Testimony of

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Before the

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"Examining the Regulatory Regime for Regional Banks"

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Introduction

Chairman Shelby, Ranking Member Brown and Members of the Senate Banking Committee, my name is Deron Smithy and I am the treasurer of Regions Bank, a $120 billion bank based in Birmingham, Alabama. I appreciate the opportunity today to speak to the Committee about enhanced prudential standards and the systemic risk designation. The Dodd-Frank Wall Street Reform and Consumer Protection Act established a $50 billion asset threshold for designating systemically important financial institutions, or SIFIs, a label that subjects bank holding companies to more stringent regulatory oversight and costs regardless of their business model, complexity or risk profile. These are issues of critical importance to Regions Bank.

I am appearing today in my capacity at Regions Bank and as a representative of the Regional Bank Group, a coalition of community-based, traditional lending institutions that power Main Street economies.

It is appropriate for the Committee to consider whether a $50 billion threshold is the best way to define a SIFI, particularly since more stringent regulatory oversight should focus on those firms whose individual stress or failure might trigger or deepen a financial crisis or destabilize the economy. This does not describe regional banks despite our importance as lenders in many communities. Regional banks fund ourselves primarily through core deposits and we loan those deposits back into our communities, where we are important sources of credit to small and medium-sized firms and we compete against banks of all sizes in our markets. Regional bank are not complex: we don’t engage in significant trading or international activities, make markets in securities, or have meaningful interconnections with other financial firms.

Dealing with the issues of SIFIs is crucial to the stability of the financial markets and national economy; we do not want to repeat the events that led up to the recent financial crisis and recession. Yet, an overly broad definition that captures traditional lenders has consequences too. These rules have a direct impact on a bank’s strategic direction including its interest in specific product lines and asset classes; moreover, these rules can reduce a bank’s ability to support local economic activity through lending. The impact in cost and time to meet all of the more stringent standards is a disproportionately larger burden on the regional banks. For regional banks, the incremental costs of regulatory compliance to meet the more stringent rules far exceed a billion dollars collectively.

What regional banks seek is a regulatory architecture that helps the country promote economic growth in tandem with safe and sound banking activities. Thirty-three banks are currently SIFIs, placing the same baseline burden on regional banks and complex money center banks. While the regulators occasionally tailor rules for the SIFI class, it is important to recognize that with an automatic threshold, the tailoring operates only as a one-way ratchet up. Because the threshold for more stringent rules exists as a floor, it separates regional banks from many of their peers and competitors, while occasionally adding new requirements for the most complex firms. Moreover, the expansion of reporting requirements—as with liquidity and capital rules—effectively undoes many of the benefits, in cost and compliance, of existing tiering.

Now that more data is available about the scope of the Dodd-Frank regulatory regime and the nature of systemic risk, it is appropriate to question whether there is a commensurate benefit to having regional banks automatically subjected to this oversight regime. This is apparent in the recent Office of Financial Research's (OFR) study that used systemic indicators that the Federal Reserve has gathered from banks. Altering the threshold in a common sense manner will not remove regulators' discretion to stop risky behavior or weaken their supervisory powers. Even absent systemic designation, protective regulatory guardrails that have evolved since the financial crisis would remain in place for regional banks, including the capital planning and stress testing processes started before Dodd-Frank. Regional banks also would remain subject new Basel III standards as well as Consumer Protection Financial Bureau (CFPB) oversight.

By holding this hearing, the Committee recognizes the validity of reevaluating the $50 billion threshold for SIFI status and more stringent regulation. Creating a dynamic, business activity-based approach in its place would not only establish a fairer method for supervising banks, but it would strengthen regulators' ability to appropriately tailor rules and deploy their own resources to match differences among banking organizations. Regulators have used activity-based factors—including size, complexity, international activity and substitutability—in other contexts to determine how firms might impact the stability of the financial system. And these instances have led to far different and nuanced conclusions than the asset-only $50 billion line.

In the end, an improved regulatory system tailored to bank complexity and risk would ensure safety and soundness while promoting U.S. economic growth and job creation.

