REGIONS

June 25, 2018

Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20219

Re: Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules

Dear Board of Governors:

Regions Financial Corporation[1] ("Regions") appreciates the opportunity to comment on the Board of Governors of the Federal Reserve's ("the Federal Reserve") proposal regarding "Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules" ("the Proposal") (RIN 7100-AF02) published in the Federal Register on April 25, 2018.[2] Regions supports the Federal Reserve's efforts to reduce the complexity of the framework for non-advanced approaches banks and the Federal Reserve's continued efforts to appropriately tailor regulations based on the size and complexity of banking organizations. Regions agrees this review of the prudential supervision standards is timely and commends the Federal Reserve on its Proposal, which is a positive development.

In particular, Regions believes the changes to the Federal Reserve's stress testing assumptions and the elimination of the quantitative objection are steps in the right direction. Notwithstanding, Regions believes some aspects of the Proposal could be clarified or expanded, which would strengthen the regulatory capital framework. Further, given the enactment of S. 2155, the "Economic Growth, Regulatory Relief, and Consumer Protection Act," additional changes to the Proposal may be necessary.

Changes in Supervisory Stress Testing Assumptions

Regions commends the Federal Reserve's decision to remove capital distributions beyond four quarters of dividends. This assumption, while not completely aligned with Regions' expectations for capital distributions in an environment such as the supervisory severely adverse

[1] Regions Financial Corporation (NYSE:RF), with $123 billion in assets, is a member of the S&P 500 Index and is one of the 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, member FDIC and an Equal Housing Lender, operates approximately 1,500 banking offices and 1,900 ATMs. Additional information about Regions and its full line of products and services can be found at www.regions.com.

[2] 83 Fed. Reg. 18160 (April 25, 2018).

scenario, is more realistic than the previous approach of assuming continuation of all planned Base capital actions in the stress scenario. Further, it is a positive step towards aligning supervisory stress testing with a firm's actual capital management practices. Regions also supports the Federal Reserve's decision to modify its current assumption to no longer require balance sheet growth under stress, as well as the elimination of the quantitative objection as outlined in the Proposal.

However, Regions respectfully suggests that additional adjustments are needed to better align stress testing with actual capital management practices. Under the Proposal, capital distributions remain limited to an annual capital plan, and more flexibility is needed for banks to more dynamically manage capital. Providing this flexibility will allow Regions and other financial institutions to better satisfy customer and shareholder needs through balancing organic growth, strategic opportunities, and share repurchases. This flexibility can be accomplished by removing the requirement that banks are limited to the capital actions included in their annual capital plan, and rather allow banks to manage capital levels to internal capital targets within the guardrails of the banks' capital policy and appropriate board of director oversight. The Federal Reserve maintains the ability to monitor bank capital levels through the normal on-going supervisory process and can intervene if deemed necessary based on a change in a firm's risk profile, deteriorating economic conditions, et cetera. Additionally, this approach to providing flexibility is more consistent with the Federal Reserve's current Proposal to remove the Comprehensive Capital Analysis and Review ("CCAR") quantitative objection from the annual capital plan submission and is warranted for firms such as Regions which are less complex in nature and do not pose systemic risk to the financial system.

Alternatively, the following changes to current stress testing practices could be made if the aforementioned changes to the annual capital plan program are not implemented.

- Replace the de-minimis threshold for additional distributions with a more dynamic performance based metric

As business needs change, more flexibility is needed for capital plan adjustments and off-cycle requests, and banks should have the flexibility to distribute excess capital during periods where earnings estimates are significantly exceeded or growth falls short of expectations. The current static threshold of 0.25% of tier 1 capital should be recalibrated and either directly tied to a banks' capital targets or actual performance against an approved payout ratio and growth outlook. The latter could be achieved through a metric which compares actual total capital deployment (i.e. common dividends, common stock repurchases, and risk weighted asset growth as a percentage of net income) to that which was assumed in the original capital plan submission. Banks could then be allowed to adjust capital plans in response to changing conditions to maintain the pace of capital deployment originally contemplated at the time the capital plan was submitted and subsequently received non-objection from the Federal Reserve. Either of these approaches would allow for more dynamic and efficient allocation of capital.

- Remove the associated black-out period for the de-minimis exception and additional distribution requests

The black-out period limits flexibility to quickly respond to unforeseen circumstances, such as increased earnings or merger and acquisition opportunities. Regions understands and appreciates the reason for the black-out period: however, this requirement poses challenges for a bank to more freely manage capital on a real-time basis.

