



June 17, 2013

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

File Reference No. EITF-13B: *Accounting for Investments in Qualified Affordable Housing Projects*

We appreciate the opportunity to comment on the FASB's exposure draft, *Accounting for Investments in Qualified Affordable Housing Projects* ("the ASU" or "the Update"). 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. Regions regularly invests in limited partnerships that sponsor qualified affordable housing projects, which are funded through a combination of debt and equity. It is not uncommon for Regions to make short-term construction loans, letters of credit commitments, or long-term mortgage loans to these partnerships.

In order to fully consider the ASU and assess how the proposed changes would impact our company, we discussed the ASU with business leadership responsible for the management of our affordable housing project activities, as well as with professional services firms who assist us in accounting for affordable housing projects. We also participated in conference calls discussing the Update with the American Bankers Association.

Conclusion / Recommendations

We support the FASB's efforts to help financial statement users understand the nature of affordable housing project investments and their effect on the reporting entities' financial position and results of operations. Under existing accounting guidance, the majority of Regions' investments in projects that qualify for the affordable housing tax credits are reported as equity method investments with losses from the investment being reported separately from tax benefits.

Generally, we believe the proposed guidance, which allows for the reporting of losses/benefits within the income tax provision, provides a more appropriate matching of the economics in the financial statements,

and reflects the way management analyzes the investments. However, we have included recommendations for the Board's consideration that we believe would improve the ASU as currently proposed. Our recommendations are summarized below:

1. Arm's Length Lending Arrangements

As a commercial lender, in the normal course of business, Regions may provide loans to certain qualified affordable housing projects or to an entity that manages a project. We do not believe that lending in the normal course of business through an "arm's length" lending arrangement would constitute "operational influence" as contemplated under the ASU unless the lending arrangement provides substantive participating rights to Regions. Accordingly, we believe the Board should consider clarifying that the determination by an investor as to whether "substantially all of the projected benefits are from tax credits and other benefits" would not require the investor to consider cash flows associated with such lending arrangements.

2. Amortization Method

The ASU provides for amortization of the qualified investment using the effective yield method. While we agree that the effective yield method is an acceptable method of accounting for these investments, we believe that an approach where the cost of the investment is amortized in proportion to the tax credits received should be permitted as a practical expedient. A cost-based amortization approach would provide a rational methodology that more closely matches amortization of the investment to the tax credits actually received, and would be substantially less burdensome to implement than the effective yield method.

3. Relationship with Recognition and Measurement Proposal

We believe the Board should consider clarifying the interplay between the ASU and the recent proposed Accounting Standards Update on Recognition and Measurement of Financial Assets and Financial Liabilities ("the Recognition and Measurement Proposal"). The Recognition and Measurement Proposal would eliminate the fair value option under existing standards for investments accounted for under the equity method of accounting, and would require that when an equity investment first qualifies for the equity method, the entity would consider specified indicators to determine whether it holds the investment for sale. Based on evaluation of these indicators, if the investment is considered held for sale, the entity would measure the investment at fair value with all changes in fair value recognized in net income. We believe that, absent additional clarification, many affordable housing tax credit investments (which are accounted for under the equity method under existing guidance) would fall under the held for sale guidance as set forth in ASC 323-10-15-20 of the Recognition and Measurement Proposal. Generally, when investing in affordable housing tax credits, the investor has both identified potential exit strategies and has defined the time at which the entity expects to exit the investment upon the unwinding of the tax credits. Based on our review of both the ASU and the Recognition and Measurement Proposal, it is unclear which proposed guidance should be followed in instances where an investment may qualify under either standard.

4. Scope of the ASU

We believe there may be other types of investments in which economic returns are augmented by tax benefits in order to make the investment viable. Such investments include new markets tax credits and various investment credits, such as rehabilitation and energy tax credits. However, as currently drafted, the ASU requires substantially all of the projected benefits to be generated from

tax credits and benefits, which may disqualify many of these investments from the effective yield method. We believe the Board should consider expanding the scope of the ASU to include these additional types of investments using a principles-based approach and clarify or modify the “substantially all” requirement to allow for the same application as currently proposed for evaluating affordable housing project investments.

5. Disclosure Requirements

We recommend that the Board consider removing from the ASU the guidance that requires the disclosure of whether a qualified affordable housing project is currently subject to any regulatory reviews and the status of such reviews. Such information may not be readily available in a timely fashion for a limited investor and would add a substantial administrative burden on preparers of financial statements, particularly in situations where the entity invests in a significant number of affordable housing projects. Additionally, we do not believe the disclosure of such information would be particularly meaningful for users of the financial statements as it would be rare that the results of regulatory reviews would substantially impact the return on the investments.

6. Transition/Implementation

We recommend a modified retrospective approach with a cumulative effect adjustment through equity at the beginning of the fiscal year of adoption. Full retrospective application will put substantial burdens on financial statement preparers that invest in a large volume of qualified investments given the pervasive financial reporting and disclosure requirements associated with such investments. For example, full retrospective application would require changes to prior period financial statement presentation, investment disclosures and income tax disclosures (including the effective tax rate). In certain instances, it may be difficult to obtain historical data by year on investments in partnerships that the investor does not control. We believe a cumulative effect adjustment, coupled with narrative disclosure of the application and method of transition, will provide adequate information to the users of the financial statements, and will alleviate undue burdens on financial statement preparers in the transition. We also recommend that the effective date of the final amendments be at the beginning of an entity’s fiscal operating year. This transition date is preferred as it will provide for more comparative financial information to be presented during all interim periods in the year of adoption.

