June 15, 2013

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
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Re: Supervision and Regulation Assessments for Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of $50 Billion or More and Nonbank Financial Companies Supervised by the Federal Reserve

12 CFR Part 246. Regulation TT; Docket No. R-1457; RIN 7100-AD-95

Via Electronic Mail

Dear Mr. Frierson:

We appreciate the opportunity to respond to the proposed rule relating to assessments by the Board of Governors of the Federal Reserve System (the "Board") to cover its expenses for supervising and regulating bank holding companies and savings and loan holding companies with $50 billion or more in total consolidated assets and nonbank financial companies designated by the Financial Stability Oversight Council ("FSOC") for Board supervision (collectively, "assessed companies"). The undersigned institutions are bank holding companies with total consolidated assets of between $50 billion and $315 billion (as of March 31, 2013). Our institutions are traditional banking organizations, focused on domestic business activities, whose sizes are modest in relation to both the U.S. banking sector and U.S. economic activity. For example, each of the undersigned, as of March 31, 2013, has national deposit shares under 3% (three percent) and total consolidated assets that represent less than 3% (three percent) of U.S. GDP, and in the aggregate, have less assets than the single largest globally systemically important bank, as determined by the Basel Committee on Banking Supervision ("G-SIB"), based in the United States.

We appreciate that determining and collecting assessments for the cost of supervising and regulating large financial companies is a new requirement imposed on the Board under the Dodd-Frank Wall

Street Reform and Consumer Protection Act (the "Dodd-Frank Act").[1] However, we believe the proposed assessment system should be modified in two important respects.

Both modifications relate to the methodology for apportioning the total expenses the Board estimates as necessary and appropriate to carry out its supervisory and regulatory responsibilities with respect to assessed companies. First, the proposed methodology does not appear to make use of those tools that are, or may become, available to estimate and allocate on a company-specific basis those costs and expenses that can readily—and would more appropriately—be attributed to specific assessed companies. Second, the proposed methodology does not recognize that the Board's expenses with respect to the consolidated supervision of an assessed company likely will be significantly reduced for a bank holding company (or savings and loan holding company) that is substantially composed of one or more bank (or thrift) subsidiaries, which already are subject to prudential regulation by a primary Federal banking agency. Regional banks consist of far fewer nonbank entities than the large global banks or nonbank financial companies also covered by the assessments. We are concerned that a straight-line approach based on asset size alone may overestimate the costs of regulating traditional regional banks and may not accurately reflect the costs of regulating the more complex institutions that would also be subject to assessments. We, therefore, urge the Board to revise its proposed methodology for apportioning its estimated supervision and regulation expenses to take account for both of the above aspects in its proposed assessment framework.

We also urge the Board to introduce more transparency into the Board's process for determining the assessment basis. As currently proposed, assessed companies (as well as the general public) have limited insight into the composition of the assessment basis or any potential increases. Greater understanding of the Board's actual expenditures would provide some degree of comfort that assessments are sufficiently aligned with actual costs, and that areas of increased costs appear to be appropriate, and would also facilitate forecasting and budgeting by assessed companies for the annual assessment.

A. Costs That Can Reasonably Be Allocated to Specific Companies Should Be[2]

We strongly encourage the Board to adopt a methodology for apportioning expenses associated with the supervision and regulation of specific assessed companies—e.g., the cost associated with the on-site examination staff assigned to an assessed company—on a company-specific basis. Although the

[1] See Section 318. Pub. L. 111-203, 124 Stat. 1376, 1523 (2010); codified as 12 U.S.C. § 248(s).

[2] Parts A and B of this letter address Question 6 ("What, if any, alternatives to a total consolidated assets measure should the Board consider for apportioning the assessment basis among assessed companies and why?") and Question 7 ("What alternatives should the Board consider for differentiating assessments among assessed companies (for example, a tiered fee structure), and why?") of the proposal.