As stressed capital and spot capital requirements continue to converge, as outlined in the Proposal, and banks of Regions' size potentially move towards a less frequent or "periodic" supervisory stress testing regime in light of recent legislative changes, this flexibility to more freely manage capital will be imperative.

Lastly, Regions commends the Federal Reserve's decision to remove the growth assumption for a bank's balance sheet, risk-weighted assets, and leverage ratio denominator, and instead assume they will remain flat during periods of stress. This is a more realistic approach based on historical observations; however, certain aspects of this approach, in particular risk-weighted assets, should continue to be explored. As was observed in the most recent recession, excluding merger and acquisition activity, most firms' risk-weighted asset levels decline rather than remain flat. As banks deleverage and remix their balance sheets into less risky assets in an economic downturn, like the one the supervisory stress scenario is designed to mimic, the total balance sheet may remain constant for some institutions; however, risk-weighted assets will decline for most firms. Growing risk-weighted assets, or even holding flat in severe stress, is counterintuitive to history and imposes an added capital tax. We respectfully ask the Federal Reserve to continue to monitor the impact of stress on firms' risk weighted assets and make any necessary adjustments.

Stress Capital Buffer Interaction with the Current Expected Credit Loss Standard

As the Federal Reserve knows, banks will transition from the incurred loss methodology to the Current Expected Credit Loss methodology ("CECL") in the coming years. While the impact of CECL is unclear, Regions believes, and many experts agree,[3] the conversion is likely to increase volatility and capital reserves. Further, the combination of CECL and the new Stress Capital Buffer could result in banks having to hold significant levels of additional capital. If capital relief from the impact of CECL is not achieved through common equity tier 1 ("CET1"), the Federal Reserve will need to adjust capital requirements and minimums, including the stress capital buffer, once CECL is fully implemented. Regions respectfully recommends the Federal Reserve continually reassess capital requirements and the stress capital buffer prior to CECL adoption, during the implementation phase, and post CECL adoption. Additionally, bank capital levels are more robust today in comparison to the period when the CECL accounting standard was being developed, and there is not a need to dramatically increase bank capital requirements from current levels, either through the CECL standard or the Stress Capital Buffer framework. Regions hopes the Federal Reserve will remain flexible on this issue and work with the industry to construct a framework for managing capital and reserves that is balanced and not overly punitive to bank capital levels.

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[3] Wu, Deming, "The Current Expected Credit Losses (CECL) Accounting Standard: Practical Issues and Implications," Office of the Comptroller of the Currency, November 2017.

Future Adjustments Are Needed in Response to the Passage and Enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCP")

Since the Federal Reserve issued the Proposal. Congress has passed S. 2155. the Economic Growth. Regulatory Relief, and Consumer Protection Act (EGRRCP), which makes a number of changes to the financial regulatory framework governing banking organizations.

EGRRCP amends Section 165 of the Dodd-Frank Act to raise the Systemically Important Financial Institution ("SIFI") designation from $50 billion in total consolidated assets to $250 billion. Upon enactment of these changes. Bank Holding Companies ("BHCs") of Regions' size with total consolidated assets between $100 billion and $250 billion may be excluded from Enhanced Prudential Standards ("EPS"), including the annual supervisory stress test, after 18 months from enactment. and subjected to "periodic" supervisory stress testing instead. The current Proposal. however, was drafted using $50 billion in total consolidated assets and would require annual supervisory stress tests in order to calibrate the Stress Capital Buffer. This disconnect between recent legislation and the Proposal is something that will need to be addressed by the Federal Reserve in the near term. We respectfully request the Federal Reserve review regulations outside of the requirements prescribed by the Dodd-Frank Act (e.g.. Regulation Y. Regulation YY. etc.) and make appropriate adjustments to align with recent changes under EGRRCP. as well as the spirit and intent of the legislation crafted by Congress. Lastly. we ask that this assessment begin immediately and the Federal Reserve make any adjustments it deems appropriate as soon as possible rather than taking a full 18 months.

Conclusion

Thank you in advance for your consideration of these comments. Regions applauds the Federal Reserve's efforts to simplify the regulatory bank capital framework and supports the elements of the Proposal that further that goal. Regions respectfully requests the Federal Reserve consider the suggestions outlined in these comments and looks forward to working with the Federal Reserve on these and other important issues. Should you have any questions regarding these comments, or about Regions, please do not hesitate to contact me directly.

Sincerely.

Deron Smithy
Finance Treasurer
Regions Financial Corporation