



September 13, 2013

Technical Director
Financial Accounting Standards Board
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Via email: director@fasb.org

File Reference No. 2013-270: *Leases (Topic 842): a Revision of the 2010 Proposed Accounting Standards Update, Leases (Topic 840)*

We appreciate the opportunity to comment on the FASB's (the "Board") exposure draft, *Proposed Accounting Standards Update (Revised), Leases (Topic 842)* ("the exposure draft" or "the proposal") developed jointly by the FASB and the International Accounting Standards Board (the "IASB" or collectively, the "Boards"). Regions Financial Corporation ("Regions"), with nearly \$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.

As a lessor, in the normal course of business operations, Regions engages in both direct and leveraged lease financing. In addition, as lessee, Regions and its subsidiaries lease land, premises and equipment under cancellable and non-cancellable leases.

In order to fully consider the exposure draft and assess how the proposed changes would impact our company, we discussed the exposure draft with business leadership responsible for the management of leases, both as lessee and lessor. We also participated in various conference calls discussing the proposal with public accounting firms, as well as the American Bankers Association ("ABA").

Summary Conclusion / Recommendation

Overall, we are in support of the efforts of the Boards to improve accounting standards. We acknowledge that the current lease accounting model has been widely criticized for many years and therefore commend the Boards for considering ways to improve the lease accounting framework. We also believe that this exposure draft represents an improvement from the initial lease accounting exposure draft proposed in 2010 because it has addressed certain of the practical complexities associated with the

initial proposal. In particular, we believe the treatment of renewal options, contingent rents, and the revised lessor accounting model represent improvements that enhance the practicality of the proposal. However, we believe the exposure draft as currently written does not fully achieve cost/benefit objectives. It contains provisions that will cause significant operational complexities, while not necessarily achieving the desired result of providing decision-useful information to users of the financial statements.

The FASB has acknowledged in paragraph BC323 of the exposure draft that “the Board’s assessment of the costs and benefits likely to result from issuing new requirements is unavoidably more qualitative than quantitative,” and that “objective measurement of neither the costs to implement new requirements nor quantification of the value of improved information in financial statements is possible.” Although we agree there is difficulty in obtaining objective quantitative measurements in the evaluation of proposed accounting guidance, we encourage the Boards to carefully reconsider the cost implications of the proposal in light of the resulting benefits to be derived. Specifically, we ask that the Boards demonstrate a more thorough understanding of the potential costs that will arise from the proposal, and to consider those costs in light of whether the proposal will improve the decision-usefulness of information to be provided to financial statement users, including the consistency with which preparers will apply the guidance. While we conceptually agree that reporting leases on the balance sheet provides a more comprehensive depiction of an entity’s financial condition, we believe many of the additional requirements in the proposal will result in less consistency and less transparency in the information reported. In that regard, we believe it may be helpful for the Boards to more thoroughly outline how consistency and transparency are improved in the final standard.

In the Appendix to this letter, we have provided detailed responses to questions put forth by the Board in the exposure draft. Our primary concerns are summarized below with reference to where our more detailed comments are contained in the Appendix.

1. The dual model proposed for lessees will result in inconsistent application by financial statement preparers and will negatively impact the transparency of reporting. (See additional discussion in our responses to Questions 2 and 4.)
2. The expense recognition requirements of the proposal will be cumbersome to implement and will result in less consistency in reporting. (See additional discussion in our response to Question 2.)
3. The proposal fails to adequately address lessor accounting for leveraged leases. (See additional discussion in our response to Question 3.)
4. Several of the requirements of the proposal will be costly to implement and do not necessarily improve the financial information that will be reported under the proposal. Specifically, we believe certain changes can be made to the definitions of lease term, variable payments, and the types of lease contracts that are subject to the proposal that would simplify reporting burdens without sacrificing the usefulness of the information reported. (See additional discussion in our responses to Questions 1, 5, 6, and 7.)

5. We believe requiring simplified disclosures in one footnote will enhance transparency of the proposal and reduce overly cumbersome burdens on financial statement preparers. (See additional discussion in our response to Question 8.)