Board acknowledges in the proposal that there are differences in the level of supervisory attention assessed companies receive, the proposed methodology for apportioning expenses—proportionally based on total consolidated assets—does not fully capture this distinction. The Board should leverage existing tools to estimate and allocate company-specific supervision and regulation costs and expenses to the fullest extent, and should work to further develop tools to better allocate costs and expenses along company-specific lines going forward. Such a methodology would reflect the differences in the level of supervisory attention that assessed companies require.

The Board's existing supervisory framework acknowledges that the level and degree of supervisory oversight should and will vary significantly across the universe of assessed companies. In the Board's Supervision and Regulation Letter SR 12-17, dated December 17, 2012 (the "SR Letter"), the Board outlines its consolidated supervision framework for large financial institutions, including the supervision of the largest, most complex firms by the Large Institution Supervision Coordinating Committee. The Board describes in the SR Letter that its supervisory framework is intended to "support a tailored supervisory approach" that takes into account each firm's unique risk characteristics, including the nature and degree of potential systemic risk associated with its activities and operations.[3] Both the risk an assessed company may represent to the financial system, and the supervisory resources needed to supervise an assessed company from both a micro- and a macroprudential perspective, are primarily driven by the complexity, nature of activities conducted, and interconnectedness of a particular firm, rather than the firm's size alone. The proposed rule, however, would distinguish among assessed companies based only on size, but otherwise would treat an assessed company on an equal footing regardless of the type of financial activities conducted by the company (e.g., traditional lending vs. global derivatives activities), its complexity, or the nature and degree of potential risks to financial stability, or even the absence of risk to financial stability, presented by a particular assessed company. For example, a bank holding company with $50 billion in total consolidated assets would pay a base assessment *dollar amount* that is equal to that of the largest, most complex, international institutions. It would then pay the same assessment *rate* on its $50 billion of assets that a large, complex institution would pay on *each* $50 billion increment in assets.

We are concerned that an allocation methodology based solely on total consolidated assets would spread the Board's costs for consolidated supervision and regulation of the largest, most complex assessed companies out over a larger number of smaller, less complex financial companies that present less risk, from both a microprudential and systemic risk perspective. Supervisory costs that are associated with larger institutional size, complexity, global activity, or interconnectedness –

[3] See "Consolidated Supervision Framework for Large Financial Institutions," SR 12-17 (Dec. 17, 2012), available at http://www.federalreserve.gov/bankinforeg/srletters/sr1217.htm.

including the systemic implications of these characteristics – would most properly be allocated on the basis of those risks. To spread these costs across all dollars of assets we believe could—in effect—force smaller, simpler institutions without significant nonbanking activities to subsidize the supervisory costs associated with complexity, interconnectedness and global activity. To the extent such inequity would result, we believe it could be mitigated through an application of a company-specific approach to assessments for those expenses that can be allocated to specific assessed companies.

We do not believe a company-specific approach is unnecessarily complicated. Many costs should be readily allocable to specific companies. For example, a company-specific approach would reflect the differences in the costs related to (a) on-site examination staff at assessed companies; (b) targeted examinations and off-site surveillance and monitoring activities related to specific companies, including, for example, oversight related to compliance with the requirements of the Volcker Rule and other new legislative and regulatory mandates; (c) processing of applications and notices filed by particular assessed companies, including conducting related competitive and financial stability analyses; (d) meeting and corresponding with specific institutions on supervisory matters; (e) engaging in enforcement actions, if any; (f) assessing resolution plans required under section 165(d) of the Dodd-Frank Act;[4] and (g) conducting supervisory stress tests and reviewing company-run stress tests. In view of the transfer to the Consumer Financial Protection Bureau of the Board's responsibility for examining and enforcing consumer compliance for covered companies, the Board should confirm that consumer compliance expenses, including processing consumer complaints, are not included in the assessment basis.

Each of the foregoing costs readily lend themselves to being allocated on a company-specific basis, without undue burden to the Board or the Reserve Banks. Doing so would be more appropriate than merely allocating the sum of the Board's estimated supervision and regulation costs on the basis of each assessed company's total consolidated assets, and would more closely align with prudential regulatory burdens incurred by the Board, which reflect the Board's identification of "the unique risk characteristics of each firm, including the nature and degree of potential systemic risks inherent in a firm's activities and operations."

