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Technical Director
Financial Accounting Standards Board
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We appreciate the opportunity to comment on the Discussion Paper: Selected Issues about Hedge Accounting (DP). Regions Financial Corporation (“Regions” or “the Company”), with approximately $132 billion in assets, is one of the United States’ largest full-service providers of consumer and commercial banking, trust, securities brokerage, mortgage and insurance products and 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.

General Comments

As a banking institution, Regions supports both the FASB’s and the IASB’s efforts to simplify hedge accounting. We support the IASB’s proposed guidance as to the expansion of eligible hedging instruments to include non-derivative financial assets and liabilities, voluntary rebalancing of a hedging relationship while continuing in the original hedge and the ability to hedge a layer component. However, there are certain aspects of the IASB’s exposure draft, Hedge Accounting, that we do not support. Specifically, we do not support the IASB’s proposed model for assessing hedge effectiveness, mandatory rebalancing of a hedge relationship, prohibiting voluntary de-designations, and certain disclosures.

We encourage both boards to consider the ability to hedge open portfolios in a fair value hedge and to move towards allowing the use of macro-hedging strategies. We believe that both the current and proposed thresholds for hedge qualification and future modification often preclude firms from engaging in certain risk management activities. Firms may be dissuaded from the engagement in these risk management activities due to the additional cost incurred by adhering to inflexible principles of granular risk identification in lieu of enterprise wide risk identification and remediation.

Assessing and Measuring Hedge Effectiveness

Regions does not agree with the IASB’s proposed changes to the model for assessing hedge effectiveness. While we commend the IASB’s efforts to move towards a more principles-based approach and away from the “highly effective” bright-line test of 80-125%, we are concerned that requiring the hedging
relationship produce an unbiased result, minimize ineffectiveness, and achieve other-than-accidental offset may actually lead to a higher threshold for applying hedge accounting. Paragraph B29 of the IASB’s exposure draft prohibits deliberate mismatches between the weightings of the hedging instrument and the hedged item that would create ineffectiveness, while going on to say that a hedging relationship does not have to be perfectly effective in order to qualify for hedge accounting. This guidance appears to be contradictory. Taken as a whole, the guidance in the IASB’s exposure draft could be interpreted as requiring a perfect hedge. Certain risk management strategies may target a hedge ratio at inception that does not result in complete offset. Management may have a view on the expected change in certain risk components (e.g., direction, timing, shape of market interest rates) and, based on this view, management may prefer to utilize a hedge ratio that does not achieve complete offset rather than starting with a hedge ratio that achieves complete offset and then rebalancing when changes occur. Utilizing a less than perfect hedge ratio may be more cost effective over the life of the hedge while still achieving most of the hedge objective.

We support the IASB’s proposal to allow a qualitative assessment of hedge effectiveness. However, we are concerned that the requirement that a hedge produce unbiased results, achieve other-than-accidental offset, and minimize ineffectiveness may have the unintended consequence of forcing a firm to utilize quantitative methods to “prove” that the hedge has actually accomplished these objectives.

We support both the FASB’s and the IASB’s efforts to reduce complexity in hedge accounting. The IASB has proposed the use of hypothetical derivatives to measure ineffectiveness, presumably for both cash flow and fair value hedges. We support the use of hypothetical derivatives to measure ineffectiveness. However, the utilization of a hypothetical derivative to measure ineffectiveness does not necessarily reduce complexity. When a firm hedges a risk component, creating a hypothetical derivative that represents the perfect hedge is a matter of judgment. The firm’s outside auditor may disagree with the firm’s choice of hypothetical derivative.

We believe the FASB’s movement towards requiring hedges to be “reasonably effective” with additional guidance as to what constitutes “reasonably effective” is a superior starting point for assessing hedge effectiveness. Alternatively, a firm could define within its risk management objectives a range of acceptable bias and hedge ineffectiveness. As long as the assessment of hedge effectiveness demonstrates that both the bias and the ineffectiveness are within the acceptable range, hedge accounting would be applied. Documenting an acceptable range of bias and ineffectiveness should also serve to minimize the amount of required rebalancing.

Rebalancing

We support the IASB’s proposed guidance allowing the rebalancing of a hedge relationship while continuing on in the existing hedge. However, we do not support the IASB’s proposed guidance that would require rebalancing an existing hedge if it fails to meet the objective of the hedge effectiveness assessment provided that the risk management objective for the hedging relationship remains the same, especially if the rebalancing is required just to “minimize ineffectiveness.” A certain level of ineffectiveness may be perfectly acceptable within the risk management objectives. Constant, required rebalancing can unnecessarily lead to increased administrative costs with little prospective addition to the achievement of management’s goals.

Prohibition against Voluntary De-designation

The IASB’s proposed removal of de-designation would prevent management’s ability to adapt to changing market environments, which could work against management’s mission of maximizing 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. Since the designation of a hedging relationship is voluntary, de-designation should also be voluntary.

**Disclosures**

The IASB’s proposed disclosures would require a firm to disclose the total risk position along with the amount hedged. If the risk is not being hedged, it is unclear why the disclosure would be required as part of the hedging disclosures. Additionally, this disclosure may cause readers to question why the entire risk isn’t hedged when, in fact, the position may be “economically hedged” with non-derivative assets or liabilities. If a firm chooses not to hedge a particular risk at all, then no disclosure would be required. However, if that firm chooses to partially hedge the exposure, then the firm would have to make disclosures regarding unhedged amounts. We do not support the requirement to disclose the total risk position when only a portion of the risk is hedged.

Paragraph 46 of the IASB’s exposure draft would require a firm to disclose forecast exposures, including amount of dollars at risk, amount being hedged, and how hedging changes the forecast for each subsequent period during which the hedge is expected to impact earnings. Due to the sensitive nature of forecast information, we do not support the requirement to include forecast information in the hedging disclosures.

Thank you for your attention to these comments and for considering our views on your Discussion Paper – *Selected Issues about Hedge Accounting*. 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