



May 30, 2013

Technical Director
Financial Accounting Standards Board
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File Reference: No. 2012-260: Proposed Accounting Standards Update, *Financial Instruments-Credit Losses (Subtopic 825-15)*

We appreciate the opportunity to comment on the FASB's exposure draft "Financial Instruments- Credit Losses (Subtopic 825-15) ("the ASU" or "the proposal"). 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. We serve customers in 16 states across the South, Midwest and Texas, and through our subsidiary, Regions Bank, operate approximately 1,700 banking offices and 2,000 ATMs.

In order to more fully consider the proposal and assess how the proposed changes would affect our company, Regions established an internal working group comprised of individuals from various departments with responsibilities related to the allowance for loan losses including preparation, approval, determining compliance with generally accepted accounting principles ("GAAP"), auditing and reporting of disclosures in required regulatory and financial filings. We also conferred with the heads of our lines of business and senior executive leadership to address their concerns on the business impact of the proposed ASU.

Representatives from our internal working group:

- participated in weekly American Bankers Association ("ABA") impairment working group conference calls,
- joined the Risk Management Association ("RMA") impairment working group conference calls,
- attended a Credit Impairment Roundtable discussion hosted by Ernst & Young (Regions' independent auditor),
- participated in various industry meetings and teleconferences concerning the impairment model, and
- hosted discussions with accounting advisory specialists from various public accounting firms.

Summary Conclusion / Recommendation

We support the Financial Accounting Standards Board's ("FASB" or "Board") efforts to improve accounting standards related to the recognition of credit losses with a principles-based accounting approach that allows for flexibility and judgment in loss estimates. However, for the reasons detailed below, we do not support the current version of the FASB's proposed current expected credit loss ("CECL") impairment model. It is our opinion that the proposed ASU misconstrues the definition of credit, is inconsistent with select core accounting principles, and unless multiple issues are addressed will result in financial statements that are less "decision-useful" and less comparable among financial institutions. We also believe the proposal will have unintended and unnecessary economic and operational implications.

We have significant concerns about the wide divergence in industry estimates regarding the impact of the adoption of the proposed CECL model on the allowance. Specifically, through our own analysis, we have noted that some peers estimate that adopting the CECL method prescribed in the ASU would decrease the allowance, while many others, including us, estimate the increase would be 100% or more. We believe the variation in these estimates cannot be explained solely by differences in the underlying loan portfolios of these organizations, but instead is reflective of uncertainty of how the guidance in the ASU should be interpreted.

We also believe that the resulting increases in the allowance will negatively affect the ability of financial institutions to offer flexible and affordable lending alternatives to customers, which may have the unintended consequence of reducing lending activity.

Before finalizing the proposed ASU, we ask the FASB to reflect on the unprecedented nature of the relatively recent macroeconomic period, including the period immediately preceding the credit crisis of 2007-2009, which precipitated the "Great Recession." If the ASU had been in effect during the these crises, it is our opinion that reserves would not have been at a level significantly higher than those reported because the magnitude of losses would not have been expected or correctly forecasted. Likely, higher loan loss reserves in years prior to the crisis would have been met with mass skepticism by auditors, regulators and investors.

Based on our review and analysis of the ASU, we have summarized numerous specific areas of concern below:

1. We believe the ASU's requirement that the allowance be based on forecasted credit losses over the "life-of-loan"¹ and the introduction of a new credit loss concept² are at odds with core accounting principles of revenue recognition and matching, relevance, reliability and comparability. As a result, we strongly believe the decision-usefulness of our financial statements will be reduced.
2. We believe the allowance should provide for expected losses that are "foreseeable with reasonable confidence" and capital should provide for unexpected/unforeseen losses. We also believe the "life-of-loan" loss concept reduces the reliability of financial information as we believe the longer the period that must be forecasted, the less reasonable and supportable the loss forecast (and the allowance).
3. We believe the ASU will have significant financial implications and will result in adverse changes in the ability to meet customer and investor needs. From a business perspective, we believe the ASU will precipitate a higher cost of credit, combined with decreased product availability generating adverse economic results. Operationally, we believe many of the proposed changes are unnecessary, and numerous issues will need to be addressed or clarified before the ASU will be operationally feasible.
4. We do not agree that applying a single impairment model to all financial assets is tenable or useful, other than in an academic setting. Consequently, we do not agree that impairment for debt securities should be included under the same guidance as loans as there are fundamental differences between marketable, standardized financial assets (i.e., debt securities) and non-standardized financial assets lacking a robust secondary market (i.e., most loans).
5. We believe the troubled-debt restructuring ("TDR") designation should be discontinued as it does not provide users of financial statements with relevant information and is inconsistently applied in practice (particularly in the determination of "market rates"). In addition, the required TDR-specific disclosures do not provide useful information incremental to other required credit quality disclosures.

