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REGIONS

April 30, 2012

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Jennifer J. Johnson, Secretary

Re: Enhanced Prudential Standards and Early Remediation Regulations under Dodd-Frank 165/166

Ladies and Gentlemen:

I am writing on behalf of Regions Financial Corporation ("Regions") to comment on the Notice of Proposed Rulemaking ("NPR") issued by the Board of Governors of the Federal Reserve System ("Federal Reserve") on December 20, 2011 regarding the implementation of enhanced prudential standards and early remediation provisions of Sections 165 and 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Regions appreciates the opportunity to comment on this rather transformational NPR as the potential impacts to Regions and the financial system as a whole are considerable. Regions is supportive of regulatory reform measures that balance enhancing the safety and soundness of the financial system with continuing to support banks' important role as financial intermediaries. After thoughtful review of the NPR on its impact to the Company and the industry, Regions has several specific concerns with the NPR as it was proposed.

The recent financial crisis was aggravated by multiple failures across many facets of the financial system and highlighted two weaknesses within the financial industry: insufficient capitalization and inadequate risk management processes. The combination of these vulnerabilities caused considerable systemic risk within our economy and posed a sustained threat to the eventual recovery process. While the continued recovery progresses, Regions recognizes the importance of internally enhanced risk management measures and acknowledges the need for the crucial development of regulatory reform to advance financial stability. The regulatory reforms, primarily housed within Dodd-Frank, must help protect the strength of the financial system while limiting the negative impacts of increased regulation upon economic growth. Regions' primary concern regarding the proposed rules for Enhanced Prudential Standards and Early Remediation Requirements for covered companies (the "Proposed Rules") focuses upon regulatory balance; the potential that unintended consequences set forth by such specific limits and requirements could impair the ability of banks to effectively manage their own risks and significantly reduce or displace banks' contribution to economic growth through financial intermediation. Regions agrees that the key to successful and balanced regulatory reforms rests in the effectiveness of implementing Dodd-Frank's objectives to preserve systemic financial stability while limiting systemic

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costs. Regions also believes that the imposition of an unreasonable regulatory burden upon banks could exacerbate the systemic costs initiated by Dodd-Frank and threaten to undo the ultimate objective of the legislation.

I. Risk-based Capital Requirements and Leverage Limits

Section 165 of the Dodd-Frank Act directs the Federal Reserve to establish risk-based capital and leverage standards for covered companies that are more stringent than the applicable standards for non-covered companies that do not pose a similar risk to the United States economy (Sec. 165(a)(1)(A)). Regions believes that the proposed application of the Capital Plan rule to covered companies, combined with the stress testing regime applied as part of CCAR 2012, as it will be further developed by the Proposed Stress Test Rules, satisfy Dodd-Frank's "more stringent" capital standard. As such, Regions has fundamental reservations regarding the applicability of the imposition of additional capital surcharges on banks, such as the proposed Significantly Important Financial Institution ("SIFI") surcharge.

Capital Plan Rule

The establishment of the Capital Plan rule, including the enhanced minimum capital requirements, substantially addresses the requirement for more stringent standards. Under the Capital Plan rule, banks will have to demonstrate their ability to maintain a 5 percent Tier 1 Common ratio under both expected and stressed conditions. Given a lack of definition with regard to the severity of stressed scenarios, banks will be required to maintain capital levels well in excess of 5 percent over time in order to ensure their ability to withstand periods of severe stress. This in and of itself creates a higher capital standard than the standard applicable to those banks not subject to such stress testing requirements. When taking into account the recent regulatory reforms that have been introduced by the Basel Committee on Banking Supervision ("BCBS") and by regulators in the United States, Regions believes that the foundation for capital and leverage regulation has been established and that the implementation of these regulations (most notably Basel III and the Capital Plan Rule) will establish an appropriate capital requirement for covered companies as compared to others.

Capital Surcharge

In addition to the Capital Plan rule, the Proposed Rules direct the Federal Reserve to implement a quantitative risk-based capital surcharge for covered companies based upon the BCBS framework for Global Systemically Important Banks ("G-SIBs"). Regions believes that there is risk of unintended adverse consequences should the Federal Reserve impose an additional risk-based surcharge upon regional banks due to (a) potential negative consequences on the banking system caused by such a surcharge and (b) the strong belief maintained by Regions whereby the bank (and other similar regional banks) should not qualify as systemically important under the BCBS framework.