Regions Bank

Regions Bank is a community-focused, diversified lender that operates in sixteen states and offers a full range of consumer and business lending products and services. Regions has a simple yet effective model that focuses on relationship banking through high quality customer service coupled with industry expertise. Regions provides banking services to hundreds of thousands of businesses and to millions of households that benefit people who live in all types of communities and with all types of borrowing and saving needs. Even in a time of slow economic growth, Regions is moving forward and making progress. Simply put, Regions is growing loans and adding customers. And it is investing in its operations and technology infrastructure to offer better services and meet changing regulations.

TABLE 1. Regions Bank Key Facts

Loans/Rank	\$77 billion/13th
Commercial Loans	\$48 billion
Consumer Loans	\$29 billion
Branches/ATMs	1,666/1,997
Commercial Customers	450,000
Small Business Customers	400,000
Households	4.4 million
Deposits/Rank	\$94 billion/14th
Employees	23,723

Regions' commercial focus is on small and medium-sized businesses that are dependent on traditional bank credit for financing. Regions' balance sheet includes \$48 billion in commercial loans; it serves 450,000 commercial customers overall, including 400,000 small business owners. These clients live and operate businesses both in rural communities and major metropolitan areas. In serving its corporate, middle market and small business customers, Regions competes against all types of banks, from the largest national banks to smaller community banks. Several years ago it might have competed against one or two banks when renewing loans or seeking to make a new loan, its bankers now regularly face four to five competitors. This is especially true in the small business and middle market spaces, where Regions competes fiercely against regional and community lenders.

The consumer bank serves more than 4 million households and holds \$29 billion in consumer loans on its balance sheet. Regions strives to meet the financial needs of all types of consumers in its markets—from those who need short-term credit and check-cashing services to higher income customers relying on Regions wealth management services. In fact, Regions has significantly grown its product suite in the past several years and innovation—both in how Regions interact with customers and the services offered—is as critical to its business success as is strong customer service and the development of long-term relationships with its clients. Regions' mortgage business reflects its conservative banking principles. Regions only originates mortgages through its own bankers and exited the subprime business ahead of the credit crisis. As early as the summer of 2007, Regions developed a flexible customer assistance program (building on our responses to Hurricane Katrina).

Regional Bank Group

Regions Bank is part of the Regional Bank Group, a coalition of firms with assets of greater than \$50 billion that share a common, traditional domestic banking business model: they take deposits and make loans to consumers and small and mid-sized businesses. While regional banks are integral parts of the communities that they serve, their balance sheets reflect the relative simplicity of their businesses. Nearly two-thirds of their assets are loans. Regional banks hold very few trading or other complex assets, like derivative contracts, and have minimal exposure to credit default swaps (Regions Bank has none at the moment). On average, such instruments comprise less than one percent of the total assets of each bank. Regional banks are a meaningful part of the banking community in all 50 states. However, as individual banks, their size is modest in relation to the banking sector and overall economy. For example, no regional bank has national deposit shares equal to 3% of the total and most have a market share of less than 1%. In aggregate their assets are less than 2% of U.S. GDP, a total roughly equivalent to the single largest U.S.-based G-SIB.

TABLE 2. Regional Bank Group Facts

- Operate in all 50 states and serve local communities in more than 23,000 branches and offices
- Hold one-fifth of U.S. banking deposits
- Extend financial services to more than 60 million households, more than half of all U.S. households
- Originated more than $500 billion mortgage loans (about one of every seven mortgages)
- Provided more than $300 billion in other consumer lending
- Are important sources of credit to small and mid-sized businesses, including
  - Commercial and industrial loans: $442 billion
  - Small business loans (loans of <$1mm): $50 billion
  - Small Business Administration loans: $1.7 billion
  - Farm loans: $6 billion

The arbitrary $50 billion threshold creates a false barrier among traditional banks and it pulls some of those banks into the same regulatory architecture as more complex, interconnected financial firms. The similarity in the business model of traditional banks can be measured by various activity-based metrics, including how they fund and their lending focus.