¹ While the exposure draft does not use the specific terminology "life-of-loan," it is implied in the phrase "all contractual cash flows." In their *Frequently Asked Questions* published on March 25, 2013, the FASB clarifies this in Question 7, stating: "Yes. Expected credit losses are defined as an estimate of all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit." "The term *all contractual cash flows* refer to cash flows over the entire contractual term of the financial asset." Throughout this document, we refer to all contractual cash flows not expected to be collected as "life-of-loan" losses.

² We infer from the ASU's stated definition of expected credit losses that institutions will be required to reserve as "credit losses" for estimated uncollectible return (i.e., the interest income portion of contractual cash flows) in addition to the uncollectible principal over the life of a loan. This inference appears to be consistent with the Board's equating net amortized cost to the present value of future cash flows. We do not agree that the extension of credit (and, consequently, credit losses) equate to all contractual cash flows not expected to be received. We believe this produces a result more akin to a fair value adjustment than an allowance for credit losses. The allowance account is a valuation account of an existing asset (a contra-asset account) and should *not* include potential shortfalls in interest income.

6. We believe the proposed change to accounting for purchased credit-impaired loans is a significant improvement to the current standards; however, the same accounting treatment should apply to all purchased loans.

ABA's Banking Industry Model

We agree with the American Bankers Association's ("ABA's") contention that the "problem" to be fixed is not the concept of incurred loss. The problem is the language in the existing standards that drives the application. Untimely loss recognition has been due to the inconsistency in application of the "probable" loss notion and the determination of loss events and whether or not they have met the "incurred" threshold.

We believe that the U.S. Banking Industry Model³ ("BIM") proposed by the ABA is a superior model, and we implore the FASB to consider it as an alternative to the CECL model. Under the BIM, entities would estimate losses that are "foreseeable with reasonable confidence." While it does not presume that all financial instruments can be considered for impairment under a single model, it does propose to provide financial statement users with more "decision-useful" information about expected credit losses, which we believe is consistent with the stated objectives of the FASB's impairment project. We believe this furthers the FASB's mission of increasing and accelerating management's recognition of expected credit losses relative to the current incurred loss model without raising the same economic and operational concerns as the CECL model. The BIM proposes forward-looking analysis and estimations that confirm impairment *at the balance sheet date* based on "expected loss events." This model discontinues the "probable loss" notion and provides guidance on forward-looking loss events. The BIM also incorporates a "Credit Risk Adjustment" component in the allowance to account for the potential that loss events may be masked by the current point of any macroeconomic cycle.

We understand that certain expanded disclosures will be necessary under the BIM; however, we believe the BIM would be an effective alternative and could be implemented sooner than the FASB's proposed CECL model.

Implementation

We estimate that we would need a minimum of three years to transition our current allowance methodology to be in compliance with the proposed ASU. As described further in Item 3 in Appendix A, there will be significant operational obstacles in merging our existing allowance and forecasting models to implement a new allowance model that would comply with the proposal as written. We will need additional time, not only to operationally implement a new model, but to validate the model and to ensure appropriate governance and internal control infrastructure is established to address the risks emerging from changes in the allowance methodology. We believe the BIM could be implemented in a much shorter timeframe, due to increased leverage from our current models and internal control structure.

³ The BIM was proposed most recently in the ABA's comment letter (number 39A dated May 14, 2013) to the FASB.

The comments included above are a summary of items discussed with further detail in Appendix A (Detailed Perspectives, Areas of Concern and Rationale). Although Appendix A expounds on our major thoughts and concerns, we also recommend formal discussions with banking regulators before implementing any changes to the credit impairment model as changes could impact safety and soundness considerations. We understand the regulatory impact is not a financial accounting concern. However, the banking industry is a regulated industry, and this accounting change would have significant consequences regarding regulatory capital and safety and soundness ratings.

