FIRST HORIZON
NATIONAL CORPORATION

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VIA EMAIL: regs.comments@federalreserve.gov

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, N.W.
Washington, D.C. 20551

RE: *Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies*
Docket No. 1438 and RIN 7100-AD-86

Dear Ms. Johnson:

We appreciate the opportunity to comment on the above rule proposed (the "Proposed Rule") by the Board of Governors of the Federal Reserve System (the "Federal Reserve") to implement the standards and requirements established under sections 165 and 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

First Tennessee Bank National Association is a regional bank with $25 billion in total assets, as of March 31, 2012. Our 4,500 employees provide financial services through more than 180 bank locations in and around Tennessee. FTN Financial Capital Markets ("FTN") is a bank dealer and a division of First Tennessee Bank National Association. FTN is an industry leader in fixed income sales, trading and strategies for institutional clients in the U.S. and abroad. FTN operates a distribution-focused business model pursuant to which it procures fixed income securities for the purpose of distribution to customers.

We have participated in industry discussions and contributed to industry responses. We fully support the comment letters submitted to the Board by The Midsize Bank Coalition of America, the joint letter by The Clearing House Association, LLC, the Securities Industry and Financial Markets Association and the Financial Services Roundtable, as well as the letter submitted by the American Bankers Association. Through our individual response, we want to specifically highlight and reinforce some critical areas that relate to our organization or that we believe are important for the industry.

As a mid-size financial institution, one overriding concern we have is that regulation should be graduated and tailored to size, complexity, business model and risk. We are quite concerned about regulatory "trickle-down", as rules that were designed for the largest institutions are applied to smaller institutions that have limited compliance resources. This may result in smaller banks being less competitive which only exacerbates the concentration of industry assets with the largest banks. As we understand it, the Dodd Frank Act was designed in part to reduce the risk to our economy from a failure of the largest banks. Regulatory "trickle-down" is counterproductive to that goal.

More specifics on various aspects of the proposed rule are noted in the attachment. Thank you for the opportunity to express our views on this matter.

Sincerely,

Yousef A. Valine

Liquidity Requirements

- The proposal recognizes the reality that securities issued or guaranteed by a U.S. government agency or a U.S. government-sponsored entity should be considered equivalent to obligations that are explicitly guaranteed by the U.S government. In contrast, the Basel III definition treats the former as Level 2 liquid assets and thus limits their inclusion in the available liquidity base. The Basel III treatment does not comport with the realities of how these bonds are treated in the marketplace and by the Federal Reserve in its own operations. We urge the Board to work with other regulators and international counterparts to align aspects of the Basel III liquidity framework with the proposed treatment.

- Banks should be permitted to take into account "other appropriate funding sources", including Federal Home Loan Bank (FHLB) advances, for purposes of calculating the liquidity buffer and liquidity stress testing. The FHLB system and the role of the FHLBs as a liquidity source for banks is unique to the United States. The FHLB system has proven itself vital not only to mortgage finance over the decades, but also for providing emergency liquidity support during the most recent financial crisis, when FHLB advances grew to $1.01 trillion at the height of the crisis. This was essential to banks of all sizes in the U.S., including not only large banks but also mid-size and smaller ones for which access to capital markets is principally effected through the FHLB system. Implementation of any liquidity risk-management standard – whether the Proposed Liquidity Rules or the Basel III framework – without regard to the value of this facility and the liquidity it provides will undermine, not advance, sound liquidity risk management.

- The proposed governance provisions are so detailed and prescriptive that they risk impeding directors' proper discharge of their oversight responsibilities. They confuse governance (Board of Directors) with operations (management). We strongly favor a principles-based approach that recognizes the distinction between the oversight role of the Board of Directors and management's responsibility for day to day operations.

Single-Counterparty Credit Limits (SCCL)

- The final rule should maintain the 25% limit for all covered companies unless or until there is a basis for determining that a lower limit is necessary to mitigate risks to the financial stability of the United States. In light of the many other initiatives that will have an impact on covered companies, we recommend proceeding cautiously and only with a full understanding of the impact and effect of the proposal that can only be provided by the proposed data collection. The argument for caution is especially compelling in the face of the potentially severe negative consequences to the markets.

- The Proposed SCCL Rules are in tension with the mandate in Dodd-Frank to clear transactions through central counterparties (CCPs) because it subjects exposures to CCPs to the credit limit. Imposing a limit on a covered company's transactions with a CCP ignores the special regulatory scrutiny and regime to which CCPs are subject and will impede progress towards the goal of centralized clearing.

- The definition of a single counterparty for state and local obligations is too broad. As proposed, it would group as a single counterparty all loans (and investments in bonds and loans) to a particular state and all of its instrumentalities and political subdivisions. This seems overly broad as a general rule and is inconsistent with the manner in which covered companies generally manage credit risk.