TABLE 3. Banking Metrics, Firms with >$10 Billion in Assets

	Banks with assets >$10 billion but <$50 billion (50 banks)	Regional Banks
Loan-deposit ratio	85%	85%
Loan-asset ratio	65%	65%
Commercial & Industrial loans, as % of all loans	19%	24%
Funding: deposits as % of liabilities	86%	88%
Trading Assets	<1%	<1%

Source: SNL

Regional banks compared to complex firms
Indeed, funding sources, including the use of core deposits versus short-term borrowings, underscore the different operating models between regional banking organizations and more complex firms. This issue is a top priority for regulators; the FSOC's *2014 Annual Report* lists "short-term wholesale funding markets" as the first on its list of emerging threats and topics for reform. Regional banks rely on core deposits, not short-term borrowings, to fund their operations. Core deposits are equal to 72% of assets compared to just 29% for the U.S. G-SIBs. Other metrics further differentiate lending-focused regional banks and complex, interconnected firms. Two-thirds of regional bank assets are loans compared to less than half of the assets of the four largest bank holding companies. The distinctions can be measured in the structure and scope of operations, including non-bank activities (such as trading and market-making) and international operations, as well as complexity of the firms and their interconnections.

Consider the differences between regional banks and the eight U.S. bank holding companies that are G-SIBs:

- Regional banks are more likely to engage in traditional lending.
  - Regional banks have a loan-to-deposit ratio of 88% and net loans and leases represent 65% of assets compared to 61% and 25% for the G-SIBs.
- Regional banks are less complex.
  - Their broker-dealer assets account for less than 1% of total firm assets compared to close to 20% for the G-SIBs.
  - Looking at it another way, the six largest U.S. banks have three times as many subsidiaries as the next 44 banks.
- Regional banks are U.S. institutions.
  - Less than 1% of their deposits and loans are outside the U.S., while the corresponding numbers are 28% and 18% for the G-SIBs.[1]

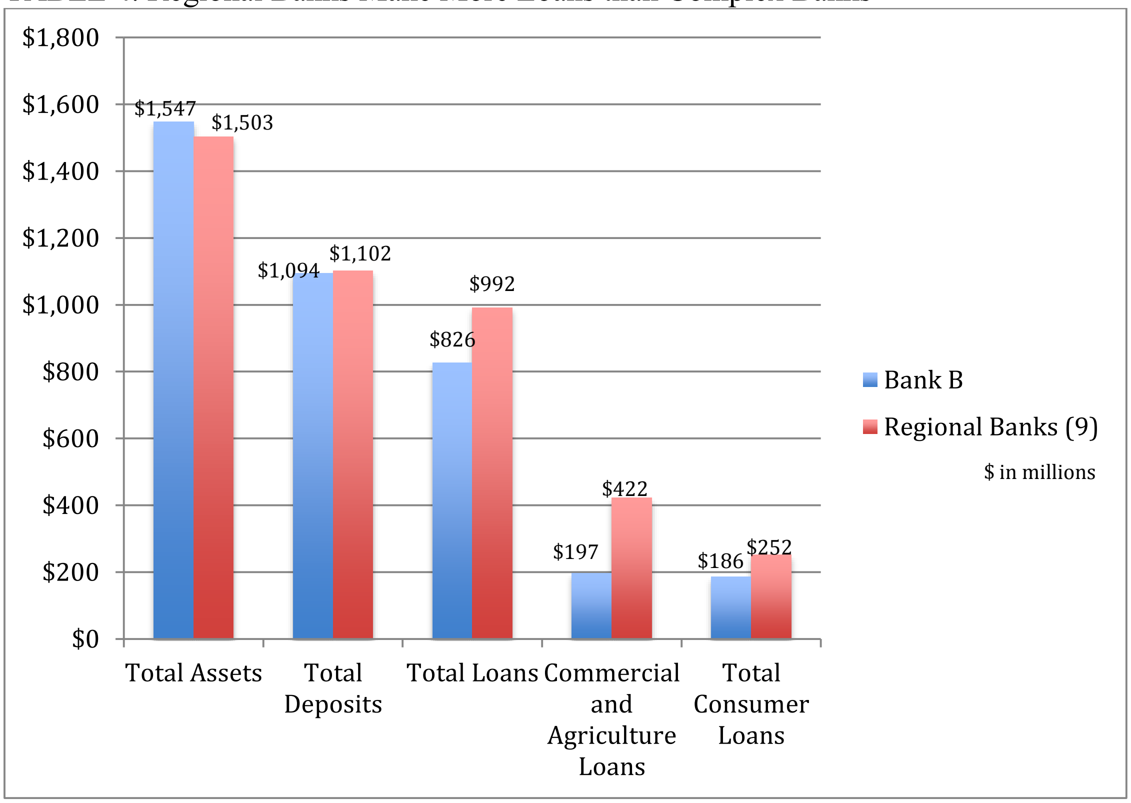
Business model differences also result from where regional banks do business; they serve a diverse set of communities, from large urban centers to mid-sized cities and small towns and rural America. Three-fourths of all regional bank branches are outside of the country's ten largest metropolitan areas, compared to just over half of the branches at the four largest U.S. banks. For Regions Bank, in particular, we serve Americans in midsize and smaller metro markets, and operates in places where our most significant competition comes from community banks. Regions Bank is the community bank in those areas. While Regions is a top ten bank (measured by deposits) in two-thirds of the largest 25 MSAs in its footprint, it also is in nearly all (96%) of the MSAs with less than 100,000 residents and has a strong presence in rural towns and counties in its footprint states.