In Appendix B, we responded more specifically to questions for all respondents and to questions for preparers and auditors presented in the “Questions for Respondents” section of the ASU.

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,

A handwritten signature in cursive script that reads "Brad Kimbrough".

Brad Kimbrough
Executive Vice President, Controller and
Chief Accounting Officer

Appendix A

Detailed Perspectives, Areas of Concern and Rationale

Item 1: The ASU's requirement that the allowance be based on forecasted credit losses over the life of the loan and the introduction of a new credit loss concept are at odds with core accounting principles of revenue recognition and matching, relevance, reliability and comparability. As a result, we strongly believe the decision-usefulness of our financial statements will be reduced.

The revenue recognition principle and matching principle are cornerstones of accrual accounting as they determine the accounting period in which revenues and expenses are recognized. According to the revenue recognition principle, revenues are recognized when they are (1) realized or realizable and (2) earned. In the proposal, the FASB seems to equate "amortized cost" to "time value of money," but this theoretical notion does not appear to consider the timing of loss recognition versus the timing of income recognition. The ASU prescribes front-end loss recognition (over "life-of-loan") for *all contractual cash flows* not expected to be collected, which we infer from the definition includes cash flows related to interest over the contractual term. We believe this produces a result more analogous to a fair value adjustment than an allowance for credit losses. The allowance account is a valuation account of an *existing* asset (a contra-asset account) and should *not* include potential shortfalls in future interest income.

As we interpret it, the proposal would distort financial results because all expected credit losses (including those related to possible uncollected interest) would be recognized on the date of transition, or Day One, and the related income would continue to be recognized as earned over the "life-of-loan." Based on our interpretation of the ASU, we infer that if a loan agreement allows for prepayment, the creditor may not expect to receive *all contractual cash flows*. As such, to be consistent with the implied "time value of money" theory, a reserve would be required for the shortfall in contractual cash flows due to forgoing interest income (and principal), although there may be no default risk related to the credit. We encourage the Board to better clarify its intent on how to estimate all contractual cash flows (including both principal and interest) for purposes of determining expected credit losses.

Additionally, estimating "life-of-loan" impairment losses while recognizing interest income using the interest method on large volumes of financial assets that are not standardized would be an unprecedented operational accounting challenge that would significantly exceed the benefit the information would produce. The only other general accounting methodology that results in upfront recognition of expected losses is fair value accounting, which in contrast to the CECL proposal also incorporates upfront recognition of expected income, and thus is more consistent with core accounting principles. For these reasons, we believe the proposal is not consistent with the fundamental principles of revenue recognition and matching.

Statement of Financial Accounting Concepts No 2. states that to be useful, financial statements must be reliable as well as relevant. Estimating losses over a longer horizon inherently results in estimates and assumptions that are less reliable. Loss amounts that are deemed *unreliable* are considered *not relevant* resulting in financial statements that are *not decision-useful* for financial statement users. Further, our investigation indicates that users of financial statements will deeply

discount the relevance of financial information that is based on forecasted cash flows dependent upon macroeconomic and company-specific variables. The flow of credit for financial products that are neither standardized nor commoditized (such as most commercial loans) is inherently more difficult to measure in a precise manner from reporting period to reporting period as compared to standardized or commoditized financial instruments. For these reasons, we believe the proposal would result in less relevant, less decision-useful information and will, in contrast, place a greater burden on investors to determine how to interpret financial statements and peer analysis information.

We believe the proposal will significantly impair comparability, and consequently the relevance, between reporting periods and between financial institutions. The proposal allows for significant judgment in models and methodologies. As a result, allowance metrics and ratios will not be comparable among institutions and will not properly represent the allowance as it relates to the institution's credit quality without digesting even more expanded credit quality disclosures than exist currently.

Item 2: The allowance should provide for expected losses that are “foreseeable with reasonable confidence” and capital should provide for unexpected/unforeseen losses. We also believe the “life-of-loan” loss concept reduces the reliability of financial information as we believe the longer the period that must be forecasted, the less reasonable and supportable the loss forecast (and therefore the allowance) and the financial statements as a whole will be.

