REGIONS

January 16, 2024

Via Electronic Mail

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
Attention: Ann E. Misback, Secretary

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429
Attention: James P. Sheesley, Assistant Executive Secretary, Comments/Legal OES

Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219
Attention: Chief Counsel's Office, Comment Processing

Re: Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions (Federal Reserve Docket No. R-1815, RIN 7100-AG66; FDIC RIN 3064-AF86; Docket ID OCC-2023-0011)

To Whom it May Concern:

Regions Financial Corporation ("Regions") appreciates the opportunity to comment on the federal banking agencies' ("agencies") joint rulemaking on long-term debt (LTD) requirements (the "Proposal"). Regions, with $154 billion in assets, is a full-service provider of consumer and commercial banking, wealth management, and mortgage products and services. Regions serves customers across the South, Midwest, and Texas, and through its subsidiary, Regions Bank, operates approximately 1,250 banking offices and more than 2,000 ATMs in fifteen states.

Regions prides itself on being a relationship bank first and foremost. We help our customers achieve their goals in times of prosperity and to successfully weather economic downturns. Regions maintains a well-diversified deposit base, with a majority of deposits in our over five million accounts fully covered by FDIC insurance. We have constructed a balance sheet that is resilient, sustainable, and that will perform consistently over time. Never was this on display more than during the volatile times of 2023. Our strong capital and liquidity levels allowed us to support our customers through a year of rapidly changing conditions.

Regions is focused on domestic business activities and has a relatively simple operating model compared to Category I, II, and III banking organizations. Well run, less complex Category IV banking organizations, including Regions, play an important role in supporting the Main Street economy. Less complex institutions are not as likely to pose a systemic risk to the U.S. financial system.

Regional banks are an important source of credit for consumers and small- and mid-size businesses. The proposed LTD requirements will adversely impact the availability and pricing of lending and other banking products for our customers by requiring Regions to issue costly unsecured debt at levels well in excess of true funding and liquidity management needs; therefore, we believe that the cost of the LTD Proposal to our communities and customers would significantly outweigh any potential benefits. While increasing debt provides more subordination to deposit holders in the case of a bank failure, to require institutions to maintain debt levels in excess of true funding and liquidity needs increases the risk of failure of those institutions.

Regions is supportive of the broader letters submitted by our trade associations, the Bank Policy Institute and American Bankers Association, as well as the letter we submitted with other Category IV banks. However, we would like to highlight areas of specific concern to us. If Category IV banking organizations remain in scope, Regions respectfully offers the following suggestions for enhancing and tailoring the LTD and clean holding company ("CHC") requirements to reflect appropriate levels of risk.

a) The agencies should replace the current LTD requirements for Category IV banking organizations with more tailored requirements that take into account the characteristics of Category IV banking organizations and that are focused on minimizing the risk of loss to the Deposit Insurance Fund (the "DIF") in a resolution proceeding.

   The LTD Proposal would expand the reach of the LTD and CHC portions of the Total Loss Absorbing Capacity (TLAC) rule to all U.S. banking organizations with $100 billion or more in total assets, with no differentiation between Category II–IV banking organizations. It has been estimated that, on its face, the LTD Proposal would be more punitive than TLAC at more than half of Category IV banking organizations. Furthermore, Category IV banking organizations are not positioned the same as Category I–III banking organizations in the eyes of the market. As a result, the LTD Proposal effectively places Category IV banking organizations at a competitive disadvantage versus their much larger counterparts by increasing their funding cost which, in turn, impacts their net interest margin and overall return on tangible common equity. This would make it more difficult for Category IV banking organizations to offer competitively priced traditional banking services.

b) If the agencies do not exempt Category IV banking organizations from the LTD Proposal, they should give Category IV banking organizations the flexibility to meet their LTD requirement at either the parent bank holding company ("BHC") level or at the insured depository institution ("IDI") level, but not require both. In addition, the agencies should permit a Category IV banking organization to satisfy any LTD requirement at the IDI level by any combination of: (i) an internal debt issuance; (ii) an external debt issuance; or (iii) through holding a deposit pledged by the parent BHC, which deposit may not be withdrawn if such a withdrawal could reasonably be expected to result in the IDI failing to meet its LTD requirements.

c) The agencies should give credit under the LTD requirement for certain other types of capital and liquidity that protect the DIF, such as Regulatory capital in excess of required levels, inclusive of applicable buffers.

d) The agencies should exempt those Category IV banking organizations that have non-single point of entry resolution strategies from the CHC requirements.

e) The agencies should provide additional exemptions under the CHC requirements for certain transactions that could potentially involve qualified financial contracts ("QFCs") and yet do not implicate the policy concern underlying the prohibition on third-party QFCs.

The agencies have also not analyzed the interrelationship between the separately proposed regulatory capital rule and the LTD Proposal in terms of overall costs, whether and how either proposal should factor into the design or calibration of the other, or otherwise. A failure to consider each proposal and related liquidity rules and interest rate risk holistically could cause material unintended consequences, such as imposing undue increased costs on Category IV banking organizations.

The cumulative impact of implementing interrelated rulemakings should also be considered in calibration of the LTD Proposal and when determining implementation timelines. While the regulatory capital proposal and the LTD Proposal can each be fairly characterized as significant changes to the broader regulatory framework, the full extent of changes is still not yet known. Priorities outlined by regulatory bodies suggest that additional changes relating to liquidity and interest rate risk management may be forthcoming and, given their interrelated nature, these anticipated proposals may contribute to the ultimate impact of the LTD Proposal in ways that cannot reasonably be estimated at this time.

As such, finalization and implementation of the LTD Proposal should occur only after full review of interactions with proposed and expected rulemakings. Moreover, the transition periods to implement the final capital rule and the LTD rule should run consecutively, rather than concurrently, to allow banking organizations to prioritize raising their capital ratios through common equity tier 1 capital accretion or otherwise without the increased funding costs related to the issuance of new LTD. Finally, a lengthier phase in approach would reduce burden on banks and limit risk by allowing a gradual buildup of LTD rather than requiring covered institutions to enter the debt market simultaneously. This is especially important for Category IV banking organizations, such as Regions, who have not traditionally relied heavily on unsecured funding markets and will see a meaningful increase in both frequency and size of issuances to comply with the proposed requirements. To ensure efficient pricing and minimize costs, this additional supply of unsecured debt must be matched with additional demand. As such, substantial marketing and outreach efforts by Regions will be critical to attract and educate incremental investors to absorb the increased supply of debt. Given the magnitude of the increase in issuance activity across the banks, this process will take significant time and resources and justifies a lengthier phase in approach. In addition to supply and demand dynamics, the phase in approach should also include mechanisms to consider market conditions and adjust compliance timelines accordingly to prevent covered banks from being forced into unreceptive markets. Over the phase in period, it is likely that markets will experience episodes of stress, effectively shutting off bank access for periods of time. Failing to acknowledge and plan for this eventuality upfront could result in unreasonable costs and the introduction of unnecessary risks into the system.

We appreciate the opportunity to share our comments on this rule. Again, we encourage the agencies to calibrate the LTD rule according to the risk of the relevant banking organizations. Thank you for your consideration and please do not hesitate to contact Jeff Swartz, Head of Regulatory Affairs, at Jeffrey.Swartz@Regions.com, if you would like to discuss these comments further.

Sincerely,

[redacted]

Deron Smithy
Treasurer
Regions Financial Corporation