Regions believes the capital surcharge (as an addition to the minimum capital requirements already being implemented) will have severe unintended consequences as it has the potential to hinder credit availability at banks and significantly impact economic growth. Holding excess capital above the already enhanced proposed levels does not necessarily translate into a safer financial environment but would impose a greater burden upon the banks' ability to grow and strategically operate to ensure long-term stability. Also, the systemic risk posed by the failure of a large bank has been largely mitigated through the Early Remediation proposal as well as other regulatory requirements such as Living Wills. While any of these approaches might be beneficial, it is possible that the various regulatory reforms have not been adequately analyzed in the aggregate.

The BCBS states that the purpose for adopting a capital surcharge for G-SIBs is based on the possibility of adverse consequences created by systemically important banks, which current regulatory policies do not fully address (*Global systemically important banks: assessment methodology and the additional loss absorbency requirement* Rules Text November 2011 Paragraph 14). As noted above, Regions believes that the regulatory policies in place now (and currently being implemented) effectively address the issues of capital adequacy within regional banks. Also, the BCBS defines these adverse effects as the impact of the failure of a large, interconnected global financial institution that has the ability to send shocks through the financial system, thus fostering considerable systemic risk. Regions believes that it should be excluded from this classification as its economic footprint is substantially smaller than any of the large, globally interconnected banks.

II. Liquidity Requirements

Regions recognizes the importance of managing liquidity risk and has strong policies and reporting in place to monitor and manage that risk. Management of liquidity risk has been further enhanced since the recent financial crisis with the development of new reporting tools, refinement of liquidity measures, and enhanced Board of Directors' oversight. While Regions supports efforts to improve standards for liquidity across the banking industry, the current proposals highlight a few concerns that warrant further analysis and consideration.

Consistent Standards

While the Proposed Liquidity Rules are in many ways similar to the Basel III Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR"), there are enough differences to create substantial regulatory reporting issues for the banks involved. For instance, while we fully support the inclusion of U.S. agency securities as highly liquid assets in Section 252.51(g)(2), under the Basel III guidelines, they are not considered Level I assets. Managing to two different sets of standards could create conflicts in reporting and management of the bank's liquidity. Should the Basel guidelines remain as they are, banks will be forced to manage to a de facto limit under the Federal Reserve rules even though none specifically exist. This is not something that Regions supports. More similar guidelines, which include the use of U.S. agency securities as Level 1 assets, should be considered for implementation.

For purposes of liquidity measures and liquidity stress testing, and the definitions detailed in Section 252.51(g), Regions believes that available capacity to borrow from the Federal Home Loan Bank ("FHLB") should be included in liquidity calculations. Throughout the entire financial crisis, FHLB borrowing remained open and was one of the few viable liquidity tools available to many banks at the time. As it is a secured credit line backed by the bank's collateral, it is considered to be more reliable than other sources of borrowing, many of which disappeared during the financial crisis. While the FHLB has the right to pull a credit line at any time, recent history has proven that scenario to be unlikely.

Corporate Governance

The Proposed Liquidity Rules specify actions that the bank's Board of Directors would need to undertake to actively manage liquidity risk. While Regions agrees that the Board of Directors should be strategically involved in the process, we view this as an oversight and governance role and not day-to-day management. For example, Section 252.52 of the Proposed Rules proposes that the Board of Directors' risk committee "establish procedures governing the content of senior management reports". As a result of the most recent liquidity challenges, banks have developed extensive internal committees and working groups to enable the organization to align business goals, forecasts, and practices across all lines of business. This governance and vetting process allows senior management to present the Board of

Directors a cohesive approach and business plan for their review and approval. The expectation of the Board of Directors being required to take the granular approach referred to in Section 252.52 is neither practical nor prudent. The daily management of the organization should remain the responsibility of senior management, whom the Board of Directors has entrusted with that role. Regions firmly believes it is critical to keep the Board of Directors involved and up to date on liquidity risk measures and policies but also believes a better balance can be achieved.

The same internal cross-organizational review process exists to evaluate new lines of business and products. There are committees comprised of members from Risk, Compliance, Audit, Finance, Legal and the business lines within the bank to ensure all viewpoints are represented and to evaluate all the risk associated with a new product or lines of business. Recommendations are then made to the Board of Directors based on the research and work done by these committees. We believe this to be an appropriate process for evaluating this type of risk and encourage the rules be written to allow this approach.