We believe a false inference of reliable information is gained by requiring bank management, accountants and other financial statement preparers to predict longer term future economics as required by the CECL impairment model and then requiring senior executive management and independent accountants to provide assurance on those predictions. The longer the period of losses that must be forecasted the less reasonable and supportable our estimates, assumptions and forecasts will be. We have the ability through our current modeling techniques to incorporate forecasted expected losses consistent with macro-economic scenarios which we believe are “reasonable and supportable.” These techniques are applied in our Comprehensive Capital Analysis and Review (“CCAR”) process mandated by our regulators; however, the forecast is for a nine quarter period. The CCAR process has proven that loss forecasting is not perfectly accurate. As a result, we have significant concern over how reliable and sound forecasts will be if the forecast period is extended over longer periods, specifically the “life-of-loan.”

We believe sophisticated investors understand the forecasting limitations of most financial statement preparers and place greater significance on the propriety, completeness and accuracy of financial information that is foreseeable with reasonable confidence and presented in a manner that allows investors to compare the financial position and operating results of an institution to a select peer set. While we believe certain company-specific events expected to occur in the foreseeable future may be beneficial to investor analysis, the forecasts should be received from economists and other broader market analysts, not from financial statements. As proposed, the diversity of results that different preparers will generate, even with the same portfolio demographics will be too great to make financial statements comparable or reliable. For example, the contractual life of many mortgages is 30 years; however, assumptions of forecasted lives may easily range from 7 to 12 years depending on prepayment assumptions that are

impacted by macro-economic biases and not specific to the institutions' products and footprint. These differences will result in highly disparate allowances when compared against peers even if all other portfolio features were the same.

This proposal requires significant judgment and forecasting to develop valuation information that will be reported in the audited financial statements. These recorded values are material to most financial institutions' financial statements. If these estimates, assumptions and forecasts are questioned as related to earnings results issues or proven to be materially incorrect in future periods or when challenged by examiners or auditors, then the financial institutions are susceptible to significant consequences (including qualified audit opinions, decreased investor confidence, decreased stock values, etc.).

Item 3: The ASU will have significant financial implications and will result in adverse changes in the ability to meet customer and investor needs. From a business perspective, we believe the ASU will precipitate a higher cost of credit, combined with decreased product availability generating adverse economic results. Operationally, we believe many of the proposed changes are unnecessary, and numerous issues will need to be addressed or clarified before the ASU will be operationally feasible.

Business implications:

We believe the primary purpose of financial accounting is to *reflect* the business results and decisions of a company, not *determine* them. We believe the application of the ASU will result in accounting becoming a driver of our business, instead of a reflection of it.

Fundamentally, we are opposed to an accounting change that does not improve reliability or relevancy in the financial statements and that also has a negative unwarranted macroeconomic impact. It is probable that there will be no adjustments to capital requirements promulgated by the bank regulators as a result of this proposal. The impact will result in higher levels of loan loss reserves, offset by lower levels of book equity. We believe this will increase the cost of capital as financial institutions will be required to replenish book equity to maintain regulatory capital requirements. Alternatively, banks may choose to shrink their balance sheet. In either scenario, we perceive this headwind will inhibit national economic growth as higher costs of lending will be passed on to bank customers in order to balance investor required returns. Additionally, we believe the proposed changes could result in more limited product offerings to customers during a business cycle with little to no economic growth.

As a result of taking more loss on Day One, financial institutions may be forced to change their lending business model to (1) shorten loan terms to enable management to better estimate losses over a shorter period of time, (2) price loans higher to offset the risk and cost of holding larger reserves and more capital or (3) stop allowing or begin charging a "life-of-loan" penalty for prepayments which provide potential for more volatility in the "life-of-loan" estimate. ASU 825-15-25-5 requires institutions' estimates of expected credit losses to always reflect both the possibility that a credit loss occurs and the possibility that no credit loss occurs; additionally, an institution is "prohibited from estimating expected credit losses based solely on the most likely outcome." As a result of this requirement, no loans can be booked expecting receipt of all contractual cash flows and therefore must have an associated allowance recorded on Day One.

The longer the tenor of the loan the more likely it is that the estimated losses will be higher as the period of uncertainty is longer.

When institutions are asymmetrically penalized for growth on Day One, as compared to recognizing the cost of credit issues as they are foreseeable with reasonable confidence, they will be compelled to curtail loan growth. The impact of this change will be punitive in the current business cycle as financial institutions are intending to promote loan growth. Increased loan production would have an immediate, negative effect on the allowance and income statement as all “expected credit losses” would be recorded on Day One, even though these new loans are expected to produce income for investors over the contractual life, and provide a source of economic investment on Day One.

