M. Deron Smithy
Executive Vice President
Treasurer

REGIONS

September 24, 2015

Via Electronic Delivery

Mr. Robert de V. Frierson
Secretary
Board of Governors of the Federal Reserve System
20 h Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Docket No. R-1517 – RIN 7100 AE 33 – Amendments to the Capital Plan and Stress Test Rules

Dear Mr. de V. Frierson:

Regions Financial Corporation[1] (Regions) submits the following comments to the Board of Governors of the Federal Reserve System (Federal Reserve) in response to the Notice of Proposed Rulemaking (Proposed Rule) regarding Amendments to the Capital Plan and Stress Test rules (RIN 7100 AE33) issued on July 23, 2015. The Proposed Rule would make changes to the capital plan and stress test for the 2016 cycle, consisting of the Comprchensive Capital Analysis and Review[2] (CCAR) and the Dodd-Frank Act stress testing (DFAST) requirement. Regions supports efforts by the Federal Reserve to relieve financial institutions from unnecessary and duplicative requirements that may exist as part of the regulatory structure created following the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Accordingly, Regions appreciates the opportunity to comment on the Proposed Rule and offers the following comments.

Proposed Changes to the Capital Plan and Stress Test Rules for All Banking Organizations

Regions strongly supports the Proposed Rule's removal of the requirement that a banking organization demonstrate its ability to maintain a pro forma tier-1 common capital ratio of five percent of risk-weighted assets under expected and stressed scenarios. The removal of this

[1] Regions Financial Corporation, with $122 billion in assets is one of that nation's largest full-service providers of consumer and commercial banking, wealth management, mortgage and insurance products and services. Regions serves customers in 16 states through its subsidiary Regions Bank operating nearly 1,700 banking offices and 2,000 ATMs. Additional information about Regions can be found at www.regions.com.
[2] 12 C.F.R. § 225.8 (2015).

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requirement benefits Regions' risk management processes by reducing the operational burden associated with forecasted regulatory capital ratios (regulatory capital and risk weighted assets) under multiple capital frameworks. Additionally, the Basel I regulatory capital framework, including the minimum capital requirements, is no longer applicable to bank holding companies (BHCs) if an actual recession or stress scenario occurred. As such, bank holding companies should not be expected to manage regulatory capital to a regime that is no longer in effect. Regions agrees with the Proposed Rule removal of the tier-1 common capital ratio of five percent of risk-weighted assets.

Proposed Revisions to the Capital Plan and Stress Test Rules for Large Bank Holding Companies

The Proposed Rule would make modifications to capital assumptions in the stress test rules to allow large bank holding companies to reflect dividends associated with expense employee compensation and issuances to fund acquisitions.[3] Regions supports the effort of the Federal Reserve to make modifications to the stress test capital action assumptions by including these changes. By incorporating capital issuances to fund acquisitions, the Proposed Rule seeks to align capital assumptions with business plan modifications required when a BHC is considering merger and acquisitions.

Proposed Revisions to Stress Test Rules for Certain Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of $10 Billion or More

The Proposed Rule would "eliminate the fixed dividend assumptions for company-run stress tests"[4] for BHCs with consolidated assets of more than $10 billion but less than $50 billion. In removing the fixed assumptions, the Proposed Rule would allow these institutions to instead "incorporate their own dividend payment assumptions consistent with internal capital needs and projections."[5] However, the proposal would keep certain assumptions, including "no repurchase redemptions, or issuance of regulatory capital instruments"[6] in the company run stress tests. These changes are designed to better align the stress test rules with the rules applicable to state member banks and the rules of other banking agencies.

Regions supports the rationale behind the proposed change that dividends made at the holding company level are limited because they are funded by the subsidiary bank that is subjected to dividend restrictions. Furthermore, Regions believes that given the similarities in business models—especially given Regions' holding company dividends are primarily funded through its bank's distributions—this provision should be extended to apply to banks over the arbitrary $50 billion threshold.

Additionally, this change, as currently proposed, enhances the stress testing processes at only certain BHCs by incorporating more realistic capital actions, thus increasing the value to risk

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[3] *See Amendments to the Capital Plan and Stress Test Rules*, 80 Fed. Reg. 43637, 43638 (July 23, 2015).
[4] *Id.* at 43639.
[5] *Id.*
[6] *Id.*

management and strategic planning. Since the recent economic recession, BHCs have developed more prudent risk management frameworks and capital policies that are designed to be more responsive to deteriorating conditions. By expanding this proposed change to banks with assets over the $50 billion threshold, dividend payment assumptions in a stress scenario would most closely resemble the actions that are dictated by an individual BHC's policies and frameworks, as well as "consistent with internal capital needs and projections" for banks with assets over the $50 billion threshold. **Ultimately, Regions believes that capital action assumptions in stress scenarios for both CCAR and DFAST purposes should be primarily determined by all applicable supervisory regulations (such as dividend restrictions enforced at the bank level and capital conservation buffer distribution restrictions) and consistent with banks' internal capital policies to reflect more credible outcomes.**

Proposed Future Amendments to the Capital Plan and Stress Test Rules

As noted in the Proposed Rule, the Federal Reserve is "considering a broad range of issues relating to the capital plan and stress test rules and whether any modification may be appropriate."[7] While the Proposed Rule indicates that the Federal Reserve does not anticipate proposing additional changes to the capital plan and stress tests for the 2016 cycle, Regions supports efforts by the Federal Reserve to review the regulatory burden post Dodd-Frank regulations have placed upon financial institutions.

Specifically, Regions would encourage the Federal Reserve to continue to expand efforts to increase transparency and understanding of the capital planning and stress testing process. Furthermore, Regions would support efforts to increase transparency of the qualitative factors utilized in the capital planning and stress test process. Finally, Regions would support efforts by the Federal Reserve to work to release instructions and scenarios as early as possible to facilitate a more robust process by BHCs that meets both Management and supervisory expectations. These changes, taken together, would greatly improve the ability of BHCs to comply with the capital planning and stress tests, while providing additional insight for key stakeholders.

Thank you for your consideration of these comments and views expressed in this letter. Should you have any questions regarding the comments, or about Regions, we would be pleased to discuss our comments further with the Board and its staff.

Sincerely,

M. Deron Smithy

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Executive Vice President and Treasurer
Regions Financial Corporation

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[7] *Amendments to the Capital Plan and Stress Test Rules*, *supra* note 3 at 43638.