May 15, 2013

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


We appreciate the opportunity to comment on this exposure draft. Regions Financial Corporation (“Regions”), with approximately $120 billion in assets, is one of the nation’s largest full-service providers of consumer and commercial banking, wealth management, 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 1,700 banking offices and approximately 2,000 ATMs.

In order to more fully consider the Proposed Accounting Standards Update (Subtopic 825-10) (“the ASU” or “the proposal”) and assess how the proposed changes would affect our company, representatives from our internal working group:

- participated in periodic American Bankers Association (“ABA”) recognition and measurement working group conference calls,
- attended a recognition and measurement roundtable discussion hosted by Ernst and Young (Regions’ independent auditor),
- participated in industry meetings and teleconferences concerning the recognition and measurement model, and
- hosted discussions with accounting advisory specialists from various public accounting firms.

Our internal working group is represented by individuals from various departments that have responsibilities related to treasury operations, asset/liability management, generally accepted accounting principles (“GAAP”) compliance, regulatory compliance, market risk management, credit risk management, and internal audit. We also conferred with the heads of our lines of business and executive leadership to address their concerns on the business impact of the proposed ASU. However, even considering the significant amount of time, expertise and consultation invested in our response, we were unable to fully assess the proposal’s impact due to ambiguity within the proposal and an inability (due to time constraints imposed by an
abbreviated comment period) to assess the interplay between this proposal and the proposed ASU Subtopic 825-15 (Financial Instruments – Credit Losses). Consequently, there could be significant unintended and unforeseen consequences which stem from this proposal. We believe that the comment period should be extended so that all constituents have the opportunity to participate in the process. We are concerned that the abbreviated comment period, coupled with the significant attention constituents have placed on the “Credit Losses” proposal, may result in insufficient attention to this important proposal.

Summary Conclusion / Recommendation

We support the Financial Accounting Standards Board’s (the “Board” or “FASB”) objective of providing decision-useful information to users of the financial statements (“users”) while reducing complexity in accounting for financial instruments. Unfortunately, we do not believe the ASU meets this stated objective. More specifically, we believe the proposal is unduly complex in application, does not result in decision-useful information, connotes a predisposition toward fair value treatment¹, does not meet reasonable cost/benefit analysis, and would likely result in significant unintended consequences. In our opinion, the primary purpose of financial accounting is to reflect the business results of a company, not to value the company. We believe that application of the ASU will result in accounting becoming a driver of our business, instead of a reflection of it. As a result, we do not recommend adoption of the ASU, as exposed.

Although there are many aspects of the proposal we would like for the Board to reconsider, there are certain aspects of the proposal we support. First, we support the proposal to reflect changes in “own credit” (instrument-specific credit risk related to a financial liability accounted for at fair value due to the fair value option) within other comprehensive income (“OCI”). Such a proposal avoids the counterintuitive scenario in which profits are recorded when a firm’s own credit rating is lowered. Next, we support the proposal’s stance that purchase credit -impaired financial assets should be accounted for in the same manner as other loans and securities. We believe this change will not only simplify operational processes, but also provide investors with more easily understood and useful information. Finally, we support the proposal’s omission of the concept of “tainting”. Current standards are too restrictive with respect to limiting activity within the amortized cost category. We believe this change provides requisite flexibility to account for the dynamic nature inherent to our business.

Even though we support specific aspects of the proposal, we are deeply concerned over its application and consequences. We believe that many of these concerns can be alleviated through a few simple measures.

First, for reasons described below, we propose all items pursuant to ASU 825-10-25-17² be redacted. We believe that the most efficient and effective method of classification and measurement is based upon management’s intended use for the related financial instrument. In situations where intent alone would fail to capture certain embedded features, current embedded

¹ Fair value was debated under the Financial Accounting Standards Board’s May 2010 exposure draft. For reasons discussed in our comment letter dated September 30, 2010 (Comment Letter No. 1324), we do not believe fair value is appropriate for certain financial instruments, including loans.
² Provisions pursuant to ASU 825-10-25-17 are also referred to as the “solely payments of principal and interest test”, or “SPPI”.
derivative guidance should be allowed to prevail. To the extent the Board sees deficiencies in current guidance, those deficiencies should be enumerated and specifically addressed. We believe current embedded derivative guidance is well disseminated and understood by preparers and users. However, if the Board believes revisions are necessary, we contend that targeted revisions are preferable over completely abandoning the current framework.