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[4] The Board and FDIC, which are jointly charged with implementation of the Dodd-Frank Act resolution plan requirement, staggered the submission of initial resolution plans into three filing groups—July 1, 2012, July 1, 2013, and December 31, 2013. We note that only a handful of assessed companies—i.e., generally those covered companies with nonbank assets of more than $250 billion—were required to submit a resolution plan for the 2012 assessment period. Resolution plans for a much larger number of assessed companies—including the undersigned—are due by December 31, 2013.

B. Apportioning Costs That Cannot Be Allocated to Specific Companies in a Manner Consistent with the Board's Role as the Consolidated Supervisor

We support the Board's recognition in the proposal that only its costs related to consolidated supervision and regulation would be included in the assessment basis. However, we believe the proposed methodology could be further improved to better reflect the fact that insured depository institutions are already prudentially regulated by their primary bank supervisor. As such, we believe that the Board should levy assessment fees for those expenses that cannot be allocated to specific companies in a way that focuses on nonbank assets of assessed companies and therefore more heavily weights those assets in the assessment formula. This straightforward approach would more accurately reflect the Federal Reserve's role as consolidated supervisor, the current prudential supervision of banking assets by the FDIC, OCC, and the Board (with respect to state member banks) as primary supervisor, and the FDIC in its role as the insurer of an insured depository institution subsidiary's deposits.

Most of the consolidated assets of traditional banking organizations like ours are banking assets held within our insured depository institution subsidiaries, which (as noted in the proposed rule) are subject to prudential supervision by other Federal banking regulators (or by the Board for state member banks). Banking assets and activities are, as a first order of management, a matter of risk for the primary Federal banking agency responsible for oversight of the depository institution that houses such assets, or engages in such activities.

The Board, as the consolidated supervisor of bank and savings and loan holding companies, is required to use existing reports and to coordinate with the primary Federal banking regulator responsible for a holding company subsidiary that is an insured depository institution to avoid duplication of examination efforts, reporting requirements, and information requests.[5] The Board's proposed rule, however, would not take into account that the Board is required to rely, to the fullest extent possible, on the primary supervisor in carrying out its responsibilities as the consolidated supervisor.[6] The Board's supervision and regulation of holding companies focuses in many respects on the same types of prudential standards—e.g., capital and liquidity requirements, counterparty limits, and risk management standards—that the primary regulator of a bank or savings association subsidiary is charged with implementing. In this sense, the proposed assessment method "double-counts" the cost of supervising and regulating banking activities relative to nonbanking activities, and bank holding companies relative to nonbank financial companies that would be supervised and

[5] See generally 12 U.S.C. § 1467a(b) and § 1844(c).

[6] While other bank holding company subsidiaries also may be subject to functional regulations, e.g., by the Securities and Exchange Commission or the Commodity Futures Trading Commission, they are not subject to comprehensive prudential regulation in the manner that insured depository institution subsidiaries are.

regulated by the Board. Consequently, we believe the assessment methodology should be applied in a fashion more calibrated to the Board's role as the consolidated supervisor, i.e., a methodology that recognizes that the Board's costs with respect to consolidated supervision and regulation of an assessed company's banking assets should be substantially reduced (given the resources already devoted by the primary regulator, which the Board is required—by law—to leverage) relative to the costs for an assessed company's other assets (e.g., holding company and other nonbank assets).