- We believe exposures to foreign central banks should be exempted from this rule given their importance and function in the marketplace.

- The Proposed SCCL Rules include a substitution approach under which the covered company substitutes the credit of the issuer of collateral or eligible protection provider for the credit of the secured obligor. This credit exposure calculation methodology overstates exposure because, among other reasons, it does not take into account the reduced likelihood that the covered company will experience a loss because both the counterparty and the collateral issuer or protection provider would have to fail ("double default").

- The proposed definition of "control" is unworkable because it assumes ongoing access to information regarding all of the counterparty's investments and does not properly capture credit risk. For this purpose, "control" should be defined to include only companies that are consolidated for a company's financial reporting purposes.

- Requiring covered companies to track the greater of purchase price or market value of securities is inconsistent with current practice. Instead, these exposures should be measured in accordance with their accounting treatment. This would avoid the establishment of costly new systems that would provide little, if any, risk management benefit.

- The limitation of the application of the attribution rule to prevent evasions as proposed in the Preamble should be reflected in the rule text itself. Section 252.94(b) includes the statutory attribution rule, which requires a covered company to treat a transaction with any person as a credit exposure to a counterparty to the extent the proceeds of the transaction are used for the benefit of or transferred to that counterparty. We appreciate the acknowledgment in the Preamble that "an overly broad interpretation of the attribution rule would lead to inappropriate results and create a daunting tracking exercise for covered companies." In light of the broad language of the attribution rule, it is important that the intention to limit the application of the rule to preventing evasions be reflected in the final rule itself.

- The definition of eligible collateral in Section 252.92(q) excludes mortgage-backed securities even though they are bank eligible securities. Given the treatment of these securities elsewhere in the document, we assume this is a drafting error and will be corrected in the final rule.

Risk Management and Risk Committee Requirements

- The Board's risk management committee should not be charged with operational responsibilities. It should be directed to approve a set of risk management policies recommended by management. Collectively these policies would constitute the company's risk management framework.

- The Proposed Risk Management Rules should acknowledge a board's responsibility to allocate risk management oversight responsibilities to various committees (e.g. Credit or Audit). Otherwise, the Rules could result in the duplication of risk management oversight functions.

- Management and the board should be able to determine what combination of skill, experience and education is appropriate for the chief risk officer given the company's culture, business strategy and risk profile.

- The chief risk officer should not be subject to a mandatory dual reporting requirement. The systems of checks and balances will not be enhanced by a dual reporting structure.

- The Rules should acknowledge the role of business units and corporate staff in risk management. The requirement that the chief risk officer "directly" oversee these functions fails to acknowledge that the chief risk officer works with, and through, the individual business units and staff functions in the company. Individual business units within a company have a primary role in risk management, including identifying risks, setting risk limitations and monitoring risk exposures. It is the business units that are most closely involved in the day-to-day operations of the company and must translate risk management policies into operational practices and procedures. The chief risk officer should have a sufficient degree of autonomy from the business units, but have sufficient seniority within the company to oversee the decisions of the business units and be able to effectively challenge risk decisions that affect the business units.

<u>Stress Testing</u>

- The effective dates of company run stress tests should be delayed for institutions with consolidated assets between $10 billion and $50 billion. As previously noted, these institutions simply don't have the same resources as the largest banks. In many cases, they will need the assistance of external consultants and this will take both time and money. The proposed implementation date is too soon and should be delayed to allow banks to develop the necessary systems and processes.

- There is a potential for unintended consequences by publishing the results of the tests before the information is fully vetted. In addition, the information published should be highly summarized to avoid misinterpretation. We believe the CCAR 2012 format should be adopted as a disclosure template.

- There is a need for consistency across the Regulatory agencies on scenarios, assumptions and expectations to allow the various regulators to work with consistent information and minimize the regulatory burden.

- The stress scenarios developed by the Agencies may not be appropriate for banks with a small geographic footprint. If the stress test scenarios are not relevant, then a bank's board and management may be less likely to use this information as a risk management tool and it simply becomes a compliance exercise. This seems counter to the desired goal. We suggest you consider allowing banks to develop their own stress scenarios to supplement or replace the national scenarios.

- The proposed timing for stress testing increases the burden on banks during a very busy time of the year. Most if not all institutions have a calendar year end and the staff that would be involved with stress testing are fully engaged with the variety of requirements in place already. Smaller institutions simply don't have the extra staff available to handle the stress testing requirements. Scheduling the stress testing period for a different time of the calendar year would even out the regulatory burden and allow a more thoughtful approach to this important task.