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

Questions for Respondents

Question 1: Identifying a Lease

Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-6 for how an entity would determine whether a contract contains a lease?

We generally agree with the definition of a lease in the proposal. Further, we commend the Boards for including in the proposal an accounting policy election that allows lessees and lessors to utilize a simplified approach (similar to current operating lease treatment) for leases of 12 months or less. We believe this is a helpful step in making the proposal more cost effective while not sacrificing the benefits of implementation in any significant way. As an additional practical consideration, we recommend that the Boards expand the accounting policy election to include longer term lease arrangements that are collectively immaterial to the financial statements and are ancillary to the core operations of the business. These types of leases are typically high volume, small dollar arrangements that may include such items as copy machines, personal computers, and fax machines. We believe the ongoing costs of maintaining adequate records for balance sheet recognition for such agreements greatly outweighs any benefits derived by users of the financial statements.

Question 2: Lessee Accounting

Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset?

We believe the requirement to bifurcate leases by those which are “expected to consume more than an insignificant portion of the asset” from those that are not (i.e., Type A vs. Type B) provides an element of judgment that will likely result in inconsistent treatment across different reporting entities. Although we generally support principles-based methodologies, we believe the proposal as written leaves the door open for significant financial engineering of lease contracts to fit the methodology an entity wishes to apply. As a point of consideration, it is worth noting that one of the common criticisms of the current lease accounting guidance is that the bright-line tests used in the determination of whether a lease is operating or capital has resulted in the engineering of lease contracts to obtain a desired treatment. In that context, it should be expected that engineering would also take place to achieve a desired result under the proposed guidance where bright-line tests are eliminated.

From an expense recognition perspective, the dual model appears especially problematic given that the judgments as to asset consumption ultimately drive the manner of recognition. We believe it is likely that many lessees would attempt to design lease contracts that fit the Type B model in order to avoid front-end expense loading. Furthermore, the potential recognition of expenses and cash flows in three separate lines of the income statement and two separate sections of the cash flow statement reduces transparency and will likely result in inconsistent application by different reporting entities. Although we understand the conceptual basis for such requirements, we question whether such treatment will result in improved reporting of decision-useful information, or instead result in less transparency than provided by existing guidance.

With respect to comparison of the proposal to existing guidance, we acknowledge that the existing guidance has conceptual weaknesses particularly resulting from off-balance sheet treatment of operating leases. However, we are doubtful that the proposal will improve the decision-usefulness of information provided to financial statement users. It is our understanding that most analysts and lenders (including our own lending officers) use the lease commitment disclosures that are currently required to estimate leverage and cost impacts. Although there is perceived improvement of decision-usefulness resulting from on-balance sheet treatment, we believe the expense reporting requirements will be cumbersome to implement and will result in reduced transparency and comparability given the inherent weaknesses of a consumption-based model as discussed above. At a minimum, we recommend simplifying the subsequent expense and cash flow recognition to allow financial statement preparers to present lease costs and cash flows in one income statement line and one cash flow statement line. We believe the conceptual arguments for requiring multiple reporting lines ultimately fall short when measured against the weight and practicality of more comparable information that is readily available to decision makers. Furthermore, it is our understanding that the primary goal of the proposal is to assure recognition of assets and liabilities arising from operating leases, and that expense and cash flow recognition were ancillary to this purpose. Given the unique nature of the benefits that accrue to entities from lease contracts, we recommend revising the proposal to allow for continued expense recognition in the lease or rent expense line and cash flow treatment solely within the operating section. We further support requiring disclosures of future lease commitments consistent with current lease accounting guidance so that users can make adjustments as deemed necessary for their own decision making purposes.

Question 3: Lessor Accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset?