As discussed above, the implications of this proposal are significant to a financial institutions’ business and as a result they are also significant to our customers. Customers would most likely suffer from decreased availability of loan products, less commercial loan customization and increased costs of credit.

Financial and operational implications:

The changes proposed in the ASU create significant operational and financial challenges in the processes of modeling, documenting, disclosing and validating the allowance. Financial institutions will be required to make changes in governance to address measures needed to maintain technical competency, objectivity, and effective challenge mechanisms as related to credit loss forecasting and the allowance calculations.

Modeling challenges:

We believe financial institutions have greatly improved their credit loss forecasting processes and documentation of the allowance over the last few years in response to the financial crisis, and this improvement should be leveraged in any new standard. This proposal suggests leveraging those current models; however, it is unclear how to make that possible and be in compliance with the proposed standard. For example, we are unsure if our loan portfolio data will enable us to comply with the standard’s true intent as we may not have sufficient historical data to perform a true “life-of-loan” analysis on certain loan products that support how these products may perform through diverse economic cycles. Also, the operational challenges inherent in a new or drastically changed impairment model will be further magnified because the standard leaves a substantial amount of judgment without a defined consistent approach. The resource commitment required to support this migration will be significant. We believe, however, that the existing models can be more effectively and efficiently leveraged under the BIM.

We respectfully request the FASB address the following additional concerns/questions regarding the modeling of the allowance under the ASU prior to the finalization of the standard:

1. What is considered to be the “contractual” life for revolving term loans (e.g. credit cards)?
2. How should loans that we are economically compelled to renew be treated? The FAQ published by FASB clearly states “contractual life” should be used in loss

- estimates. Although this is operationally easier to determine and now technically clear, this seems at odds with the credit loss over the “life-of-loan” concept when estimating losses over the expected life of a loan that is probable to renew.
3. How should unfunded commitments be accounted for in the new model? How do institutions allocate reserves between funded and unfunded commitments? The “life-of-loan” concept blurs this determination.

Documentation and disclosure challenges:

Documentation and disclosures as a result of the proposed ASU will further increase a heavy burden as the volume of disclosures needed to document management’s assumptions and modeling will be significant. We believe the increased documentation and disclosures will be considered excessive and not useful to financial statement users. Additionally, the reliance financial statement users have regarding our disclosed judgments and assumptions will most likely decrease when these judgments and assumptions are adjusted/changed from one period to the next as they could infer that we were incorrect in our prior period assumptions.

Generally, we are also concerned that the proposal requires disclosure of information about our company’s business plans and strategies that we consider proprietary and that the introduction of more forward looking information will expose companies to greater legal risk, retrospectively. We are supportive of providing appropriate contextual and forward-looking information to investors, and Regions makes substantial efforts to provide this information through various venues. However we believe the extensive disclosures suggested by the proposal will provide very little incremental benefit, have the potential to create more confusion (or undue reliance on forward-looking disclosures) to users of the financial statements and disclose information considered proprietary by institutions.

More specifically, we have great concern over other proposed disclosures:

1. The financial asset rollforward disclosure causes concern as (1) there will be significant operational challenges associated with producing this level of detailed information and (2) the different approaches for reporting the information across organizations will be widely divergent, which we believe will decrease the comparability and usefulness of the financial statements. All institutions have different procedures, policies, and system capabilities (or limitations) for determining originations, renewals, payoffs, etc. Therefore, we believe this information will be more confusing to investors than helpful and should not be required. If standard setters believe investors truly desire this information, we recommend it be included in the non-audited MD&A section of the required quarterly and annual SEC filings instead of the audited financial statements and disclosures, as the cost of auditing this disclosure will outweigh its benefit.
2. We also have concern regarding the disclosures pertaining to schedules of collateral values (particularly loan to value) and FICO scores, as most financial institutions do not receive timely updated information on all loans. Regions discloses this information in the MD&A, and we understand how this can be useful for certain lending products. However, we think this information should remain in the MD&A

and not be included in the disclosures to the financial statements which are subject to audit. We believe the disclosures would require significant effort to validate.