Reporting and Liquidity Limits

Regions agrees with certain sections of the approach prescribed in the Proposed Rules concerning Liquidity Requirements, and items such as cash flow projections, liquidity stress testing, and contingency funding planning are already in place at Regions and found to be effective. Therefore, Regions supports the use of similar tools to manage liquidity risk. However, there are concerns related to some items such as the role of the Board of Directors in the process and the definitions of liquidity and unencumbered assets.

Regions has a contingency funding plan ("CFP") already in place and believes this to be an important requirement for all covered companies. During the most recent financial crisis, the CFP was expanded and reinforced and will continue to be dynamic in nature to proactively address the constantly evolving funding environment. Regions does, however, have concerns with Section 252.58(b)(4) requiring a bank to test the methods it would use to access alternative funding sources detailed in the plan. Further clarification on what is required is needed. If a company needs to actually book a transaction using each of those sources, that could be problematic. It may create additional cost for the bank and could create reputational risk concerns about the bank in the market if other market participants do not fully understand that the transaction is just a test and not a signal that the bank is in need of these alternative sources. Validation and verification of secured sources of funding are available by ensuring documentation is current to show that lines are readily accessible.

The Proposed Rules also suggest a limit on the short-term debt that may be held by a covered bank. Regions believes that the level of short-term debt required by a bank could vary widely based on the structure of the bank, its product mix on both the asset and liability side of the balance sheet, and its access to various sources of funding. Regions believes this should be managed on a bank-by-bank basis and not as an "across the board" rule. Regions includes in its Liquidity Policy a variety of liquidity ratios, including maturity concentration ratios, used to identify different types of risk with limits imposed on those ratios. Regions also has established a Primary Liquidity Target with minimum levels determined based on stress testing and secured funding sources. Regions believes this to be the most effective method to manage short-term debt risk.

In terms of implementation of these reporting requirements, Regions believes that should happen through a transitional period before being fully enforced. While much of the information required will be fairly easy to obtain, other items may require systems reports to be built once specific definitions have been established, procedures and policies to be put in place, and meetings across the lines of business to understand the impact on the business, capital, liquidity, and earnings.

III. Single-Counterparty Credit Limits

Regions supports an organization-wide single counterparty credit limit as a key plank in reducing interconnectivity and systemic risk. A fundamental premise of the single-counterparty credit limit ("SCCL") is the reduction of risk in the U.S. financial system. The rule, as proposed, however, superimposes an entirely new framework on the existing credit risk management and regulatory capital frameworks in a manner that does not take into account the actual risk posed by the exposures the rule would limit. Instead, the Proposed SCCL Rule imposes arbitrary, "one-size-fits-all" methodologies for calculating exposures that, in Regions' opinion, do not allow for the appropriate calibration of risk. This approach appears to work counter to the supervisory focus on developing systems to measure risk in a more sophisticated and meaningful way and will likely have broad adverse effects on the availability of credit and liquidity in the markets.

As a result, the Proposed SCCL Rule would require covered companies to develop a duplicative and less effective risk management system that will produce data used for no other purpose, and the operational and system costs will likely far outweigh any supervisory benefits. This would divert resources and management attention from the systems actually used and relied upon by covered companies and their regulators to monitor and control risk to developing and maintaining an arbitrary system that has no basis or use in the economic functioning of the company.

Regions' Concerns

Our concerns with the Proposed SCCL Rule fall into three main categories. The first set of issues relates to the effect that the rule would have on existing credit relationships and the potentially severe negative consequences for credit markets and market liquidity. These issues largely arise from the methodology used to calculate credit exposures and the types of counterparties that are subject to a credit limit. A consequence of this risk-insensitive approach is that the Proposed SCCL Rule overstates actual credit exposures. This is exacerbated by the proposal's focus on capturing the full value of all exposures on a gross basis at all times without recognizing valid and legally enforceable reductions in risk from credit hedges, guarantees and netting arrangements.

The second set of issues arise from the fact that the Proposed SCCL Rule is divorced from the existing systems, processes, and procedures used by covered companies today to measure exposures for regulatory capital, credit risk management, or any other reason, and will require Regions to develop and maintain an alternate system, at great expense and effort, for this one purpose. In proposing the SCCL Rule, the Federal Reserve may not have a complete analysis to compare the significant costs associated with developing tracking, reporting, and other compliance mechanisms against the expected benefits to covered companies and the U.S. financial markets. Before the Proposed SSCL Rule is made final, a thorough assessment should be completed that weighs the significant costs against the attained benefits associated with the Rule.