Second, we propose that the Board allow reclassification between categories for reasons other than changes in business model. We also recommend the Board provide further interpretive guidance related to the intended meaning of some terms used in the sections referencing Business Model. These terms are outlined below (see page 7, Comments related to the “Business Model Test”). Supplying additional interpretive guidance, along with allowing reclassification, would provide for sales of assets in response to events which are not immediately foreseen but can be anticipated. This anticipation is born out of certain eventualities that stem from the intersection of changing economic environments and prudent risk management policies. Allowing reclassification gives management the opportunity to classify financial assets in a manner consistent with current intended use while still providing for reclassifications which may become necessary if certain conditions arise.

Third, we recommend that disclosure requirements related to core deposit liabilities be redacted from the proposal. The disclosure requirements seem to be outside the stated scope and objective of the ASU. Additionally, the required subject matter is highly subjective and, as a result, we question its reliability and whether any level of comparability among firms can be achieved. Lastly, the proposal requires disclosure of estimated all-in-cost-to-service, which we consider proprietary. Disclosing this item would be inappropriate given that it would inhibit our competitiveness and, in turn, damage value returned to our stakeholders.

The comments included above are a summary of items discussed with further detail in the appendix attached herewith. Although the appendix (Detailed Perspectives, Areas of Concern and Rationale) expounds on our major thoughts and concerns, we believe additional consideration and comparison to industry best practices would allow us to more thoroughly respond to the Board’s "Questions for Respondents". If the Board allowed for an extension of the comment period, we would welcome the opportunity to provide more substantive responses to the proposed questions.

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,

Brad Kimbrough
Executive Vice President, Controller and
Chief Accounting Officer
Appendix - Detailed Perspectives, Areas of Concern and Rationale

Based on our review, we have numerous specific areas of concern as follows:

Comments related to the “Solely Payments of Principal and Interest Test” or “SPPI”

Application of the provisions related to the SPPI test result in classification and measurement that is, in some cases, inconsistent with an instrument’s derived economic value and inconsistent with management’s objective for owning such an instrument.

For example, assume a bank makes variable rate mortgage loans to customers whose rate reset tenors do not match the period of time covered by the interest rate (ASU 825-10-25-21). Further, assume these interest rate mismatches are “more than insignificantly different from the benchmark cash flows”, and the bank has full intent and ability to collect substantially all contractual cash flows. Under the proposal, such a scenario would result in fair value changes being recognized currently within net income, even though these changes would never be realized by the bank (unless a change in management intent/objective triggers a sale). Since the bank has the intent and ability to collect substantially all contractual cash flows, the economic value derived from these variable rate mortgages is equal to contractual cash flow, not to changes in fair value. To recognize changes in fair value through net income (“FVNI”) is to provide illusionary gains and losses upon which investors may make misinformed decisions. Therefore, many analysts are likely to exclude these adjustments in analyzing core banking performance.

The authors of the proposal might respond by saying that modifications of economic relationships create economic value not effectively communicated to users through other means of classification and measurement. Thus, FVNI treatment is necessary.

We have two concerns with this line of thinking. First, as mentioned in our example, the bank has both the intent and ability to hold the asset. Thus, the economic value created by interest rate mismatches will not be monetized and is, therefore, practically irrelevant to users. This line of thought also holds true for other components of fair value, such as liquidity risk and interest rate risk, which if never realized, are also practically irrelevant to users. In other words, changes in the fair value of assets traditionally recorded at amortized cost only become useful in the event of a sale. Even still, the ASU would require current recognition of these components of fair value within the income statement, thus effectively masking management’s actual intent and objective for holding such assets.

The most relevant component of fair value for assets traditionally recorded at amortized cost, credit risk, is captured through existing Accounting Standards Codification (“ASC”) sections 450 and ASC 310. As it relates to credit risk, we believe that an improvement to existing standards can be achieved through incorporating the ABA’s Banking Industry Model. Please refer to our comment letter entitled, File Reference: No. 2012-260 – Financial Instruments-Credit Losses (Subtopic 825-15) for more information.
The fact pattern illustrated above can hold true for any instrument where management’s intent and objective is to fully realize contractual cash flows over the life of the instrument. As a result, the SPPI test could require traditional amortized cost-based financial instruments such as residential loans, commercial loans, commercial lines of credit, credit card receivables, home equity lines of credit, short term lending or prepayable instruments purchased at discounts or premiums to be reflected at FVNI regardless of management’s intent. This could add significant volatility to the income statement, while failing to be representationally faithful. In short, it would be misleading to users and could throw financial institutions’ financial statements into disarray.