[1] See for instance, the January 31, 2014 comment letter from several regional banks to the regulators, including to the Federal Reserve on the *Notice of Proposed Rulemaking for the Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and Monitoring*.

To highlight this diverse footprint and regional bank's commitment to provide banking services in many types of communities:

- ➢ A majority of Regions Bank deposits (51%) come from communities that have less than 1 million people; additionally, 5% of our deposits come from rural areas.
  - o In contrast, just 11% of the deposits of one of our money-center bank competitor's come from metro areas with populations below 1 million.
  - o They collect just 0.3% of their deposits from rural communities.
- ➢ 60% of Regions Bank branches are in communities or metropolitan areas of less than 1 million
  - o In comparison, just under 30% of the branches of a big-bank competitors are in communities of less than 1 million people.
  - o Nearly 10% of our branches are in rural counties, while 1% of the money center competitor's branches are in rural counties.

TABLE 4. Regional Banks Make More Loans than Complex Banks



Source: SNL. Regional banks include: U.S. Bancorp, PNC, SunTrust, Fifth Third, Regions, KeyCorp, M&T, Comerica, and Huntington. [Banks selected based on availability of regulatory data from SNL.]

In addition, Regions has loaned about $1 billion to small business customers in our non-metropolitan communities and is a significant lender to farmers and firms that provide agricultural services. Our $1.2 billion agriculture portfolio makes Regions a top-ten agricultural lender among traditional commercial banks.

Regions Bank competes against banks of all sizes throughout its markets. For example:

- In Birmingham (population: 1.1 million), the market where Regions has the most deposits, the bulk of its competition comes from regional and mid-size banks (assets greater than $10 billion), though one money center and many community banks also have market presences.[2]
- In Tampa (population: 3 million), Regions' third largest deposit market, regional banks and money center banks each have about 40% market share.
- In many of Regions' core markets in smaller metropolitan areas, such as Knoxville (700,000) and Chattanooga, Tennessee (500,000), its competitors are almost exclusively smaller regional banks and community banks.

SIFI Designation

Section 165 of the Dodd-Frank Act directs the Board of Governors of the Federal Reserve System to establish prudential standards for bank holding companies with total consolidated assets equal to or greater than $50 billion. It is indisputably clear that there are considerable distinctions among the firms that are considered SIFIs under the Dodd-Frank Act. These 33 firms vary significantly in asset size, business activities, scope, corporate structure and global reach. With regard to assets, the span ranges from just over $50 billion to over $2.6 trillion. The largest provide capital markets, derivatives, asset management, prime brokerage, currency and foreign exchange, trading, payments, deposit taking and lending, while the smaller firms concentrate on traditional banking services, including deposit taking and lending. Corporate structures vary considerably as well. The most complex firms use structures involving tens of thousands of affiliates and subsidiaries while the smaller, domestic firms do not. Finally, the global firms operate in hundreds of countries while many of the other covered entities only operate within the United States.

