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November 23,2016

Via Electronic Delivery

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

RE: Docket No. R-1548; RIN 7100 AE-59 - Amendments to the Capital Plan and Stress Test Rules

Dear Mr. deV. Frierson:

Regions Financial Corporation[1] (Regions) submits the following comments to the Board of Governors of the Federal Reserve System (Board or Federal Reserve) in response to the Notice of Proposed Rulemaking (Proposed Rule) regarding Amendments to the Capital Plan and Stress Test rules (RIN 7100 AE59) issued on September 26,2016.[2] The Proposed Rule would make changes to the capital plan and stress test supervisory review process consisting of the Comprehensive Capital Analysis and Review (CCAR) and the Dodd-Frank Act stress testing requirement, with proposed changes taking effect for the 2017 cycle. Regions supports efforts by the Federal Reserve to tailor the requirements resulting from implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). In response to the Proposed Rule, Regions offers the following comments and recommendations:

- Regions strongly supports the elimination of the qualitative objection for large and noncomplex bank holding companies (BHCs).
- Regions supports further efforts to consider additional factors in identifying large and noncomplex BHCs and tailoring the application of the qualitative objection to BHCs based upon a risk-based methodology.
- Regions requests additional details regarding the proposed supervisory and horizontal review processes for the CCAR qualitative assessment.
- Regions supports the proposed reduction in supporting CCAR documentation, but urges the Board to disclose more information on the scope, expectations, and documentation requirements to prevent excessive and duplicative production.

1 Regions Financial Corporation, with $125 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 across the South, Midwest, and Texas, and through its subsidiary, Regions Bank, operates approximately 1.600 banking offices and 2.000 ATMs. Additional information about Regions can be found at www.regions.com.

2 81 Fed. Reg. 67239 (Sept. 30,2016).

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- Regions supports modifications to the FR Y-14 reporting requirements, including increasing the materiality threshold, but encourages the Board to consider raising the materiality further than 10 basis points of capital as proposed.
- Regions is concerned with the proposal to lower the *de minimis* exception threshold from 1.00 percent to 0.25 percent of tier one capital and urges the Board to maintain the current 1.00 percent threshold, but limit the use of the *de minimis* exception to the performance of the BHC compared to its capital plan.
- Regions encourages the adoption of additional changes under consideration by the Board including changes to the assumed capital actions, projection of static risk-weighted assets, and reduction of pro-cyclicality in macro-economic variable assumptions.

Accordingly, Regions appreciates the opportunity to comment on the Proposed Rule and respectfully offers the following detailed comments and recommendations.

<u>Identification of Large and Noncomplex BHCs and Elimination of CCAR Qualitative Objection for Large and Noncomplex Firms</u>

Regions appreciates the Board's continued acknowledgement of the need to differentiate systemic risks between firms based on size, scope of operations, activities, and risk profile, as well as the need to tailor the application of the qualitative objection to BHCs that are large and noncomplex. Regions would continue to support efforts of the Board to tailor the application of the qualitative objection elimination to BHCs based upon a risk-based methodology, such as for identifying Global Systemically Important BHCs.[3]

The Proposed Rule would no longer subject large and noncomplex firms—defined as bank holding companies (BHCs) with more than $50 billion and less than $250 billion in total consolidated assets, total on-balance sheet foreign exposure of less than $10 billion, and average total nonbank assets of less than $75 billion—to the CCAR qualitative assessment whereby the Board may object to a capital plan based on deficiencies in the firm's capital planning process or unresolved supervisory issues.[4] Instead, the Proposed Rule provides that the Board will review a firm's risk management and capital planning practices through the regular supervisory process and targeted, horizontal assessments of aspects of capital planning. The Proposed Rule would maintain the CCAR quantitative assessment of large and noncomplex firms.

While Regions supports the Board's elimination of objections to capital plans on a qualitative basis for large and noncomplex institutions in favor of evaluating qualitative components through regular supervisory reviews. Regions requests details related to how the supervisory review process and targeted horizontal reviews will operate in practice. The Proposed Rule states that the Board envisions this approach to be "more limited in scope" focusing on "the standards set forth in the capital plan rule and SR Letter 15-19." The Proposed Rule also notes that prior to initiating a supervisory review, "the Federal Reserve would send a supervisory

[3] Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 Fed. Reg. 49082 (August 14,2015) (to be codified at 12 C.F.R. Parts 208 and 217).