Second, fair value treatment presupposes that ASC 820, *Fair Value Measurement*, provides a desirable, reliable and comparable metric upon which users can base decisions. Judging by respondent comments to the May 2010 exposure draft, fair value treatment is not viewed as a preferable method of measurement for instruments traditionally recorded at amortized cost. This is, in part, a result of the fact that loans are notoriously difficult to value. This difficulty stems from general markets inefficiencies, (due to inaccurate, incomplete or unknowable data) and divergent valuation theory among firms. The combination of these truths inevitably leads to less reliable and less comparable fair value financial information.

We believe that the most relevant, reliable, efficient and effective method to recognize the economic value derived from lending activities and debt investment is through the basis of business intent and management objectives. In situations where classification and measurement via intent and ability would not fully capture certain embedded features, we believe current guidance regarding embedded derivatives should be allowed to prevail. We consider the current embedded derivative guidance to be effective and well understood. If the FASB believes there are problems with the current embedded derivative framework, then those specific problems should be discussed instead of throwing out the entire standard. Our view is that the SPPI test results in inferior accounting standards when compared to current practice, and as such, we recommend the full omission of the SPPI test.

If the Board is not open to abandoning the SPPI test, there are numerous areas where we recommend additional guidance. First, we recommend additional clarity around the concept of “more than insignificantly different”, “benchmark cash flows”, and “benchmark instrument”. These phrases are found within ASU 825-10-55-18 through 20 and are used to describe the process and threshold to be applied in order to assess the materiality of financial instruments containing “modified economic relationships”. We also recommend further clarification as it relates to the Board’s intended definition of “reasonable additional compensation for early termination” found within ASU 825-10-55-21(b). We anticipate that a significant number of financial instruments will need to be assessed in light of these sections, and without further guidance on the Board’s intent, it is not possible to fully assess the impact of the proposal. Moreover, if further clarification is not offered, it would likely lead to divergent practices between firms, which, in turn, will erode the integrity, comparability and decision-usefulness of financial statements. We recognize that materiality assessments are judgmental in nature requiring both
qualitative and quantitative considerations. We are not advocating a bright line definition, but we believe public consumption of further clarifying language, or illustrative examples, would assist preparers and users in understanding the Board’s intent and lead to consistent application of the standard.

The second area where we recommend additional guidance relates to how the SPPI test should be applied to certain financial instruments. Specifically, how should the SPPI test be applied to loan syndications, loan participations, credit card offerings with low introductory rates, cleanup calls, and auction rate securities? It is unclear how the SPPI test would govern these financial instruments, and as a result, we are unable to fully assess the impact of the proposal.

The third area where we recommend additional clarification relates to the beneficial interest section of the proposal. A literal read of the beneficial interest example focusing on credit losses (ASU 825-10-55-26(c)) suggests that few, if any, tranches other than the most senior would be eligible for amortized cost or fair value through other comprehensive income ("FVOCI") measurement. That is because in many typical structures credit losses are first absorbed by the lowest tranche and thereafter by the next lowest tranche and so forth. Therefore, credit losses in the underlying pool could be so significant that they wipe out all tranches below the most senior such that they all bear greater credit loss exposure than the pool. The second beneficial interest criterion, ASU 825-10-55-26(b), also proves problematic due to a common inability to "look through" to the underlying pool in order to assess SPPI. Under the proposal, if a company cannot access the information needed for this assessment, then the beneficial interest is automatically measured at FVNI. This will likely cause added earnings volatility as instruments that historically qualified for amortized cost or FVOCI may have to be measured at FVNI under the proposed approach. In order to avoid this volatility culminating in capital and liquidity degradation, banks will likely shy away from beneficial interest securities otherwise viewed as safe and prudent investments. Consequently, the proposal could also result in major structural changes to the structured securities market.

As it relates to ASU 825-10-55-26(c), we do not understand the theoretical difference between owning subordinate tranches in beneficial interests, which are disallowed from amortized cost, and owning junior or subordinated debt, which is allowed in amortized cost. For example, if a bank is the sole originator and holder of a plain-vanilla mortgage, then the financial asset can qualify for amortized cost even though the bank bears the entire risk of loss. Conversely, if a bank securitizes a mortgage into an equity tranche, a mezzanine tranche and a senior tranche and subsequently purchases an equity interest in the securitization, then the bank ceases to qualify for amortized cost even though it bears no more risk than if the mortgage was owned outright.
Comments related to the “Business Model Test”

In reviewing the proposal’s requirements pursuant to ASU 825-10-25-16(b) (the “Business Model Test”), we found the amendments to be unclear and based on an overly binary view of business models. We agree with what we perceive as the underlying theory of ASU 825-10-55-28 that management’s intent and business objective (i.e. business model) should drive classification. However, this theory seems to be superseded by the proposal’s application guidance.