Title I directs the Federal Reserve to develop prudential standards for covered firms that must be "more stringent" than the standards and requirements applicable to non-covered bank holding companies. These mandated standards include the following: risk and liquidity management requirements; annual stress testing; resolution plan and credit exposure requirements; risk-based capital and leverage limits; and concentration limits. Additionally, the statute gives the Federal Reserve discretion to develop additional prudential standards, including contingent capital requirements, enhanced public disclosures, short term debt limits and such other prudential standards as the Federal Reserve determines are appropriate—on its own or upon recommendation of the Financial Stability Oversight Council (FSOC).

[2] Market share is based on deposits; all data is from SNL.

TABLE 5. Dodd-Frank Act $50 Billion Mandates and Reporting Requirements

Brief Description	Citation and Web Link
Risk management and risk committee requirements: Standards for enterprise-wide risk management, including the appointment of a chief risk officer that reports directly to the board risk committee and CEO. Requirement for a stand-alone risk committee of the board. (Federal Reserve)	12 CFR § 252.33 and Section 165(h) of Dodd-Frank
Liquidity risk management requirements: Specific liquidity risk management requirements for the board, the board risk committee and senior management, including with respect to liquidity risk tolerance levels and the liquidity risk of new business lines and products. (Federal Reserve)	12 CFR § 252.34 and Section 165(b)(1)(A)(ii) of Dodd-Frank
Liquidity stress testing and buffer requirements: Requirement to perform monthly liquidity stress tests and to hold a 30-day liquidity buffer. (Federal Reserve)	12 CFR § 252.35 and Section 165(b)(1)(A)(ii) of Dodd-Frank
Supervisory stress test requirements: Standards for annual stress tests conducted by the Federal Reserve, including public disclosure requirements. (Federal Reserve)	12 CFR §§ 252.41-47 and Section 165(i)(1) of Dodd-Frank
Company-run stress test requirements: Standards for semi-annual company-turn stress tests, including public disclosure requirements. (Federal Reserve)	12 CFR §§ 252.51-58 and Section 165(i)(2) of Dodd-Frank
Resolution planning requirements: Requirement for bank holding companies and nonbank financial companies supervised by the Federal Reserve to submit annual so-called "living wills." (Federal Reserve and FDIC)	12 CFR § 243 and Section 165(d) of Dodd-Frank
Financial Research Fund Assessment: Fee assessment to fund operations of the Office of Financial Research and Financial Stability Oversight Council, as well as certain operations of the FDIC. (Office of Financial Research)	31 CFR § 150 and Section 155 of Dodd-Frank
Federal Reserve Assessment: Fee assessment to fund the expenses of the Federal Reserve's supervision of certain bank holding companies and nonbank financial companies. (Federal Reserve)	12 CFR § 246 and Section 318 of Dodd-Frank
Reporting Requirements Triggered by the $50 Billion Threshold	
Liquidity reporting	FR 2052b
Reporting on quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.	FR Y-14A
Monthly reporting on loan- and portfolio- level collections.	FR Y-14M
Reporting on various asset classes and pre-provision net revenue.	FR Y-14Q
Reporting for purposes of determining whether a bank holding company is a "global systemically important bank."	FR Y-15

Dodd-Frank Title I requires that all enhanced prudential standard rules must be more stringent for firms above the $50 billion line than firms below it.[3] While banking regulators have some ability to tailor, or tier, rules for firms above the $50 billion line, the actual tiering has been limited and regulators cannot ignore that $50 billion line when making rules. The threshold is an automatic dividing line for macro-prudential rules. Effective tailoring would allow the regulators to vary rules in both directions; however, the $50 billion line serves as a floor so rules can only be adjusted one way. In effect, tiering is a one-way ratchet (adding new requirements for the more complex firms) and the threshold separates regional banks from many of their peers and competitors. The Federal Reserve has used its tailoring authority to adopt and propose more rigorous standards for the largest bank holding companies, such as the enhanced supplementary leverage ratio and the proposed G-SIB capital surcharge. Tiering as it currently exists in Dodd-Frank does not offer appropriate or meaningful relief to traditional lenders now defined as systemic. Moreover, the expansion of reporting requirements effectively undoes many of the perceived benefits, in cost and compliance, of existing tiering. Finally, the Federal Reserve cannot raise the $50 billion threshold on its own; the process must begin with FSOC and only is applicable to a limited set of Title I standards.[4]

