans held to maturity is determined based on the expected future cash flows of the instrument and the probability of loss; and not based on a fair value exit price concept.

Current disclosure requirements would benefit from further clarity regarding the definition and calculation of fair value to improve comparability, especially among preparers, given the impact of fair value measurements in the proposed guidance. Specifically, we support additional clarification of fair value disclosures, including the measurement and disclosure of the 'exit price' concept, as inconsistent application of this concept seems to be apparent from fair value disclosures that are currently required. The exit price concept has been in effect for two years and is still not reflected/calculated on a comparable basis among banking institutions.

As currently drafted in the ED, the fair value of a financial instrument that qualifies for changes in fair value to be accounted for in other comprehensive income creates unnecessary equity volatility based on fair value assumptions that are not symmetrical with the expected cash flow returns of the instrument. As such, we believe that these provisions create an unreliable measure of shareholder value.

The equity volatility, as discussed above, could prompt or require management to mitigate value fluctuations with economic 'macro' hedges through the use of derivative instruments, the type of which are not currently contemplated or existing today in the market. As institutions are forced to transfer the volatility risks, the associated cost will have to be passed either to the equity holders via decreased performance results and decreased shareholder value, or to consumers, by increasing the cost of credit and/or reducing its availability.

The core deposit liability measurement proposed is not a fair value measurement and should not be included in the scope of this ED. As this proposal does not represent the fair value, we do not believe it provides an economic offset to the changes in fair values of loan portfolios particularly in times of market distress.

Measuring financial liabilities at fair value to include a company's own credit risk does not provide a comparable offset to the credit risk valued in financial assets, therefore, increasing volatility and unreliability of equity measurements that do not align with the business intent of the financial instruments. As currently drafted, it appears that an entity's own debt would provide the largest valuation mark the day before a potential bankruptcy, yet the amount actually owed would not have changed. As a result, incorporating this measure into shareholder's equity reduces its representational faithfulness because the amount would not accrue directly to shareholders. In liquidation, shareholders will not benefit from any discount on debt owned by the entity.

Clarification is needed for cost and equity method investments. We believe that the ED will result in more fair value accounting for illiquid investments whose business purpose does not align with a fair value concept but instead is based on factors such as community reinvestment benefits and the related income tax benefits. For practical reasons reliable fair values of many such privately held entities are not readily determinable. We believe the current accounting methodology (equity method) for such investments should be maintained.

Regions believes that the unfunded loan commitment provisions related to credit card relationships should be excluded from the scope of this ED. These arrangements are often unilaterally cancelable at any time and represent a multitude of relationships, often across

many financial entities that would result in unnecessary 'grossing' of balance sheets across the industry.

The fair value option is currently available for financial instruments for which the business purpose appropriately aligns with fair value accounting. In our communications with analysts and investors, the fair value option provides sufficient information and the ED as drafted creates unwanted and unnecessary complexities in evaluating financial institutions. We believe that this option was adopted by financial institutions for instruments whose value was readily determinable. We adopted the fair value option for our residential mortgage loans held-for-sale as a liquid market exists and a price is readily determinable. Our decision to elect this model of accounting considered our business strategy for these instruments.

Regions believes that most investors are satisfied with the availability of fair value information regarding financial instruments, and as proposed, the additional complexities in measurement and presentation would be of no benefit and would reduce the reliability of the financial statements as a whole. Additionally, we do not think this ED will result in more timely fair value information than currently provided. We think most companies will need a significant amount of time to compile and accurately record these changes as currently proposed. The fair value information we disclose for loans, deposits and debt in our footnotes takes a significant company-wide effort to compile and usually is one of the last disclosures prepared. Therefore, the ED could result in companies extending their earnings release dates further than current timelines. The costs associated with implementation, compliance and ongoing presentation will further reduce shareholder value. Furthermore, as users of financial statements in our credit underwriting processes, we believe that small to mid-sized companies will forego adoption and prefer to submit financial information under alternative methods of accounting based on the associated costs of implementing the ED as proposed.

Impairment and Income Recognition

Regions appreciates the emphasis on impairment for financial instruments given past economic and financial market events. Regions believes impairment recognition is foremost among the key issues facing the financial industry today. Therefore, Regions urges for convergence on this topic with the IASB for financial as well as economic balance. We are in favor of a converged approach to impairment to ensure that the FASB and IFRS methods would be sufficiently similar for comparative purposes. We do believe, however, that the proposed literature specifically relating to impairment and income recognition should address the following issues:

Regions supports an impairment loss model with a longer loss horizon than the inherent loss model currently accepted in practice. An impairment loss model should include the ability to incorporate future events that are reasonably expected to impact future cash flows. Ignoring future events further exacerbates the pro-cyclical nature of the impairment recognition model we follow today. As currently drafted, the inability to reasonably predict economic events results in unreliable impairment recognition; and in peaking or troughing economic times lacks the ability to adjust for a reasonably predictive change in the economic environment. The IASB probability-weighted approach is too complex to implement on a large scale basis.