We do not agree that the dual model in the proposal is necessarily the most appropriate model for either lessors or lessees. Our concerns with respect to such a model, both from a practical and conceptual standpoint, are expressed from the perspective of the lessee in our responses to Question 2 and Question 4. Similar to our considerations related to lessees, from the lessor perspective, we believe there are conceptual weaknesses with determining a model based on consumption. As a further point of consideration, we understand from statements in the exposure draft that the primary impetus for the proposal relates to lessee accounting rather than lessor accounting; however, the Boards believe there is benefit to attempt to make the two models consistent. From our perspective, we do not believe the changes put forth in the proposal for lessors will result in substantial differences in accounting as compared with leases determined to be sales-type or direct financing arrangements under existing guidance. Furthermore, we are not aware of significant criticism from financial statement users of the current lessor accounting model. With that backdrop, we question whether there is significant usefulness to changing the current lessor standards. In addition, given the differences in the perspectives of lessors as compared with lessees, we do not believe that lessee and lessor accounting require symmetry.

Our most significant concern with respect to the proposed lessor accounting is the changes that will be required for existing leveraged lease arrangements. We believe the dynamics of these arrangements are fundamentally different from other leasing arrangements and are more appropriately accounted for using the existing guidance under which such arrangements were established. In our opinion, adopting the

proposed lessor standards to existing leveraged lease arrangements will be operationally challenging and very costly to implement. Furthermore, we do not believe such a change will benefit financial statement users who are accustomed to evaluating the impact of leveraged leases under the existing standard. However, we acknowledge that the removal of leveraged lease accounting is a point of convergence between U.S. and international accounting standards in that the international standards do not contain provisions for leveraged lease accounting. Accordingly, if the current leveraged lease guidance is not included in the final standard, we strongly urge the FASB to allow “grandfathering” of leveraged lease accounting for leveraged leases in existence at the effective date. The leveraged lease environment has changed significantly in recent years and many leveraged lease portfolios (including our own) are in “run off” status. Leveraged leasing is a unique and complex financing solution which was developed over many years to comply with U.S. accounting standards and tax law, and is not a sub-topic fundamental to achieving convergence on this major joint project. As such, we believe that prospective adoption of the final standard on new leveraged lease arrangements would provide an appropriate balance, allowing for ongoing convergence with international standards, while not overburdening financial statement preparers and users.

Question 4: Classification of Leases

Do you agree that the principle on the lessee’s expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property?

We believe the use of a dual classification model for lessee accounting is problematic. From a practical standpoint, as we discussed in our response to Question 2, it would appear the model will continue to encourage financial engineering of lease contracts to obtain a desired result. With more judgment allowed than under the current bright-line tests, we would expect this to result in reporting inconsistencies as entities with similar lease contracts make different judgmental determinations. From a conceptual standpoint, we also question what appears to be an arbitrary dividing line between those contracts that are considered to provide the lessee with rights that resemble ownership (Type A) and those that are considered to provide only rights to use an asset (Type B). Although we understand the desire to fit lease contracts into these types of definitions which are more consistent with other types of assets, we question whether such definitions are appropriately applied to lease contracts. One can argue that all lease contracts are fundamentally the same with respect to the benefits that accrue to the lessee from the use of the underlying asset regardless of the perceived significance of the lease term compared to economic life or present value compared to fair value of the underlying asset.

We recommend the Boards give additional consideration to the definition of a leased asset before moving forward with the proposal. We agree with the comments of Mr. Linsmeier in the “Alternative Views” section of the exposure draft that the leased asset “neither represents the underlying physical asset owned by the lessor nor an intangible asset or service because intangibles and services do not involve control over the use of a physical asset.” Accordingly, we further agree that the subsequent accounting should not necessarily be defined by reference to other existing literature. Our view is that lease assets generally do not align precisely with the current definitions of tangible or intangible assets, but represent a unique asset accruing benefits to the lessee for a temporary period of time until the conclusion of the lease contract. Acknowledging the uniqueness of leased assets would afford greater flexibility to the Boards in providing a simplified model that could be applied to substantially all lease contracts without having to

bifurcate based on levels of consumption. In our view, a single lease model with simplified reporting (including expense and cash flow recognition as discussed in our response to Question 2) would result in the most consistent and decision-useful information.