TABLE 6. Limited Ability to Raise Section 165's $50 billion threshold

Procedure
After receiving a recommendation from the FSOC, the Federal Reserve may raise the asset threshold that triggers application of the following requirements: resolution planning and credit exposure reporting; single counterparty credit exposure limits; contingent capital; enhanced public disclosures; and, short-term debt limits. Notably, of these standards, the Federal Reserve only has adopted resolution planning requirements.
Limited application
This authority to raise the $50 billion threshold does not apply to the core capital, liquidity and other elements of Section 165. For this reason, the authority has limited value – both because the authority applies to only a single adopted enhanced prudential standard, and because, at the present time, FSOC action for a recommendation would appear to be an unlikely prospect.

It is important to reiterate how reporting requirements erase aspects of tiering and highlight the nature of the one-way ratchet in Title I rulemaking. Regulatory creep is especially present in reporting—new data templates and reporting schedules designed for the most complex firms often become applied to regional banks over time.

[3] Section 165 calls on the Federal Reserve to establish prudential standards for nonbank financial companies designated as systemically important by the FSOC and bank holding companies with total consolidated assets of $50 billion or more. The standards that the Federal Reserve applies under Section 165 must, at a minimum, be "more stringent than the standards and requirements applicable to nonbank financial companies and bank holding companies that do not present similar risks to the financial stability of the United States." Section 165(a)

[4] Section 165(a)(2)(B).

- The liquidity coverage ratio (LCR) reporting is an example of this reporting creep. The final LCR rule (implemented under the Basel framework) required banks with less than $250 billion in assets (so-called modified banks) to calculate their LCR on a monthly basis. However, the Federal Reserve's recent proposal to transition modified banks' reporting (from form 2052b to 2052a) effectively requires regional banks to have the ability to calculate the LCR on a daily basis, thus weakening the tiering in the initial rule. The number of data fields required in the new reporting regime will grow to more than 66,000 (many of which are irrelevant to regional banks) from about 800.
- The Comprehensive Capital Analysis and Review (CCAR) also has evolved into an intensive qualitative exam (besides its quantitative focus on capital levels) with increasing levels of granularity of data templates and growing focus on documentation and process, not outcome.
- The FDIC recently proposed expanding the costs and scope of resolution planning for all institutions greater than $50 billion despite the fact that regional plans are relatively simple and have been accepted by the regulators, while those of the complex banks have been subject to scrutiny and requests for additional submissions so regulators can understand them.[5]

Also, in many cases, regional banks bear some burden of a rule even if it is not directly related to their business models. The Federal Reserve's recent risk-based capital guidelines for global systemically important bank holding companies demonstrate this trend. According to the proposed rule, the risk-based capital surcharges would, under the proposed methodology, only apply to "eight large U.S. bank holding companies." Still, the rule would require all bank holding companies above $50 billion in consolidated assets to conduct a complex analysis to determine if the bank holding companies qualify as G-SIBs. To this end, the Federal Reserve has requested comment as to whether the $50 billion consolidated asset threshold is sufficient or whether "some higher asset threshold be considered."[6] The proper designation matters because regulators have used

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[5] Specifically, the FDIC has proposed that two sections of the resolution plan for 2015 will require additional calculations. The first requires the resolution plan to include at least one "Multiple Acquirer Strategy" which must include recapitalization, and one "Liquidation" strategy. These calculations include models on bridge operations during the recapitalization and potential acquisition by another financial institution. The second change requires an institution to conduct a "Least Cost Analysis" to determine which potential resolution plan would have the least potential cost to the deposit insurance fund, including final sale of the institution or liquidation. Each of these new requirements will add significant time and burden on financial institutions to run multiple scenarios for potential sale or liquidation. https://www.fdic.gov/news/news/press/2014/pr14109.html

