



May 13, 2019

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Comments on Proposed Amendment to Recordkeeping for Timely Deposit Insurance Determination (RIN 3064-AF03)

Dear Mr. Feldman:

Regions Financial Corporation¹ (“Regions”) submits the following comments to the Federal Deposit Insurance Corporation (“FDIC”) in response to the Notice of Proposed Rulemaking (“Proposal”) to amend 12 CFR § 370 (“Part 370”) of the rule entitled “Recordkeeping for Timely Deposit Insurance Determination” or “Recordkeeping Rule.” Regions appreciates the opportunity to comment on the Proposal and respectfully offers the comments outlined in this letter.

In 2016, the FDIC finalized Part 370, which facilitates prompt payments of FDIC-insured deposits when large covered institutions fail. Part 370 requires covered institutions to configure their IT system to be able to calculate the insured and uninsured amount in each deposit account and to maintain complete and accurate information needed by the FDIC to determine deposit insurance coverage of each deposit account.

In response to feedback from covered institutions, trade associations, and other interested parties, the Proposal makes changes to the Recordkeeping Rule to reduce the compliance burden on covered institutions. Of note, the Proposal provides an optional extension to the compliance date for IT conversions, clarifies the compliance certification requirements, streamlines the process for exception requests, and makes some technical clarifications. Regions applauds the FDIC’s willingness to revisit the rule and to work with covered institutions to determine the most effective path to achieve the stated goals of Part 370 and the dialogue staff has had and continues to have with covered institutions. The comments below represent Regions feedback on the positive aspects of the Proposal along with our recommendations for additional enhancements to the Proposal, including:

- Agreement with the optional one-year extension of the compliance date.
- Recommendation for the timeframe following changes to law, acquisition, or merger.

¹ Regions Financial Corporation (NYSE: RF), with \$129 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, operates approximately 1,500 banking offices and 2,000 ATMs. Additional information about Regions and its full line of products and services can be found at www.regions.com.

- Recommendation for more clearly defining “transactional features.”
- Recommendation to adjust the requirements for certain trust accounts.
- Recommendation to adjust the requirements for excess credit balances on loan accounts.
- Agreement and recommendation to the changes related to exception requests.
- Recommendation to the technical amendments to allow for a unique identifier in lieu of government identification.
- Additional consideration for settlement/clearing accounts and mortgage servicing accounts.

Extension of the Compliance Date

Regions appreciates the FDIC’s proposal to provide an optional one-year extension of the compliance date. We believe one-year is an appropriate length of time, given the frequent updates to guidance and clarifications that have been made since the Rule was introduced, and should be available to all covered institutions. There are numerous advantages to extending the compliance date. First, the extension will allow for additional time for data clean-up, including customer outreach, to improve and enhance deposit records and data. This outreach will result in fewer items in the pending file and fewer requests for relief or extensions submitted to the FDIC. Second, the extension will allow for extra time for internal testing and verification of the calculation engine, which will reduce potential miscalculations. Finally, it will allow for enhancements to front-end account opening systems, which capture data at account opening and gather the required information on certain deposit accounts.

Effect of Changes to Law, Acquisition, or Merger Involving a Covered Institution

Regions appreciates the FDIC’s acknowledgement that future changes to the law could impact a covered institution’s compliance with the law and that complying with these changes, including collecting necessary records and reconfiguring IT systems, will take time to implement. Depending on the scope of the future changes and the specifics, the timeframe for implementation could vary. For example, changes to the law that would require system enhancements need longer implementation periods than changes that merely require policy or procedure modifications. System enhancements generally take 18-24 months to implement while policy or procedure changes can usually be accomplished in 18 months.

Similarly, the Proposal provides a one-year grace period for banks to comply with Part 370 following a merger or acquisition. Based on our experience, the timeframe is not adequate since extensive system changes will be required and data from the merged institutions will need to be combined before we could begin to update Part 370 processes to incorporate the additional systems and data, especially if the acquired bank or merger partner was not previously a covered institution. We believe that a covered institution should be allowed 24 months following completion of the deal to regain compliance with the rule.