The current accounting model for purchased financial assets that are impaired and for financial assets acquired in a business combination is conceptually appealing, but overly complex. Users of financial statements appear to spend more time attempting to cram the

information into the current accounting model for originated financial assets. Preparers of financial statements spend inordinate amounts of time using spreadsheets and incomplete models to comply with these overly burdensome accounting rules. For these reasons, we request that the Board rescind these accounting models and simplify the model for all financial assets regardless of their origin with the outcome of this project. We believe that the final accounting model should treat all financial assets the same.

Interest and credit measures are distinctly managed by banks and analysts and should continue to be recognized and presented separately. Current accounting and disclosures relating to interest rate and credit risk measures (i.e. reporting net interest margin based on contractually due interest, net of premium/discount amortization) are sufficiently clear and allow for adequate evaluation of business performance by users of the financial statements. We believe commingling the recognition and presentation of these performance measures in the ED will further dilute peer comparability and obscure the earnings and financial statement effects of these two discrete measures.

Substantial system and process overhauls will be required to merge interest and credit data on an 'on-time' basis and will greatly outweigh the perceived benefit of the blended recognition and presentation model. We strongly urge the Board to revise its position on interest and credit recognition and presentation. Should the Board continue with a commingled interest and credit presentation, an expanded implementation period will be required in order to effectively transition to this presentation.

Derivative and Hedge Accounting

Regions supports efforts in the ED to simplify hedging activities and supports a converged hedging standard with IFRS. Regions believes it is important to consider the following in regards to the proposed changes in derivative and hedge accounting:

Regions firmly supports overall efforts to simplify the current documentation requirements for hedging activities and lower the threshold to qualify for hedge accounting. The amount of complexity in required documentation and the amount of resources necessary to comply with existing guidance creates a significant burden from an accounting perspective and often stifles the business objectives. Simplifying the process would encourage more timely balance sheet risk management.

We urge the Board to provide additional clarity to address the concept of 'reasonably effective' for various strategies and instruments to support consistency in adoption. As currently drafted, the ED leaves too much open to interpretation and therefore could hinder comparability among entities.

The removal of de-designation prevents management's ability to adapt to changing market environments, which would impact shareholder value. The ability to de-designate must be maintained to allow management to make decisions as required by asset/liability strategies that are not static. The proposed language creates additional accounting and transactional burdens by requiring offsetting positions to compensate for a dynamic market, which would negatively impact shareholder value.

As currently written for proposed changes in fair value measurement and presentation, macro-hedging alternatives should be allowed in hedging literature to provide management the opportunity to address volatility in credit risk on an overall basis. Currently, no market

exists to adequately address specific credit risk for most commercial and real estate portfolios, therefore, making macro-hedging opportunities a necessity.

Cash flow hedge indices should be expanded to include the 'Prime Interest Rate' as well as the 'Federal Funds Rate.' In business practice, these indices are commonly used and provide a platform for interest rate risk management. This would provide additional opportunities to apply cash flow hedge accounting without documentation burden, giving many organizations the ability to more effectively align the business practice with accounting results.

Unintended Consequences

Regions believes that the ED as written addresses a multitude of complex accounting topics and would significantly change current business practice. Regions believes it is important to point out the potential unintended consequences of the accounting guidance as proposed.

The financial instrument model as currently proposed will require an institution to change the way they consider credit risk in the pricing of financial instrument transactions. The volatility through equity associated with changes in fair value creates unwanted balance sheet risk that institutions will seek to mitigate most likely through the use of new hedge products not contemplated in the current market. Hedging strategies and products will emerge to adequately meet management's demands for risk mitigation, the timeline of which is uncertain. This risk transfer will create arbitrage and impact small and mid-market 'Main street' institutions whose business models are not intended to address such market complexities. This will also most likely change the business model of small and mid-sized institutions from originators and holders to originators and distributors of financial instruments, disrupting the financial markets in the short-term with supply and demand imbalance. The pressure to mitigate credit risk volatility will cause a decrease in overall credit availability and shareholder return and in the end transfer credit risk to only those entities that have the ability to purchase and hold risk. We believe this risk will be concentrated in a relatively small number of extremely large financial institutions and create unintended systemic risk, redefining the concept of 'too big to fail'.

Changes to the loss recognition model will, in the short-term, widen credit spreads causing further contraction in the availability and ultimate recovery of the credit markets. The time required to create new loss models and the impact on loan pricing will create additional uncertainty in the credit markets in the short-term.

We believe the ED will discourage public float and more companies will remain privately held or find alternative sources of investors.

As users of financial statements, we believe we will receive more financial statements on an other comprehensive basis of accounting, and not in accordance with GAAP. We believe preparers will elect another basis of accounting in order to avoid the implementation cost of preparing information that provides little or no benefit to management or to shareholders.

Thank you for your attention to these comments and for considering our views on your exposure draft for financial instruments. If you have any questions about our comments or wish to discuss this matter further, please contact me at (205) 326-4972.

Sincerely,

Brad Kimbrough

Executive Vice President, Controller and

Chief Accounting Officer