The third issue is the relatively short deadline (currently October 1, 2013) for designing, building, testing, and implementing a reporting and daily compliance regime imposed by the Rule. Due to the immense amount of work, time and resources that would be required to build out a separate counterparty exposure measurement system, Regions recommends that the implementation of the proposed rule be extended past its proposed implementation date according to the discretionary authority granted to the Federal Reserve. The Proposed SCCL Rule thus contravenes U.S. government policy requiring an analysis and "reasoned deliberation" regarding the costs and benefits of a proposed rule and consideration of less burdensome alternatives, a policy which the Federal Reserve is required to adhere to.

SCCL Recommendations

The following recommendations are designed to address the overstatement of exposure and inclusion of exposures that do not pose significant risk to covered companies while supporting the designed intent of the single-counterparty credit limit. Regions believes that covered companies should calculate credit exposure using internal model methodology. The proposed methods for calculating exposures for derivative and repo-style transactions will result in a substantial overstatement of the exposure that is unrelated to the risk posed by the exposures. Covered companies should be permitted to measure their exposure to derivative and repo-style transactions in accordance with their internal model methods ("IMM"). It is unlikely that Regions would approach the credit limit regardless of the method of calculation, due to the fact that the bank is generally less of an active market participant. In light of the fact Regions' activities in these markets do not pose a concentration risk, it seems unnecessary to require Regions to develop entirely new systems to measure exposure.

Also, Regions supports modifying the "substitution" approach. The Proposed SCCL Rule includes 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"). Regions believes there should be flexibility in determining a method of calculating "double default" exposure. Regions would propose to determine such methodology after discussion and agreement by Regions' primary regulators.

Regions believes that exposures to centralized clearing parties ("CCPs") should be exempted from the credit limit. The Proposed SCCL Rule is in conflict with the mandate in Dodd-Frank to clear transactions through 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 Proposed SCCL Rule should define "control" in a way that is readily administrable and appropriately reflects credit risk. The proposed definition of "control" is unworkable because it assumes ongoing access to information regarding all of a 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.

The aggregation of states and local entities into one counterparty should not occur. Each state and its local entities may have independently reliable sources of repayment for credit exposure. Aggregating into a single counterparty does not recognize the repayment capacity of separate obligors.

Lastly, individuals should not be counted as counterparties for the purpose of the proposed rule. Based on our experience, Regions believes it is highly unlikely an exposure to an individual would ever approach the 25% of a covered company's capital limit and thus see no reason for building a system to prove that in fact this level of exposure does not exist.

IV. Risk Management and Risk Committee Requirements

Regions supports a robust enterprise-wide risk management program. Regions formed a risk committee in 2004 and its chairman and all but one of its members are independent directors. Our risk committee has a formal written charter that is reviewed by our Board of Directors on an annual basis. Regions is in agreement with most of the proposed rules regarding enterprise-wide risk management and the composition of the risk committee. However, we do believe that the proposed rules may be improved by (i) broadening the definition of "risk management expertise;" (ii) taking care not to impose management functions on the Board of Directors or its committees; and (iii) eliminating any confusion as to whom the chief risk officer actually reports to on a day-to-day basis.

Risk Management Expertise Definition

The final rules should expand the definition of "risk management expertise." Dodd-Frank requires that risk committees "include at least 1 risk management expert having experience in identifying, assessing, and managing risk exposures of large, complex firms." The Board of Governors has attempted to comply with that requirement by requiring that a risk committee have at least one member with "risk management expertise." However, the definition of "risk management expertise" requires not only an "understanding of risk management principles and practices with respect to banking holding companies," but also experience "developing and applying risk management practices and procedures, measuring and identifying risks, and monitoring and testing risk controls with respect to banking organizations…" We suggest that the definition of "risk management expertise" should be replaced with a definition patterned after the SEC's definition of an "audit committee financial expert."[1] The definition should be expanded to include experience as a risk officer, experience in auditing the risk function and experience in supervising a risk officer or someone who performs essentially the same function. Additionally, risk experience should not be limited to "banking organizations," but should be broadened to include at least all companies that are primarily financial in nature or that otherwise engage in activities that require the identification and mitigation of risk. This person could be called a "risk management expert," which would have the additional advantage of more closely tracking the Dodd-Frank requirement of having a "risk management expert."