Proposed Amendment to the Definition of “Transactional Features”

The Proposal attempts to clarify the definition of “transactional features” but there is still uncertainty as to which accounts may have transactional features and how to identify them. A simpler approach may be to utilize existing regulatory definitions of transactional accounts. For example, Federal Reserve Regulation CC (12 CFR 229) defines “account” as an account at a bank from which the accountholder is permitted to make transfers or withdrawals by negotiable or transferable instrument, payment order of withdrawal, telephone transfer, electronic payment, or other similar means for the purpose of making payments or transfers to third persons or others. The definition also includes accounts at a bank from which the account holder may make third party payments at an ATM, remote service unit, or other electronic device, including by debit card. The definition excludes savings accounts and time deposits. Regulation D (12 CFR 204) places transaction limitations on savings deposits since savings accounts are not intended to be transactional in nature. Utilizing these definitions could help banks classify checking accounts as transactional accounts and savings accounts and time deposits as non-transactional.

Alternative Recordkeeping Requirements for Certain Trust Accounts

The Proposal permits alternative recordkeeping for irrevocable trust deposit accounts for which the bank acts as trustee, which Regions believes is a helpful update. However, the proposal also introduces a new requirement for the trust accounts reported under alternative recordkeeping. Under this new requirement, the bank must maintain in its deposit account records an ownership right and capacity code rather than a pending reason code for each formal revocable and irrevocable trust account. Banks may not have sufficient, readily available information to accurately assign an ownership right and capacity code for each of these accounts. Further, because these accounts would be placed in the pending file initially regardless of assignment of the ownership right and capacity, assigning a pending code indicating the nature of the account (i.e., trust) similar to the treatment of all other accounts placed in the pending file seems more appropriate.

For trust accounts where the bank is not the trustee and the account has transactional features, assigning the unique identifier of the grantor will be difficult since this information is not always maintained in the bank’s systems. A manual review of trust documents would be needed to determine the grantor named on each trust account, with additional coding required to assign the grantor a unique identifier on the bank’s systems. Additionally, performing an analysis to determine whether these accounts are considered transactional in nature could prove difficult and inexact. It is also unclear whether the currently proposed definition of transactional features is applicable to these types of trust accounts in the same way it is being applied to pass-through accounts eligible for alternative recordkeeping. As these accounts would all be placed in the pending file initially, regardless of assignment of the unique identifier for the grantor, it may be more practical to remove this very cumbersome and timely task from the requirements of Part 370.

Recordkeeping Requirements for Deposits Resulting from Credit Balances on an Account for Debt Owed to the Covered Institution

The Proposal provides an alternative that would require that a covered institution's information technology system be capable of restricting, as of any day's close-of-business, access to either loan credit balances or an equal amount in the deposit balance for every customer with a loan credit balance. Loan credit balances are typically small dollar amounts that should not have a significant impact on a customer's overall deposit insurance coverage, and the number of customers with loan credit balances that also have a deposit account are minimal. Integrating loan and deposit systems across multiple lines of business is difficult, and it provides minimal benefit to the bank or to the customer, which was the issue with the original rule requirements. The same is true for the alternative provided in the Proposal; the effort involved is significant, costly, and provides minimal benefit to the bank or customer. Additionally, on accounts like credit cards, freezing the access to credit card accounts with credit balances would potentially negatively impact customers who rely on credit card transactions for daily purchases such as food and transportation. Due to the small dollar amounts and the difficulty in integrating loan and deposit systems, it may be more practical to adjust this requirement to apply only in instances where the credit balance is near or above \$250,000.

Exception Requests

The Proposal makes changes to expressly allow multiple institutions to submit a request for an exception from one or more of the Rule's requirements rather than requiring each institution to make a separate request. Regions believes this clarification will generally reduce the burden for covered institutions, and we anticipate coordinating with other covered institutions to submit joint requests.