Validation challenges:

Financial institutions are required through regulations to validate their models, which includes back-testing. This proposal would make reasonable validation of our models a substantial challenge due to the (1) significantly increased judgments and assumptions required, (2) “life-of-loan” loss requirement, and (3) the implied requirement to prove the possibility that both a credit loss has occurred and that no credit loss has occurred. We are unsure to the extent to which we will be required to support our forecasts for purposes of our own accounting conclusions and prove these to regulators and auditors.

Not only does the new proposal complicate an institutions’ ability to validate their allowance model, but auditing the allowance under the new ASU guidance will be further complicated as auditors will have to opine on significantly more judgments, assumptions and estimates, including: various models selected for different lines of business, timing of expected losses, forecasts regarding portfolio losses and macroeconomic factors, changes in assumptions and judgments each period, different probabilities of default, and significantly expanded disclosures. We believe audit costs and other professional fees will increase due to higher levels of audit risk and additional time needed to audit the allowance as a result of the increased judgment in the calculation.

Item 4: We do not agree that applying a single impairment model to all financial assets is tenable or useful, other than in an academic setting. Consequently, we do not agree that impairment for debt securities should be included under the same guidance as loans as there are fundamental differences between marketable, standardized financial assets (i.e., debt securities) and non-standardized financial assets lacking a robust secondary market (i.e., most loans).

We believe the primary goal of stakeholders in the impairment project should be to reach consensus on the objectives of this standard as they pertain to the most clear and present material risk: that users may not be provided with sufficient, “decision-useful” information about non-marketable financial instruments (viz., loans). While we believe the FASB’s effort to produce a comprehensive standard for all financial instruments is noble, we contend that all financial instruments are not equal. Debt securities and most loans are vastly disparate financial assets. Market values of securities are already disclosed to investors either on the face of the balance sheet in the case of available-for-sale (“AFS”) and trading or through disclosures in the case of held-to-maturity. Values are reasonable and supportable because of the availability of market data for publicly traded securities or the maturity of pricing models for investment securities that are not traded frequently. Changes in market value of AFS securities flow through other comprehensive income (“OCI”) unless an other-than-temporary impairment (“OTTI”) has occurred, in which case, the credit portion of the OTTI is recorded through net income. Therefore, financial statement users (including investors) are able to see the extent of credit losses that an entity has incurred on its debt securities and fair values which are readily supportable by financial statement preparers. The current OTTI model is acceptable and understood by preparers and users, and we believe it should be continued at this time.

The fair value of securities is impacted by a number of factors, including interest rates, liquidity and credit. Based on our reading of the proposal, movement in market interest rates could cause an institution to no longer qualify for the practical expedient (i.e., fair value of the security is above amortized cost). Therefore, the institution will be required to reserve for cumulative expected credit losses on securities even without any change in credit risk. For example, if an institution purchases at par a 10 year U.S. Treasury security that currently pays 1% and 10 year rates rise to 2%, the fair value of the U.S. Treasury will be less than its amortized cost. Under existing U.S. GAAP, we would show the entire difference between fair value and amortized cost within OCI, assuming the institution believes it will collect all payments due (i.e., the security is not other-than-temporarily impaired) and does not intend to sell, nor will be required to sell, the security before recovery. Under the proposed guidance (ASU 825-15-25-5), an institution will now have to recognize a credit loss on this security (a security with a very high credit rating that based on historical evidence will likely not have any credit losses) because the entity's estimate "must reflect the possibility that a credit loss results and the possibility that no credit loss results." While we do not believe the potential loss would be "significant," the burden of proof required by auditors and standard setters to prove that the possibility of loss is zero would force companies to either record a loss (as a "practical expedient") or produce "reasonable and supportable" evidence that no loss should be recorded. Existing guidance regarding OTTI allows investors to clearly see the extent of other-than-temporary impairment and the extent of temporary impairments.

Traditionally, U.S. Treasury rates have been considered benchmark, or risk-free, interest rates. Under the proposed guidance, U.S. Treasury rates would appear to no longer be considered risk-free because entities will be booking credit losses on U.S. Treasuries that do not qualify for the practical expedient. An unintended consequence of the proposed accounting change could be an increase in risk-free rates and greater impact to other standards.

Item 5: We believe the troubled-debt restructuring ("TDR") designation should be discontinued as it does not provide users of financial statements with relevant information and is inconsistently applied in practice (particularly in the determination of "market rates"). In addition, the required TDR-specific disclosures do not provide useful information incremental to other required credit quality disclosures.