[6] The proposed rulemaking seeking to establish a risk-based capital surcharge for the "largest most interconnected U.S. bank holding companies and would "require a U.S. top-tier bank holding company with $50 billion or more in total consolidated assets to calculate a measure of its systemic importance" to identify a subset of those companies as global systemically important bank holding companies (G-SIBs). Further, the Federal Reserve has requested comment on additional factors to consider for identification of a bank holding company as a G-SIB. http://www.federalreserve.gov/newsevents/press/bcreg/20141209a.htm

the statutory bright-line threshold in other rule-makings. [See Appendix, Table A] In addition, lawmakers also have tried to use the threshold-designation in other contexts, such as tax policy.[7]

The Costs and Impacts of Systemic Regulation

Regional banks believe that it is time to move beyond the simple asset-only model to determine systemic risk because it does not match the reality of the U.S. banking system. Congress should remove the constraints that inhibit a flexible approach to enhanced regulation aimed at firms that are truly systemic. Quite simply, if a bank is not systemic it should not be regulated as a systemic; ill-suited regulation stifles banks and offers no particular benefits to the customers they serve, taxpayers, or regulators. Rules designed for large, complex firms impose real, burdensome costs when applied to middle-market lenders. They weigh on their ability to operate competitively and could force us to curtail our primary activity, which for Regions Bank and other regional banking organizations is serving retail customers and making consumer and commercial loans to small businesses and midsize firms. As an example, a traditional lending institution with $150 billion in assets might lend an additional $15 billion to customers in the communities where it operates if it was not subject to capital and liquidity buffers mandated by the enhanced prudential regime. Across, the universe of regional banks, that is approximately $250 billion in new lending nationwide. Moreover, overly expansive regulation forces management—as well as the boards of directors—to focus too intently on these issues, distracting them from efforts to build businesses and execute strategic initiatives. Indeed, given regional banks' simpler operations and organizational structures, it is significantly easier for their management, directors, and regulators to understand the risks that they face and the processes used to manage and control those risks. Finally, the costs have competitive implications. Regional banks compete in most markets against community banks (assets less than $10 billion) that are carved out of most regulation and Dodd-Frank costs.[8]

Effective, precise regulation will make the banking system safer; the current system saddles regional banks with excessive costs to implement and follow rules that do not reflect their business models. These costs—both direct and indirect—total hundreds of millions of dollars annually for individual regional banks; they impact productivity and can limit innovation—and these costs are growing more rapidly than other operating expenses for most banks. Regional lender M&T Bank spent $441 million on regulatory compliance in 2014, a four-fold increase over the past three years and seven times the spend in 2007. The regulatory compliance spend accounted for 16% of the company's total operating expense, while it contributed to just 7% of those expenses in 2007. The

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[7] See for instance, President Obama's FY 2016 budget proposal with a bank tax targeted at greater than $50 billion financial firms (https://www.whitehouse.gov/omb/budget/) as well as former House Ways and Means Committee Chairman Dave Camp's tax reform proposal from 2014 (http://waysandmeans.house.gov/news/documentsingle.aspx?DocumentID=370987).

[8] It "is important to emphasize that the majority of the provisions of the Dodd-Frank Act do not apply to community banks at all," former Fed Chairman Bernanke said in a 2012 interview. Ben Bernanke, "Community Banking," Presented at the Independent Community Bankers of America National Convention and Techworld (3.14.12). http://www.federalreserve.gov/newsevents/speech/bernanke20120314a.htm.

growing intensity of the CCAR process is just one particular example. M&T Bank noted that 292 employees worked on CCAR submission, up 56% from 2013, and key governing committees met 74 times in the year nearly double the 2013 meeting load. Again, Regions Bank had similar experiences in preparing and internally vetting its 13,000-page CCAR submission.[9]