Responsibilities of Board of Directors

The final rules should take care not to impose management functions upon the Board of Directors or board committees. Unlike Section 252.52(b)(1), which states that the "Board of Directors must <u>establish</u> the covered company's liquidity risk tolerance" (emphasis added) instead of the more appropriate statement that the "Board of Directors must <u>review and approve</u> the covered company's liquidity risk tolerance," Section 252.126 seems to fairly artfully retain the distinction between the proper oversight role of the Board of Directors and the risk committee as opposed to management's day-to-day control over the company's operations. Nevertheless, during the final drafting process, Regions believes it would be helpful to make it even clearer that the risk committee is not expected to establish, develop, create or directly monitor the company's enterprise-wide risk management framework, but rather that is the proper role for management, including the chief risk officer.

Chief Risk Officer

The final rules should eliminate any confusion as to whom the chief risk officer actually reports to on a day-to-day basis. Section 252.126 (d)(3) should be revised from "Reports directly to both the risk committee and chief executive officer of the company;" to "Reports directly to the chief executive officer

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1 The SEC defines "audit committee financial expert" in Item 407(d)(5) of Regulation S-K.

of the company and regularly prepares reports for the review of the risk committee and attends at least a portion of all risk committee meetings;." It would be inappropriate and unrealistic to expect the chief risk officer to report to the risk committee as often or in the same manner that he would report to the chief executive officer.

V. Stress Testing Requirements

The CCAR process and the proposed stress testing requirements contained in Section 165 of the Dodd-Frank Act provide a valuable prudential tool for the banking industry and for the supervisory process as banks have increased their capital levels and enhanced their capital planning processes. While Regions recognizes the importance of stress testing, which is an important part of the capital planning and risk management process, Regions believes the effectiveness of the supervisory stress testing process would be strengthened through enhancements to the transparency of the approaches employed and by a continuation of limited disclosure. Additionally, Regions believes that the ownership of its Capital Plan rests with senior management; with proper oversight from its Board of Directors. Banks have invested heavily into enhancing the processes supporting capital adequacy decisions and should continue to work with their Regulators to continually enhance internal processes. Banks should not rely on their Regulators "approving" their capital actions; rather, they should be able to rely upon their internal processes in determining prudent capital actions.

It appears that the Federal Reserve currently employs its own loss model and qualitative judgments as the primary benchmark in the annual supervisory test, but Regions advises developing a less unilateral approach that incorporates the covered bank's own internal risk modeling outcomes into a collaborative assessment. Also, Regions strongly counsels for limited disclosures of the stress test results, consistent with the 2012 CCAR process, as additional disclosures could risk overshadowing the macro-prudential mandate of the process with the market's dissection of results for potential performance guidance.

Transparency in the Federal Reserve Model

While the Federal Reserve has emphasized the importance of company-run stress tests (as required under Dodd-Frank) as a necessary tool in effective bank capital and risk management, the process as described (and utilized in the recent CCAR assessment) holds covered banks accountable to results from a single, unilateral quantitative assessment, whose composition of complex assumptions and methodologies are generally unknown at any practical level of granularity. Over the past few years, covered banks have significantly enhanced risk management functions to improve the assessment of general and firm-specific risks. Although the Dodd-Frank provisions also require the establishment of public disclosure of the firm's own quantitative stress test, the preeminence of the regulatory model subordinates and devalues these efforts. The de-emphasis of firm-developed methodologies would seem to run contrary to the regulatory expectation that individual firms maintain strong, well-integrated risk management and stress testing frameworks. In particular, the advancement of accuracy and sophistication among firm-specific risk models may be adversely impacted, because the importance of these techniques in the assessment of capital adequacy is reduced.

Substantial reliance upon a singular analytical construct may inadvertently subject the financial system to the unavoidable limitations of any risk modeling framework. No model can be realistically expected to reliably encapsulate the complexities of the economy or financial sector. Nor can these fundamental limitations be known in advance. Indeed, the Financial Crisis Inquiry Commission indicated in its report *The Financial Crisis Inquiry Report* (2011) that flawed computer models, especially those used in a broad fashion across the industry (such as those at the Rating Agencies) were a contributing cause in the recent financial crisis. (FCIC, 2011 pg. xxv).