More specifically, we see tension between the overarching, high level business model assessment presented in the first half of ASU 825-10-55-28 and the security level sales activity assessment in the latter half of ASU 825-10-55-28. Furthermore, it is difficult for us to assess the level of emphasis to place on sales activity given ambiguity within ASU 825-10-55-32. That section does provide that sales for purposes other than significant deterioration in the issuer’s creditworthiness should be “very infrequent”, but “very infrequent” is never fully explained.

This ambiguity is further complicated when considered in conjunction with the portion of ASU 825-10-55-32, which states that “sales [from the amortized cost category] that result from events other than a significant deterioration in the issuer’s creditworthiness that are isolated, nonrecurring, unusual for the entity, and result from events that could not have been reasonably anticipated would not be inconsistent with the objective of amortized cost classification (Emphasis Added)”. This seems to ignore prudent and necessary risk management procedures by categorically disallowing inclusion within amortized cost if future sales could be “reasonably anticipated” to some degree. We recognize that the proposal allows for “very infrequent” sales from the amortized cost category; however, as noted, this qualification creates confusion given its ambiguity.

Influences on portfolios are dynamic in nature, will change over time and are typically outside of a bank’s control. We have a team of professionals whose responsibility is to evaluate and compare the risk profiles of our portfolios against the risk appetite of our company. These evaluations are likely to result in sales, at some point in time. Typical reasons for sales and purchases might include changes in the bank’s outlook for interest rates or credit (either generally or specifically) based on changes in macroeconomic expectations. Sales can also occur due to a need to reshape a portfolio’s risk profile in response to changing risk appetites. Additionally, smaller, less developed markets may be exposed to more volatile changes resulting in sales and purchases in larger proportions.

In any event, the eventuality of these risk evaluations is that sales or purchases could be required in order to effectively manage risk. Consequently, one could argue that these sales are able to be anticipated, and because our risk management policies extend to all portfolios, it is difficult to see which financial assets would qualify for the “hold-to-collect” business model even though essentially all of our loans are originated with the intent to collect all contractual cash flows. In light of this, we anticipate that, under this proposal, a significant portion of our loan portfolio may be classified and measured at FVOCI. Given that our intent is to collect contractual cash flows, recognition of fair
value changes, most of which will never be realized, damages the integrity of the financial statements by presenting unnecessary volatility. We believe these are unintended consequences of the proposal as moving more loans to fair value has been previously debated and defeated. We believe that these concerns would be eliminated if the Board were to expound on the terms noted above and permit reclassification from amortized cost to FVOCI or FVNI when the intent changes from “hold for collection of cash flows” to “hold for sale”.

Comments related to Core Deposit Liabilities

When reviewing the proposal’s definition of core deposit liabilities, we noted that the definition is inconsistent with current industry practice in that contractual maturity is generally not considered. Core deposit liabilities typically include deposits without contractual maturity (e.g. - demand deposits, negotiable order withdrawal accounts, money market accounts, savings accounts) and deposits with contractual maturity (e.g. - certificates of deposit).

Additional concerns with the proposal’s core deposit liability disclosure requirements are as follows. First, the core deposit disclosure requirements seem to be outside of the Board’s stated scope and objective for the proposal. Second, identification of “highly interest-rate-sensitive accounts” (“hot money”) and calculation of the implied weighted-average maturity period is highly subjective and judgmental. Because of the subjectivity involved, we question the reliability of such figures and we anticipate little comparability among firms. Finally, the proposal requires disclosure of our estimated all-in-cost-to-service core deposit liabilities. We consider our estimated all-in-cost-to-service rate to be both proprietary and a trade secret, which enhances the value proposition extended to our stakeholders. Consequently, disclosure of our estimated all-in-cost-to-service rate would be inappropriate given that it would inhibit our competitiveness and, in turn, damage value returned to our stakeholders.

Therefore, we recommend that disclosure requirements related to core deposit liabilities be removed from the ASU.