As an additional consideration that would make implementation of the standard more practical, we encourage the Boards to consider requiring lessees to capitalize leases using undiscounted minimum lease payments. We believe this would significantly ease burdens associated with implementation of the standard for lessees, while also accomplishing the primary objective of obtaining on-balance sheet treatment for the majority of leases. In addition to eliminating practical difficulties in determining the implicit rate or incremental borrowing rate in relation to each lease contract, such an approach would ensure greater comparability among reporting entities.

Question 5: Lease Term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors?

We believe the definition of lease term put forth in the proposal is an improvement over the definition used in the 2010 proposal. However, the current definition as the noncancellable period together with option periods that the lessee has a significant economic incentive to extend or to not terminate still contains an element of subjectivity that is unnecessary. Consistent with our responses above related to expense recognition and the appropriate accounting model, we believe it is paramount that the final standard be one that maximizes both consistency in reporting and decision-usefulness. To eliminate reporting inconsistency and unnecessary burdens in the application of the guidance, we recommend the final standard require inclusion of lease payments associated with optional renewal periods in a manner consistent with existing guidance that would require inclusion of such payments only when “reasonably assured” as determined at the inception of the lease. The disclosure of the nature and timing of optional renewal periods that do not meet the “reasonably assured” criteria, as well as the potential lease payments associated with such renewal periods, would be sufficient to provide financial statement users with decision-useful information, while eliminating certain cost and complexity in the application of the guidance.

Question 6: Variable Lease Payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or rate used to determine lease payments?

In general, we agree with the types of variable lease payments that would be included in the lease term. We acknowledge that variable lease payments that are “in-substance” fixed payments should be included in order to prevent engineering of lease contracts to avoid capital treatment. We do believe the requirement to reassess the lease asset and liability each reporting period when lease payments are tied to an index such as CPI will represent a significant administrative burden for entities with a substantial number of leases with these types of clauses. Accordingly, we request the Boards to consider requiring assessment of the index rate only at the inception of the lease arrangement. If the Boards do not accept this recommendation, we would recommend allowing practical expedients that reduce the administrative burden. Such practical expedients may include required reassessment only at annual reporting dates or

provisions that require balances be reassessed only when there are substantial movements in benchmark index rates.

Question 7: Transition

Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with these proposals?

With the exception of leveraged leasing as discussed in our response to Question 3, we believe the modified retrospective or full retrospective approaches provided for in the proposals, along with certain of the practical expedients allowed (e.g. measurement of the present value of remaining lease payments at the date of transition for leases previously considered operating), are reasonable assuming the proposals are adopted in the current form. However, as addressed in our responses to other questions, we believe additional consideration as to whether the benefits of the proposal truly outweigh the costs is warranted. As expressed herein, we have significant concerns as to the practicality and conceptual underpinnings of the proposals in current form.

At the point a standard is finalized, we respectfully request a lengthy effective date given the substantial cost burden to implement the standard. We believe the implementation will require significant changes to current leasing systems, as well as substantial consideration of the deployment of resources necessary to transition to the new standard.

Question 8: Disclosure

Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with the proposals?

Consistent with our previous comments related to the accounting set forth in the proposal, we believe the cost of disclosure requirements should also be weighed against expected benefits to be derived by users of the financial statements. As currently written, it is our opinion that certain of the disclosure requirements do not meet the cost/benefit assessment. For example, the requirements to disclose reconciliations for the assets and liabilities for both Type A and Type B leases will impose significant burdens to implement, and we are not aware of substantial benefit to be derived by users from such information. We recommend the Boards conduct additional outreach with analysts and lenders with respect to the benefits of such information.

In addition, we agree with the comments of certain board members in the “Alternative Views” section who pointed out that there is no requirement that leasing disclosures be summarized in one place. These members indicated that this actually hinders the decision-usefulness of the information as it makes it more difficult for users to obtain necessary information to make adjustments as they deem appropriate.

Questions 9, 10, 11, 12

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