In Appendix A, we have provided our response to the “Questions for Respondents” listed in 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,



Brad Kimbrough
Executive Vice President, Controller and
Chief Accounting Officer

Appendix A

Questions for Respondents

Question 1: Do you agree that an entity should meet the conditions in this proposed Update in order to elect to account for the investment in a qualified affordable housing project using the effective yield method? If not, please explain why.

We agree that an entity should meet the conditions as proposed in the Update in order to elect to account for the investment using the effective yield method. Specifically, we believe that the proposed criterion that it is “probable that the tax credits allocable to the investor will be available” is superior to existing guidance which requires the availability of tax credits allocable to the investor to be guaranteed by a creditworthy entity through a letter of credit, a tax indemnity, or other similar arrangement. Based on the proposed guidance, it is likely that substantially more affordable housing investments will be eligible for accounting under the effective yield method than the current guidance allows. The methodology described in the ASU will allow for a more appropriate matching of the economics of qualified affordable housing investments in that all book losses and tax benefits will flow through the income tax line on the income statement rather than investment losses being recorded separately in income before income taxes.

Question 2: Do you agree that the effective yield method is an appropriate method to account for investments in qualified affordable housing projects? If not, what method of accounting should be used? Please explain.

The effective yield method is one of several methods that may be appropriate to account for investments in qualified affordable housing projects. We believe the most significant improvement in financial reporting that results from the Update is that the amortization of the cost of the investment will be reported in the same financial statement line item as the benefits realized. Although we consider the effective yield method, which results in a constant yield presented in the investor’s financial statements over the life of the investment, to be an acceptable method, there are practical complexities in the application of the effective yield method that are not contemplated in the example presented in the ASU. The example assumes that the total purchase amount of the investment will be funded in year one and those losses will commence in the same period as the tax credits begin to be allocated. In practice, the timing of losses may commence in periods prior to the initial allocation of tax credits, and the funding of the investment may occur over a period of years. Additionally, tax losses are extremely difficult to forecast, especially over long-term periods.

As we discussed in the “Conclusion / Recommendations” section, we believe that an approach where the cost of the investment is amortized in proportion to tax credits and other tax benefits received would provide a rational method of amortization that would alleviate many of the practical difficulties associated with the effective yield method, and should be permitted as a practical expedient.

Question 3: Do you believe that removal of the requirement for guaranteed tax credits should change the method used to account for such investments from an effective yield method to an approach where the cost of the investment is amortized in proportion to tax credits and other tax benefits received and recognized as a component of income taxes attributable to continuing operations?

We do not believe that removal of the requirement for guaranteed tax credits should necessarily drive a change with respect to whether the effective yield methodology or a cost-based amortization methodology is applied. However, as discussed in the “Conclusion / Recommendations” section and in our response to Question 3 above, we believe a cost-based amortization approach should be permitted as a practical expedient.

Question 4: Do other types of investments made primarily for the purpose of receiving tax credits meet the conditions in this proposed Update for an entity to elect to account for the investments using the effective yield method? If so, please describe them.

As discussed in the “Conclusion / Recommendations” section, there are other types of investments in which the economic returns are augmented by tax benefits in order to make the investments viable. Such investments include new markets tax credits and various investment credits, such as rehabilitation and energy tax credits. As currently drafted, the ASU requires substantially all of the projected benefits to be generated from tax credits and benefits, which may disqualify many of these investments from the effective yield method.

Question 5: Should the guidance in this proposed Update extend the effective yield method to other types of investments for which the economic benefits are realized primarily as a result of tax credits and other tax benefits? Please explain.

As discussed in the “Conclusion / Recommendations” section, we believe the Board should consider expanding the scope of the Update to include investments where the economic returns are augmented by tax benefits in order to make the investments viable, and should clarify the “substantially all” requirement to allow for the same application as currently proposed for evaluating affordable housing project investments.

Question 6: Do you agree that the amendments in this proposed Update should prescribe recurring disclosure objectives that would enable users of the financial statements to understand the nature of the investments in qualified affordable housing projects and the effect of measurement of that investment and the related tax credits on the financial position and results of operations of the reporting entity? Alternatively, should the proposed amendments include minimum required disclosures?

We agree that the amendments in the Update should prescribe recurring disclosure objectives that would enable users of the financial statements to understand the nature of the investments in qualified affordable housing projects and the effect of measurement of that investment and the related tax credits on the financial position and results of operations. As discussed in the “Conclusion / Recommendations” section, we recommend that the Board consider removing from the proposed disclosure guidance the

requirement to disclose whether a qualified affordable housing project is currently subject to any regulatory reviews and the status of such reviews.

Question 7: Do you agree that the amendments in this proposed Update should be applied using a retrospective approach? If not, please explain why.

As discussed in the “Conclusion / Recommendations” section, we recommend a modified retrospective approach with a cumulative effect adjustment through equity at the beginning of the fiscal year of adoption.

Question 8: Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

We believe that for entities with a substantial volume of investments included in the scope of the Update, there will be significant operational challenges to implementing the proposed accounting guidance. However, we support early adoption of the finalized amendments for those entities that choose to do so. We believe that clarification of the Update to allow for cost-based amortization, and providing for modified retrospective transition would enable entities to more quickly adopt the proposed guidance.

Question 9: The amendments in this proposed Update would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why you think they should be different.

We are not aware of any reasons that the amendments in the proposed Update should not be applied to both public and nonpublic entities.

Question 10: For preparers, how much effort would be needed to implement the proposed amendments?

The effort required to implement the proposed amendments will be substantial, particularly for entities with a large volume of investments included in the scope of the Update. As discussed in our response to Question 8, we believe that clarification to allow for cost-based amortization, and providing for modified retrospective transition will alleviate certain of the difficulties inherent in the application of the Update and will still allow for financial statement users to receive more meaningful information than under existing guidance.