Depending on the method of application of the Federal Reserve's analytical construct, the approach may significantly under appreciate the implications of firm-specific risks and the quality of firm-specific processes to manage and remediate risk. Certainly, in the course of the last economic turn, institutions experienced a wide range of financial performance attributable to the particular risk characteristics of each firm. The granularity that a comprehensive assessment of risk would require to adequately contemplate this idiosyncratic variation may be forbidding in the absence of bank-specific modeling. Moreover, for similar reasons, the single-model approach may under appreciate the variation across banks in regard to risk management practices (e.g. enhanced underwriting or loan segment run-off), which may have very substantial impact to results in a stressed environment.

To alleviate these concerns for the singular and unilateral nature of the assessment modeling approach, Regions proposes adopting a process that takes into consideration the significant efforts around risk measurement on the part of banks and inform the assessment with a more integrated modeling analysis.

Regions believes the Federal Reserve should include the company-run models as part of this combined approach in its supervisory stress test. By including additional loan loss models that have been developed by each of the banks, the Federal Reserve will be able to provide supervisory guidance as intended, and more likely reflect the idiosyncratic exposures of each. The Federal Reserve's loss model can produce a set of expected credit losses in a stressed scenario that differs greatly from the bank's expectation in the same scenario, the bank's actual losses in a historical, similarly stressed environment, and what the bank's actual losses would be if the stressed scenario did occur. When utilizing identical economic stressed scenarios, a supervisory-run model and company-run model can produce considerable loan loss variances across loan categories. The loan loss data from each model can be justified according to each model's own set of assumptions. Also, when comparing the CCAR loss rates provided, many of the banks experienced significantly worse loan loss rates than in the recent financial crisis, with multiple loan loss rates more than doubling, particularly in the First Lien, Junior Lien & HELOCs, and C&I loan categories. One stress testing model cannot capture the dynamics unique to each serious economic downturn. This was made evident by the most recent financial crisis wherein the performance of certain "risky" asset classes (auto loans, credit cards) would not have been reasonably expected to perform relatively well versus "safe" assets such as conforming mortgages. Diversification of approach is a potential mitigating factor to this limitation. The design and implementation of the process can achieve greater prudential effectiveness through increased transparency from the Federal Reserve regarding its modeling and stress approach and productive collaboration with the banks.

Effective Capital Management

By enforcing a supervisory process that largely relies upon Federal Reserve-generated results and qualitative judgments, the Proposed Rules hinder the ability of the banks to effectively make risk/return decisions. The process will be better served if banks worked with their Regulators to develop prudent and effective internal processes and then relied upon those processes as they made decisions regarding capital actions. The process, as proposed, de-emphasizes the numerous enhancements banks have made to internal processes. Banks, with proper oversight from their Board of Directors, should be responsible for developing capital plans that are considerate of macroeconomic expectations. Banks should be able to rely upon their internal processes to make the right capital decisions should economic conditions deteriorate.

Despite the addition of recent regulatory reforms and the implementation of Basel III, the current supervisory stress test process essentially creates a 'minimum floating capital' requirement that impedes strategic capital planning. The floating minimum is created through volatility of the supervisory adverse scenario which the banks have no control over. For management to effectively fulfill its duties to all its stakeholders, it must successfully balance the risk and return levels of its bank. Without having a definitive or fixed target for regulatory capital, management cannot effectively allocate resources, whether through capital distributions, internal re-investments, or acquisitions/divestitures, to prudently manage the bank's long-term safety and profitability. To alleviate the effects of a floating minimum capital requirement, the Federal Reserve should set a quantitative severity limit to its scenarios. Through this stress ceiling, accompanied by input and modeling collaboration with the banks, Regions believes that banks can gain a clearer and consistent capital target level that supports management's other functions within the bank.

Also, the timing of the supervisory stress tests not only affects the long-term strategic planning of the bank but also its short-term annual plan. By withholding capital plan approval until mid-March, the Federal Reserve impedes the ability of bank's management to actively appropriate its capital for best-use in a real-time business environment. Regions believes management cannot effectively manage its capital if all capital actions must wait for an annual or semi-annual approval on such a delayed basis that the hypothetical stressed scenario on which the results and approval are based upon is already an outdated and potentially more unlikely event. Regions proposes amending the timeline for submission of annual capital plans to mid-April. This will allow banks to include results for the prior year and begin the internal process after the holidays; alleviating the very significant risk of losing key talent in this important exercise.