The TDR designation should be discontinued as it is a source of operational difficulty for bankers and a source of confusion for financial statement users. Inconsistent application among regulators, auditors and bankers leads to significant misunderstanding by investors. The emphasis on "market rates," used to determine whether the restructured terms are a TDR, masks the credit quality of many loans. We believe the intended clarifications provided in ASU 2011-02 only caused more loans to be designated TDRs as many standard renewals that would have previously been excluded (i.e., renewal with increased rate and/or modified terms that result in the same effective yield as the original loan) must now be reported as TDRs (due solely to the fact that the renewal was not done at a rate considered "market"). There is significant diversity in practice in determining whether these renewals are at "market" and, therefore, wide diversity in reported levels of TDRs.

Operationally the TDR designation is difficult to assess due to the loan-level judgment required to determine (particularly on commercial credits) whether (1) a concession has been granted and (2) that the debtor is experiencing significant financial difficulty. As a practical expedient, some institutions have instituted policies that label all modifications of classified loans as TDRs because there is no active secondary market for classified loans so that a “market rate” may be properly identified. Many institutions estimate a “market rate” for the modification of a classified loan to be in the mid to high teens, although most borrowers would not agree to a modification at this rate. This results in classified loan renewals at rates lower than “estimated market” which results in a TDR status determination. Additionally the “once a TDR, always a TDR” theorem inferred from ambiguous accounting standards is operationally onerous, especially once a borrower’s financial health has been remediated.

We agree that providing a concession to a borrower is an indication that a loan is impaired; however, impairment occurs whether or not the loan is modified. The accounting for impairment should be independent of the TDR designation. If investors desire credit quality information related to modifications, this could be done more effectively through a disclosure of loan *modifications* by credit quality with additional disclosures on defaults (or recidivism rates) for a reasonable time period (e.g., within a year of modification). However, the TDR designation does not provide meaningful information incremental to these credit quality disclosures. Also, the credit quality disclosures prescribed by ASU 2010-20, which detail the balances of criticized and classified loans, provide better and more useful information to investors than credit disclosures required prior to adoption of ASU 2010-20, rendering the TDR designation effectively obsolete.

Item 6: The proposed change to accounting for purchased credit-impaired loans is a significant improvement to the current standards; however, the same accounting treatment should apply to all purchased loans.

We agree with the grossing-up of purchased credit impaired (“PCI”) loans at acquisition and recognizing an allowance. The proposed change will provide greater consistency between PCI loans and originated loans. The proposal would also make the accounting for PCI loans operationally more efficient. However, we recommend the accounting for purchased non-credit impaired loans be updated to be consistent with this approach. Under current GAAP, the difference in expected contractual cash flows and the initial investment in the assets is recognized as an adjustment of yield over the life of the loan. To be consistent, loans that are not credit impaired when purchased in a business combination or asset acquisition should also be booked at the initial investment and grossed up by the expected credit losses recognized at acquisition.

Appendix B

Questions for Respondents

Scope

Question for All Respondents

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

No. Please refer to Item #4 in our summary and the related detailed discussion in Appendix A.

Recognition and Measurement

Questions for Preparers and Auditors

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

We foresee significant operability and auditing concerns and constraints, as described in Item #3 in our summary and the related detailed discussion in Appendix A.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

As referenced in Item #3 in our summary and related detailed discussion in Appendix A, we do not believe the proposed ASU fully considers the mathematical complexity of relying upon "historical data to reflect current conditions and reasonable and supportable forecasts of the future." While Regions has access to historical loss data, we believe to meet industry and professional standards for "reasonable and supportable forecasts of the future," we would be required by auditors, examiners and standard setters to greatly expand that data. For example, we might be required to establish a vintage-based credit loss analysis to support a reflection of cumulative expected credit losses over the life of loan based on the point where each vintage falls in historical economic cycles, as of each

reporting period. Such historical economic cycles, however, are no guaranty or even necessarily a good predictor of future results.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