The proposed changes to the Rule also would require the FDIC to publish its response to each exception request after eliminating identifying, confidential, or material nonpublic information. Regions commends the FDIC for this modification and believes publishing all responses to exception requests, whether granted or denied, would be beneficial to other covered institutions who may be considering submitting the same request. We respectfully suggest that certain data, such as dollar amounts or bank-specific information, be categorized as identifying information that will be removed from the response before publication.

The FDIC also is proposing adding a new section to the Rule that would allow a covered institution to notify the agency that the covered institution intends to use the same exception as one that was previously published. The covered institution could use the same exception if it was based on "substantially similar facts and the same circumstances" as presented in the response to an exception request published by the FDIC. This is also a very positive change that will generally reduce the burden for covered institutions. The Proposal states the exception would be deemed granted unless the FDIC notifies the covered institution that it was not granted within 120 days of receiving the bank's notice. Regions believes the standard of "substantially similar facts and same circumstances" is a reasonable basis for deeming an exception granted. However, Regions respectfully suggests that the 120-day timeframe for FDIC to notify a covered institution that the exception is not applicable to its facts and circumstances is too long,

especially if the denial of the exception would result in the need for customer outreach or significant system enhancements that would not have been needed had the exception been granted. A 30-day timeframe seems more reasonable.

Technical Amendments

The FDIC is proposing revising the data file templates to indicate what information is nonessential and may be omitted. Regions applauds the FDIC's efforts to simplify and streamline the data collection process. We respectfully suggest that a "null value" be allowed in the government identification fields (type and number) since a unique identifier can be used in lieu of government identification. The bank has in place the ability to assign a unique identifier to all of its customers and use that identifier at the unique customer identification number to aggregate balances and calculate deposit insurance within the applicable ownership right and capacity. Further, the bank can generate a unique identifier that can be used to identify and aggregate all unique beneficiaries. The process to generate and assign a unique identifier can also be applied to beneficial owners of deposits when data related to those owners is submitted by third parties.

Additional Considerations

Settlement and Clearing Accounts

Regions recommends settlement, clearing, and other similar accounts generally utilized for internal operations and processing be excluded from Part 370. If these funds are afforded FDIC insurance at all, the ownership interest is rarely ascertainable. If these accounts must be included in Part 370 reporting, "alternative recordkeeping" and the assignment of an appropriate pending code should be permitted. It is unlikely banks could accurately calculate deposit insurance for these accounts on any given day given the transitory nature of these funds. Treating these accounts similar to other accounts under general recordkeeping could have unforeseen consequences and could run counter to the FDIC's intent and goal of protecting insured depositors and providing timely access to funds, especially as it relates to placing holds and debiting funds in the event of a failure.

Mortgage Servicing Accounts

Regions and several other large banks impacted by the Recordkeeping Rule are concerned with the requirements related to mortgage servicing accounts ("MSAs") due to the limitations of a commonly used mortgage servicing platform. The Rule requires a covered institution that is the mortgage servicer, and thus maintains mortgagor data and information, to provide that information within twenty-four hours and accurately calculate deposit insurance for amounts associated with both taxes and insurance as well as principal and interest. The bank's mortgage servicing platform, which many other covered institutions also utilize, does not currently have this capability. It is also clear that developing this capability, if it can be developed at all, would be time consuming and costly. If funds are placed on deposit at the bank by third-party mortgage servicers, those amounts would be reported under alternative recordkeeping and would be exempt actions

required for certain deposit accounts with transactional features. It is unclear why funds held by the bank as mortgage servicer would receive such stringent treatment compared to those placed by third-party mortgage servicers. This requirement could place covered institutions that act as mortgage servicers at a competitive disadvantage. It would seem more equitable to treat all funds associated with mortgage servicing the same under Part 370. Regions respectfully suggests that all MSAs, including those for which the bank serves as servicer, should be handled through alternative recordkeeping requirements.

Conclusion

Thank you in advance for your consideration of these comments. Regions looks forward to continuing the work with the FDIC on this and other important issues in the future. Should you have any questions regarding these comments, or about Regions, please do not hesitate to contact me directly.

Sincerely,

Bill Simpson
Executive Vice President
Head of Consumer Bank Business Risk Services and Compliance
Regions Financial Corporation