Results and Disclosure

While Regions recognizes the benefit of limited public disclosure of the stress test results, the bank believes that the availability of additional data to the public could result in earnings guidance endorsed by the Federal Reserve and lead to further market concerns. With the availability of added information, the market and competitors will attempt to decipher or reverse-engineer the stress test results for their competitive advantage, transforming the stress testing process from a regulatory supervisory tool into a market-driven performance analysis. Also, the additional disclosure of base case results would serve as earnings guidance seemingly endorsed by the Federal Reserve. Confidential supervisory exercises such as CAMEL ratings have proven to be effective while sufficient information is readily available publically in the form of SEC filings, rating agency analysis, and FDIC reports. By limiting the public disclosures, individual banks can concentrate solely upon the prudential aspect of the stress tests. Also, Regions asserts that the disclosures across the various stress tests maintain consistency in their release and thereby preserve the integrity of the tests as prudential tools, particularly in the company-run stress tests.

As part of the annual supervisory stress test, Regions strongly recommends bi-lateral communication between the Federal Reserve and each bank concerning its stressed results and the approval of its plan. Prior to public release and in a confidential manner, banks should have the opportunity to defend their model or understand the potential drivers of any substantial variance that may occur between the different models. Increased collaboration between the individual banks and the Federal Reserve is imperative to ensure the process meets all its intended results.

VI. Early Remediation Framework

The Early Remediation Rules proposed pursuant to Dodd-Frank seek to realize the objective of eliminating "Too Big to Fail" by minimizing the probability that a covered company will become insolvent and therefore mitigate its systemic risk. By utilizing a process that places distressed covered companies into an early remediation regime, the Federal Reserve can assist banks in either a recovery process or an orderly liquidation that avoids government intervention. Regions' concerns regarding Early Remediation center around the risks of: (a) a healthy covered company forced into early remediation due to an automatic trigger and (b) a remediation process and its restrictions would hinder the ability of a bank to recover and inevitably lead to its resolution.

Automatic Trigger

An effective early remediation program should identify distressed companies that are subject to legitimate financial or management weaknesses and should not rely solely upon the use of mandatory triggering events. There is a risk that certain triggers, if applied incorrectly, would give rise to 'false positives' and 'false negatives', especially if based upon numeric standards or market conditions. Also, a stress testing trigger is not a realistic measure of a bank's condition since the test is based upon a hypothetical scenario where the company's capital actions are essentially frozen over a two-year period according to its base case plan. Clearly in such cases of severe macroeconomic stress, banks should have the opportunity to demonstrate their internal policy and decision-making processes and adjust capital plans and related actions.

Discretionary Supervisory Judgment

A more appropriate approach would be the use of discretionary supervisory judgment, considering both quantitative and qualitative factors. This method would allow the Federal Reserve to place the distressed covered company into the most appropriate level of remediation, based upon their comprehensive knowledge of the situation. Also, the objective of an early remediation process should focus primarily upon recovery, with resolution being a final resort. The recovery process for banks placed into early remediation should allow regulatory tailoring and judgment as required under the given circumstances. The risk for banks placed into early remediation is that early remediation would impair the healthy operations and the remediation system would only hasten an otherwise reversible decline. In order to prevent an inevitable "death spiral" for a covered bank placed into early remediation, Regions discourages the use of automatic triggers, including the employment of stress tests as a trigger, as the triggers could signal early remediation to counterparties or market participants. Any type of public indicator to the markets would result in a procyclical effect of worsening the funding or market pressures upon the covered bank. The flexibility of the Federal Reserve to use a discretionary and comprehensive judgmental approach and to tailor remediation actions as appropriate to address specific issues requiring remediation, rather than a standardized process, would most effectively minimize the probability of companies becoming insolvent and ensure the stability of the financial system.

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In summary, Regions is appreciative of the opportunity to comment on this very important piece of rulemaking. As described above, we are supportive of regulatory reform measures that appropriately balance the need for a stronger financial system with ensuring banks' ability to effectively serve their important role as a financial intermediary. Regions is concerned with the total burden of this rulemaking when considering the other regulatory reform measures already enacted, those still currently out for public comment, and those that are yet to come. It is important that the industry not move too far to the other extreme in order to ensure we don't repeat the past. Banks are an important engine for economic growth that should not be unnecessarily hindered at this important time.

Again thank you for your consideration of these comments and I am available should you have any questions or would like to discuss in further detail.

Sincerely,

David J. Turner, Jr.
Senior Executive Vice President and
Chief Financial Officer