[4] *Id.* at 67244.

communication to each large and noncomplex firm describing the scope of the year's review."[5] While this information in the Proposed Rule is helpful, Regions respectfully requests that the Board clarify that this qualitative review will conform to the standard practices associated with a supervisory review, including the issuance of a first day letter in sufficient advance time of the examination, a formal recognition that the standard procedures for identifying matters requiring attention (MRAs) will be applied, as well as standard timeframes for addressing any MRAs.

Regarding the targeted horizontal reviews, Regions asks that the Board consider modeling these reviews in a manner similar to existing horizontal reviews and time the reviews to avoid duplication with other ongoing horizontal reviews and/or supervisory examinations. Additionally, Regions suggests that the current apparent standard in which responses to CCAR questions from examiners must be provided by BHCs in writing within 24 hours, be retired in favor of the regular supervisory examination process in which questions and answers are addressed verbally through examination meetings.

Additionally, the Proposal describes a reduction in supporting documentation requirements for large noncomplex BHCs in the annual CCAR submission. Regions supports this effort to reduce documentation requirements. However, the NPR also indicates that this same documentation may be required to be produced "upon request" as determined by the Federal Reserve.[6] Unless given substantial advance notice, requiring these documents to be delivered "upon request" creates a substantial ongoing compliance requirement beyond that which exists today, and is a significant burden on associate resources to maintain these documents on an ongoing basis to ensure they are prepared for submission when requested. Thus, Regions urges the Board to consider disclosing more information related to the scope, expectations, and documentation requirements of the horizontal supervisory review to allow BHCs to focus their documentation efforts in areas within the examination scope. Additionally, Regions would respectfully suggest that certain documentation requirements, such as the methodology documents, be permanently retired. Instead of extensive methodology documentation that explains processes to an outside party, Regions would suggest that the focus of capital planning documentation be permitted to shift to procedural documentation that guides the institution's own capital planning process. Regions appreciates the importance of documentation for use both internally and externally, and believes that these adjustments in documentation requirements would serve supervisory needs while aligning with the supervisory goal that BHCs utilize documentation for internal BHC purposes.

Implementation of Modified Reporting Requirements

The Proposed Rule aims to alleviate burdens associated with reporting the FR Y-14 schedules for large and noncomplex firms by raising materiality thresholds and reducing reporting burdens.[7] Specifically, the Proposed Rule would raise materiality thresholds for FR Y-14Q and M reports for large and noncomplex firms; reduce submission of supporting documentation including model inventory mapping, methodology documentation, technical documents, and validation documents; and remove requirements to complete certain sections of the FR Y-14A Schedule A, including Securities Other-Than-Temporary Impairments

5 81 Fed. Reg. supra note 2, at 67245.

6 Id. at 67246

7 *Id.* at 67239.

(OTTI) sub-schedule. Securities Market Value Source sub-schedule, Securities OTTI by Security sub-schedule, Retail Repurchase sub-schedule, Trading sub-schedule, Counterparty sub-schedule, and Advanced Risk-Weighted Asset sub schedule. Large and noncomplex firms would still be required to produce documentation materials upon request by the Board, and all or a subset would be required to provide this documentation depending on the scope of the supervisory review.

Regions supports the Board's acknowledgement of burdens associated with immaterial portfolios. However, the materiality thresholds continue to constrain the ability for smaller firms to not report immaterial portfolios, considering that 10 basis points of capital translates to a portfolio size of only approximately $1,3B for a bank of our size. Raising the materiality thresholds further, particularly for large and noncomplex firms, would assist with reducing the FR Y-14 reporting burden.

In addition to the proposed changes regarding the FR Y-14A and Y-14Q, Regions also respectfully suggests that the Federal Reserve review the full suite of Y-14A schedules for additional opportunities to streamline the sub-schedules. As an example, the PPNR and balance sub-schedules are highly detailed; reductions or eliminations in these schedules would provide meaningful relief.