Comments related to Equity Method Investments

We recommend further clarification regarding the Board’s intent surrounding equity method investments. ASU 323-10-15-20 states that if the investor has identified potential exit strategies and the investor has a defined time when it expects to exit the investment, then the investment should be carried at FVNI. How should this guidance be interpreted in light of limited partnerships which have a predefined end date? We request the Board provide further clarity as to their intent so that preparers and uses can sufficiently comment on the reasonableness of the proposal.
Comments related to Unintended Consequences

As referenced in our summary, the aim of financial accounting should be to reflect or communicate the economics of current business practice. In contrast, we believe that the proposal as written significantly reconstructs, instead of reflects the economics of current business practice. As a result, we believe it is important to point out the potential unintended consequences of the accounting guidance as proposed.

The ASU as currently proposed will require an institution to change the way it considers risk in the pricing of financial instrument transactions. The volatility through net income or equity associated with changes in fair value creates unwanted financial statement 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 to consumers and businesses and, in the end, will transfer credit risk to only those entities that have the ability to purchase and hold risk. We believe this risk will be further concentrated in a relatively small number of extremely large financial institutions and create unintended systemic risk, redefining the concept of ‘too big to fail’.

The impact of the ASU is more concerning when considered in conjunction with regulatory capital requirements. Our current interpretation of the proposal results in a significant amount of loans and other financial assets being reflected at FVNI (due to failure of the SPPI test). This fact alone would have a significantly negative impact on Tier 1 capital. However, this impact is compounded when Basel III is also taken into consideration. Basel III, as proposed, requires other comprehensive income gains and losses to be included in the risk-based capital calculation. Because we expect the Board’s proposal to also result in a significant amount of loans and financial assets being reflected at FVOCI (due to failure to qualify under ASU 825-10-25-25), Basel III then multiplies the capital and liquidity pressure applied by the ASU. This regulatory capital pressure will have a significantly negative impact on our customers and our industry. We believe the implications of the ASU are significant enough to cause banks to reconsider their participation in many lending markets, which could include less developed, underserved or distressed markets that are inherently volatile.

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3 FASB Concepts Statement No. 1 (“CON1”), Objectives of Financial Reporting by Business Enterprises, describes the broad purposes of financial reporting, including financial statements. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners’ equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources (CON1, paragraph 40). (Emphasis Added)
In order to illustrate the impact, assume a bank has a $1 billion loan portfolio to be reflected at FVNI under the ASU. This loan portfolio has an average fixed interest rate of 3.0 percent and an average duration of five years. Currently, the minimum guideline to be well-capitalized for total risk based capital is 10.0 percent. This results in a total capital requirement of $100 million in our example. All else constant, if interest rates increase 200 basis points, the fair value of the $1 billion loan portfolio will fall to $900 million. The ASU does not provide fair value treatment for the deposit base which supports the loan portfolio and, as a result, if other measures are not taken (e.g. – hedging strategies) the $100 million loss will completely deplete the bank’s capital requirement. Under proposed Basel III standards, the same implications would apply for financial assets recorded at FVOCI. Failing to meet capital requirements significantly damages shareholder value and significantly damages the ability to extend credit.

At a minimum, the example above illustrates the need to fully assess the down-stream impact of the proposal before proceeding. It is reasonably possible that this proposal, in conjunction with the “Credit Losses” proposal, could have pervasive, industry-wide, and macroeconomic implications not intended by the Board. Consequently, it would be prudent for the Board to commission a full impact study before proceeding.

Comments related to Cost Benefit Analysis

As noted above, there are numerous areas where additional guidance from the Board is recommended. As such, it was difficult for us to fully assess the impact of the proposal to our institution. Moreover, given the abbreviated comment period, we were unable to fully assess the interplay between this proposal and the “Credit Losses” proposal. However, even initial consideration of costs associated with implementing, applying, and monitoring the standards within this proposal are significant. For reasons outlined throughout this letter, we do not think that the proposal adds sufficient value to users of the financial statements. While we agree with the Board’s intent in crafting this proposal, we believe that a fair and reasonable assessment of the related cost, as compared to the related benefit, will necessarily result in the proposal’s rejection.

Implementation

Given the numerous areas where additional guidance is needed, and considering that we were unable to fully assess the interplay between this and the “Credit Losses” proposal, it was difficult to accurately estimate the amount of time necessary for implementation. Because of these uncertainties, we estimate a minimum of three years’ implementation time is needed to transition our current methodology to be in compliance with the proposed ASU. We also recommend the Board commission a full impact study, engage in formal discussions with banking regulators, and host field visits with banking industry constituents before implementing these changes which will significantly impact our business and the broader economy.