We, therefore, urge the Board to consider revising the proposed assessment rate formula to acknowledge the difference between assessed companies that predominately comprise banking assets and those that comprise a significant proportion of nonbank assets, and to primarily weight an assessed company's nonbank assets in the allocation methodology for expenses not already allocated on a company-specific basis. The Board, for example, could determine the relative proportion of bank assets to nonbank assets when determining the amount of aggregate assessable assets[7] used in its proposed assessment rate formula—essentially determining an aggregate proportion of bank assets to nonbank assets across the universe of assessed companies. Using that figure, the Board could revise its assessment rate formula to allocate a greater portion of its supervisory and regulatory expenses (not already allocated on a company-specific basis) to those assessed companies with a lower proportion of bank assets than the aggregate figure. Conversely, assessed companies with a greater proportion of bank assets than the aggregate figure could be assessed at a lower rate. Such a methodology likely would also require nonbank financial companies designated for Board supervision to bear a greater proportion of expenses—a result that, in the opinion of the undersigned, is appropriate given the substantial expenses that the Federal Reserve may incur in developing and applying a consolidated supervision framework for these nonbank organizations. Nevertheless, such an approach would, in the view of the undersigned, more appropriately reflect the Board's role as the consolidated supervisor, while limiting unnecessary complexity.

C. Determination of the Assessment Basis and the Use of Fees Should Be As Transparent As Possible

While we support the Board's attempt in the proposal to delineate and describe the categories of supervision and regulation costs that would be included in the assessment basis, we urge the Board to provide greater detail and transparency with respect to the estimated expenses it determines to include in the assessment basis. The Board, for example, could demonstrate that the estimated expenses used to establish the assessment basis are properly correlated to its actual expenses for supervising and regulating assessed companies.

[7] Under the Board's proposal, the "total assessable assets of all assessed companies" would serve as the denominator in the assessment rate calculation.

The proposed rule contemplates an annual notice of assessment, and we would recommend that such annual notice be delivered confidentially to each assessed company and itemize the Board's expenses in sufficient detail so that the assessed company may better understand how the Board determined the assessment amount. In addition and to further enhance transparency, we urge the Board to release a separate, public report which should itemize the Board's expenses for each assessment period by the type of expenses, without identifying particular institutions. Public disclosure would give assessed companies a forum through which they could engage in a dialog with the Board regarding the categories and general amount of expenses. We believe providing a public dimension to the assessments process is justified to provide transparency regarding how funds are spent and an important aspect of public oversight of such expenses.

D. The notice of assessment should be provided to institutions as early as practicable, but no later than June 30[8]

We appreciate the Board's recognition in the proposal that assessed companies should be given sufficient advance notice of the assessment amount due for each assessment period. However, we believe that the Board should provide assessed companies with assessment notice earlier than proposed. The proposed rule anticipates a notice of assessment to each assessed company no later than July 15, stating the amount the company must pay by September 30. We note that July 15 is approximately the date that publicly traded bank holding companies begin reporting second quarter earnings. These assessments may be sizeable, and the proposed rule also proposes to contemporaneously publicly disclose the assessment formula. Therefore, we suggest that this notice be provided to institutions as early following the end of the assessment period as practicable, but no later than June 30, so that the assessment amount can be accrued and incorporated into second quarter disclosures. This should pose no undue burden to the Board, as the assessment would be based on December 31 prior data.

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In conclusion, we believe the vast majority of the Board's activities related to prudential regulation for institutions of our sizes are oriented toward institution-specific risks, rather than risks posed by our institutions to the financial system. Our firms are traditional banking organizations, with minimal nonbank activities. We are concerned that an assessment process that treats all bank holding companies the same with respect to the base assessment rate, or that treats all dollars of assets as if they pose the same related costs for supervision, oversight, and regulation (including supervision with respect to risk to the financial system), will result in assessments that are not appropriately aligned with the supervisory and regulatory costs the Board incurs with respect to individual institutions.

[8] Part D of this letter addresses Question 10 of the proposal ("What alternative approaches or additional factors should the Board consider for the billing and collection of assessments and why?").

Thank you for the opportunity to respond to this proposed rulemaking, and for considering the relative impact of rules such as this on institutions proportional to their business activities, scale, and related risks. If you have any questions regarding the content of this letter or would like more information on the proposals contained herein, please do not hesitate to any of the contact individuals listed at Attachment 1 appended hereto.

Sincerely,

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Regions Financial Corp.
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