FIRST HORIZON
NATIONAL CORPORATION

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September 25, 2013

Board of Governors of the Federal Reserve System – Docket #OP-1461
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency – Docket ID #OCC-2013-0013

Dear Ladies and Gentlemen:

We appreciated the opportunity to comment on the Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 billion. We found the interagency conference call on September 19th to be informative and helpful in clarifying some of our questions.

First Tennessee Bank National Association is a regional bank with $25 billion in total assets. Our 4,100 employees provide financial services through more than 180 bank locations in and around Tennessee. In addition, our FTN Financial Capital Markets division provides fixed income trading, investment accounting and other related services to thousands of community-oriented U.S. depository institutions.

We have carefully reviewed the guidance and offer the following comments for your consideration:

1. Question 4 in the proposed guidance:

> *"How could the proposed guidance be clearer about the manner in which the required capital action assumptions between holding companies and banks differ, and how those different assumptions should be reconciled within a consolidated organization?"*

For many institutions, the bank subsidiary underneath the bank holding company constitutes over 98% of the total firm's assets. Is there a threshold level where firms should begin to differentiate between capital planning assumptions at the legal entity level? Are two template submissions (bank subsidiary & BHC) necessary regardless of the firm's composition? Additional guidance regarding this matter would be helpful.

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2. Question 5 in the proposed guidance:

> *"What additional clarification would be helpful to companies about the responsibilities of their boards and senior management with regard to DFA stress tests?"*

In section E) Controls, Oversight, and Documentation, the proposed supervisory guidance states that,

> *"The board of directors, or a committee thereof, of a company must approve and review the policies and procedures of the stress testing processes as frequently as economic conditions or the condition of the company may warrant, but no less than annually."*

We believe it is highly appropriate for the board to review and approve the stress testing framework and policies. However, requiring the board to review and understand detailed procedures may lead to role confusion and inappropriate use of board of directors' time (governance vs. management). We respectfully request that you consider further delineation of the board's role. It would be helpful to clarify and perhaps change the word from "procedure" to "framework" or "processes".

We want to use this opportunity to highlight a broader governance issue, which is as follows:

American Association of Bank Directors published the "Bank Director Regulatory Burden Report" in March of 2012. They concluded that, in fulfilling their duties, the board of directors must comply with:

1. OCC, FDIC, FRB, OTS and CFPB rules, regulations and guidance
2. Consent orders, formal agreements and Memorandum of Understanding
3. Matters Requiring Attention
4. Myriad of laws, regulations and guidance imposed under state law

The report does an excellent job of inventorying the current landscape. A summary is as follows:

<u>Federal Banking Laws & Regulations</u>:

- 143 provisions in federal banking or related statutes imposing duties on bank directors

- 50 provisions in OCC regulations that impose requirements on national bank boards
- 38 provisions in FDIC regulations for state nonmember bank boards and/or on all bank boards
- 37 provisions in Federal Reserve regulations for state member boards and national bank boards
- 18+ provisions in OTS regulations (now under the OCC) imposing requirements on bank boards

<u>Separate "Guidance" (bank regulatory documents such as exam manuals, bulletins, circulars and FILs)</u>:

- 225+ separate provisions in OCC guidance that directly impose responsibilities on bank directors
- 180 separate provisions in FDIC guidance
- 140+ separate provisions in FED guidance
- 33 additional provisions in FED guidance that apply specifically to boards of bank holding companies
- 200+ provisions in OTS guidance

Current requirements (1000 +) cover a range of topics, complexity and materiality. For example, from **"review and schedule bank's banking hours"** to **"determining the appropriate minimum capital ratios for the bank"**. These regulations and regulatory guidance (which is treated the same as regulation by examiners) have been developed over the years, intended to solve a particular problem and have never been rationalized from a materiality perspective. Each agency has its own mandate and process. In recent years, there has been an effort to better coordinate the rule making process but current efforts fall far short of addressing the complete picture (the existing inventory of rules and guidance).

Proposed rules and guidance simply add to the existing burden without eliminating existing requirements. For example, the proposed stress testing guidance require the board of directors to ***"approve and review the policies and procedures of the stress testing processes as frequently as economic conditions or the condition of the company may warrant, but no less than annually."*** But, at the same time, there is no proposal to eliminate the **"review and schedule bank's banking hours"**. The current process simply <u>**adds**</u> to the existing burden and does not <u>**subtract**</u> any work.

We respectfully ask the agencies to address this very significant burden and rationalize these requirements.

3. Comments on other areas of the proposed guidance:

a) CCAR vs DFAST 10-50

We would benefit from further clarity around the **differences in regulatory expectations** between the Comprehensive Capital Analysis and Review ("CCAR") process and the Dodd-Frank Act Stress Testing for banks with $10-$50 Billion in Total Assets ("DFAST 10-50"). In the interagency call hosted by the OCC, FDIC and FRB on September 19th, 2013, guidance was included in the presentation that stated,

> *"The rules include "tailoring" of requirements for companies with average total assets of $10-$50 billion and are largely identical across the agencies.*
>
> *$10 - $50 billion companies only have to conduct annual company-run test.*
>
> *Not subject to the Board's capital plan rule or the Comprehensive Capital Analysis and Review (CCAR)"*

Currently, the CCAR process is the most prominent example of capital stress testing. During informal conversations with others in the DFAST 10-50 cohort, it appears the general inclination is to emulate CCAR as much as is practical. We are very concerned about CCAR expectations becoming de-facto expectations for mid-size banks ($10-50). This will impose a level of cost and burden that is not commensurate with the risk profile of mid-size banks. We believe that differences in expectations should be clearly articulated in guidance and not left up to interpretation. It would be helpful to see examples of the "tailoring" and areas in which the requirements for DFAST 10-50 banks differ from the requirements for CCAR banks.

b) Idiosyncratic Risks

We would appreciate further clarity on the subject of idiosyncratic risks. Many idiosyncratic or company-specific risks are unrelated and unique in nature. Is the expectation to address these risks independently and in conjunction with the macroeconomic variables provided? Or, alternatively, is each firm expected to generate separate macroeconomic variables or scenarios likely to manifest idiosyncratic risks? In the alternative approach, the macroeconomic variables or scenarios may require different values than those provided by regulating agencies. As an example, some business concentration and/or line of businesses' losses would be consistent with a rising rate environment whereas credit losses will likely coincide with falling rates. Should firms be expected to align with the specific scenario or variable to which they are specifically vulnerable? Or should they indentify the idiosyncratic risks that could occur within the parameters of the regulator-provided scenarios? We would appreciate additional guidance as to how these firm-specific risks are expected to be addressed.

Can the agencies please provide some additional guidance as to how these firm-specific risks are expected to be addressed?

Once again, we appreciate the opportunity to share our comments and questions.

Sincerely,

Yousef A. Valine