We agree in principle with the FASB that the determination of expected credit losses should usually consider multiple possible outcomes. However, the language used in the proposed guidance is confusing and should be modified to provide increased clarity. For example, we infer from the guidance that we must always support the possibility that a credit loss will occur at some point during the contractual life of the financial asset, regardless of its structure, credit quality or term. In addition, we have concerns that the proposed guidance will require an increased burden of proof on assets with essentially no default risk (e.g., U.S. Treasury securities or highly collateralized loans), regardless of the FASB's perceived intent. Refer to Item #3 in our summary and related detailed discussion in Appendix A for more detailed discussion.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

Yes- we foresee significant operability concerns with the proposal that an estimate of expected credit losses reflect the time value of money. Conceptually, we do not agree that methods such as loss-rate methods and PD/LGD implicitly include the time value of money. In addition, we are troubled by the scenario created by requiring the estimate to reflect the time value of money but specifically stating in the FAQ that a firm will not be required to prove that a method has the same results as one that explicitly includes the time value of money. See more detailed discussion at Item #1 in Appendix A.

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

We believe there will be significant operability and auditing concerns/constraints in determining and validating the discount attributable to credit embedded in the purchase price of financial assets as there is significant judgment involved in the bifurcation of the discount rate. Refer to Item #6 in our summary and related detailed discussion in Appendix A for more detailed comments regarding our opinion of the proposed guidance for purchased credit-impaired financial assets.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

As referenced in Item #4 in our summary and in the related detailed discussion in Appendix A, we do not consider the practical expedient to be "practical" as a movement in interest rates could cause an institution to no longer qualify for the practical expedient (i.e., the fair value of the security is greater than amortized cost), when there has been no change in credit risk. While we do not believe the potential loss would be "significant," the burden of proof required by auditors and standard setters would force companies to either record a loss (as a "practical expedient") or produce "reasonable and supportable" evidence that no loss should be recorded.

Additionally, the Board anticipates that the practical expedient would apply to more debt securities than to loans because loans would more often be classified in amortized cost. However, our interpretation of the proposed Recognition and Measurement exposure draft would classify significantly more loans at fair value through other comprehensive income (FV-OCI) than in current practice.

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph

825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

Our opinion is that there is no need for any changes to the current practice or current accounting treatment. We do not believe the proposed nonaccrual guidance will significantly change current practice for financial institutions as we currently comply with regulatory guidance that is very similar to the proposed guidance. The main difference is the proposed guidance *requires* entities to account for the recognition of interest income through either the cost-recovery method or the cash-basis method, while current regulatory guidance effectively gives entities this option.

In addition, nonaccrual accounting conflicts with the proposal's time value of money concept. Refer to Item #1 in our summary and the related detailed discussion in Appendix A for additional detail.

Questions for All Respondents

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

As referenced in Item #5 in our summary and related detailed discussion in Appendix A, we do not believe the TDR determination is relevant. Rather, we believe impairment may occur whether or not the loan is modified and that improving the effectiveness and conciseness of credit quality disclosures would provide more useful information to investors.

Disclosures

Questions for Preparers and Auditors

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

As referenced in Item #3 in our summary and related detailed discussion in Appendix A, we do foresee significant operability and auditing concerns in complying with the disclosures proposed in the ASU.

Implementation Guidance and Illustrations

Questions for All Respondents

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

No- The implementation guidance and illustrative examples in the proposal need to be expanded. Additional examples of the proposed disclosures are needed, specifically related to investment securities (if they remain in the scope of the proposal). Also, much of the guidance in the proposal is confusing. For example, the guidance related to vintage analysis is illogical and unreasonable due to the cyclical nature of the credit cycle. If the CECL model is issued as is, additional guidance will be needed in determining the validity of models used.

Transition and Effective Date

Questions for All Respondents

Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

Yes- we agree with the terms of the transition provision in the proposal. We believe the FASB should consider questions and concerns identified in the comment letters before the proposal is finalized and an effective date is established.

Question 21: Do you agree that early adoption should not be permitted? If not, why?

Yes- we agree that early adoption should not be permitted to maintain comparability among financial statements.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

Yes, we believe the effective date should be the same for both public and nonpublic entities to ensure comparability among financial statements.

Questions for Preparers and Auditors

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

Yes, refer to #20 above.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

As discussed in detail in page 4 of our comment letter, we believe our institution would need a minimum of three years to transition our current allowance methodology to be in compliance with the proposed ASU. Refer to Item #3 in Appendix A for our discussion of modeling challenges that need to be addressed in order to implement the proposed guidance.