<u>Lowering the *de minimis* Exception Threshold and Establishing a Blackout Period for All Bank Holding Companies</u>

The Proposed Rule would make changes to the amount of capital that a BHC may distribute under the *de minimis* exception threshold from 1.00 percent to 0.25 percent of a bank holding company's tier 1 capital.[8] By instituting this change, the Board aims to ensure that such distributions are not treated as automatic add-ons to approved capital distributions. The Proposed Rule would also establish a "blackout period" during the second quarter of a calendar year during which bank holding companies would not be able to submit a notice to use the exception or submit a request for prior approval for additional capital distributions that do not qualify for the exception.[9]

Regions urges the Board to maintain the current *de minimis* exception threshold of 1.00 percent, but limit the use of the *de minimis* exception based on the performance of the BHC compared to the BHC's capital plan. Regions also encourages the Board to eliminate the second quarter blackout period. By further limiting capital distributions outside of the regular CCAR process both in size and timing, the Proposed Rule significantly curtails a BHC's ability to propose capital actions in the event of an unforeseen circumstance. To address concerns that a BHC might use the *de minimis* exception in unintended ways, the Board could connect the *de minimis* request to performance against the BHC's capital plan, which would remove the use of the *de minimis* exception as an automatic addition to a firm's approved capital plan but still allow BHCs to manage the inherent uncertainty in the forecasting process. If a firm's capital levels would remain at or above the capital levels included in the annual capital plan submission, a *de minimis* request up to 1.00 percent of tier 1 capital should be permitted. The adjustments to the Proposed Rule would align the Federal Reserve's goal of

[8] *Id.* at 67247.
[9] *id.* at 67248.

limiting automatic distributions while still providing BHCs with flexibility in appropriately managing their capital positions.

Further, by instituting a blackout period and limiting the *de minimis* exception, the Proposed Rule could introduce significant risk to the financial system as a market disruptor that prevents the acquisition of troubled institutions, introduces non-market based constraints on the timing of capital distributions, and potentially shifts financial activities to non-banking entities. Together, these proposals reduce well-capitalized firms' flexibility in distributing additional amounts of capital without needing a complete re-assessment of their capital plan. Regions strongly encourages the Board to reconsider these proposed changes.

Other Issues for Consideration in Future CCAR Cycles:

In addition to the changes included in the Proposed Rule, additional public comments were recently made regarding future possible changes to the capital planning and stress testing regulations.[10] Regarding these public remarks, Regions appreciates the opportunity to comment on three important topics that Regions would urge the Board to consider adopting.

Changes to the Treatment of Planned Dividends and Share Repurchases

Currently, CCAR incorporates all planned dividends and share repurchases during a two-year planning horizon and applies greater scrutiny to firms with dividend payout ratios exceeding 30 percent. Public statements have indicated that the Board will consider only incorporating four quarters of planned dividends to reflect more realistic actions taken by firms during financial stress. Public comments indicated that the Board believes this assumption would incentivize firms to maintain sustainable levels of dividends, rendering additional scrutiny on firms with greater payout ratios meritless. Regions strongly supports incorporating only four quarters of planned dividends and removing references to additional scrutiny for dividend payout ratios exceeding 30 percent.

Balance Sheet and Risk-Weighted Asset Assumptions

The Board remains steadfast in its effort to ensure adequate access to credit is maintained for businesses and households, even during periods of financial distress. However, this effort must be balanced with the need for additional transparency and certainty regarding the assumptions in the CCAR severely adverse scenario. It was recently discussed that the Board will consider replacing its current approach with a simple assumption that balance sheet and risk-weighted assets remain constant over the severely adverse scenario horizon. Regions would support such simplifying balance sheet assumptions as they would increase the transparency of the scenario while more appropriately balancing realistic market dynamics with the stated intent of the stress testing process.

[10] Gov. Daniel K. Tarullo, Bd. of Governors of the Federal Reserve, Next Steps in the Evolution of Stress Testing, Speech at the Yale University School of Management Leaders Forum (Sept. 26, 2016).

Macro-Economic Variable Assumptions

Additional changes have been raised publicly including that the Board is considering adjustments to two key variables in the severely adverse scenario, motivated by a consideration of reducing pro-cyclicality in the scenario. As two examples, the severity of the unemployment rate would be reduced, while house prices would be tied to disposable personal income. Regions urges the Board to clarify how a reduction in pro-cyclicality would be accomplished across the full suite of economic variables, and the degree to which these and other key variables would change in the severely adverse scenario. While the next versions of the supervisory scenarios will soon be disclosed before CCAR 2017, Regions requests that the Board provide a forward looking view of how the scenarios are expected to change in future CCAR cycles given the consideration of reduced pro-cyclicality.

Thank you for your consideration of these comments and views expressed in this letter. Regions supports the Board's efforts to tailor capital planning expectations, and appreciates the Board's thoughtful consideration of all comments received in response to the Proposed Rule. 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,

David J. Turner, Jr.