Regions Bank has seen similar cost trends, too. Since Dodd-Frank's passage, its risk management spending has more than doubled—an incremental increase that is tens of millions of dollars annually. Regions Bank, for example, has more employees dedicated to regulatory compliance than it has commercial bankers building relationships with clients. While over the past two years, Regions Bank has added hundreds of new associates in the Risk Management and Compliance areas, it also expects its bankers to participate in the supervisory, compliance and regulatory reporting requests from regulators. Regions' programs, undoubtedly, are more comprehensive and sophisticated than earlier; however, it is critical that they are commensurate with a bank's risk profile. In addition to direct costs such as new systemic regulatory fees, including the increased FDIC insurance fund assessment fees, regional banks also have additional expenses for new regulatory reporting, some of which, like Volcker and resolution plan submissions, offer little additional information to regulators about their business models. And not all of the systemic risk provisions have been finalized—and those that have become more detailed and intensive each year—so these expenses can be expected to continue to grow disproportionately when compared to other operating expenses.

Enhanced standards impact the strategic direction and business-line decision-making of regional banks. Risk management and corporate governance rules force company boards of directors, burdened by excessive information that is focused documentation, to stray into decisions that should be better left to executive management or business line managers. In 2014, M&T Bank reported that 190 risk management and governance committees produced 7,600 pages of meeting minutes and its Board of Directors Risk Committee met 18 times and reviewed 4,445 pages of presentation materials. Excessively adverse stress scenarios (without transparent explanations) for certain product categories, such as commercial real estate, far beyond the default rates considered by banks in their own internal models, become an effective tax on an asset class and create a disincentive to lend within that product category. To the same end, uncertainty about the stress scenarios may keep a bank from innovating and entering a new line of business. Liquidity rules highlight the divergent regulatory pressures on banks' finance teams and their bankers and influence business line activity and lending costs. A bank, for instance, might raise debt but instead of deploying it as new capital to meet the growing loan demands of commercial bankers, a treasurer will use that money as the liquidity buffer for existing client relationships because of new LCR rules. At Regions Bank, we have seen how the rigid LCR rules related to commercial relationships increase the cost of the loans that we make to farmers who draw from their lines of credit at occasional intervals related to the seasonal nature of their work.

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[9] See 2014 and 2010 M&T Bank annual reports, http://mtb.mediaroom.com/2014AnnualReport and http://mtb.mediaroom.com/2010message

Regional banks incur these new expenses and lending restrictions as they face significant loss of revenue—especially in consumer businesses—totaling hundreds of millions of dollars annually due to new laws and regulations, including the Durbin Amendment. Bright-line asset thresholds designed to separate banks are not sound policy; they can create competitive imbalances that allow some banks to offer products at vastly different prices, thus harming harm certain banks and their customers.

TABLE 7. Select Regulatory Costs, Regions Bank

Risk Management Spending	Expenses more than doubled from 2009-2013, an increase of tens of millions of dollars
Durbin Amendment (interchange revenue)	$170 million in foregone revenue annually
Foregone Revenue, from significant consumer regulation changes	>$100 million annually
FDIC Assessment Fees (new DFA rules and the FDIC's changes to its calculation method	2013 assessment: $125 million 2008 assessment was $15 million
New Federal Reserve Fee	$2.75 million
Select Indirect Costs	
Dodd-Frank Act Implementation Team	A cross functional team of bankers, lawyers, risk managers and finance group associates that meets regularly to identify, track and monitor rules—both activity within the agencies but also the ways that the bank might have to alter its own business, internal control or compliance practices.
Rules	The team, in 2014, identified 469 rules and agency actions to follow ➢ > 40 related to enhanced standards ($50b threshold) or holding company activity ➢ >100 related to Volcker rule or derivatives (although Regions does not engage in proprietary trading and does not have to register as a swaps dealer) ➢ >100 related to mortgage rules and CFPB activity

Robust Supervision Remains

Regional banking organizations are not seeking to avoid rigorous scrutiny or proportional oversight. The Federal Reserve increased its supervision of large bank holding companies prior to the enactment of the DFA, through the creation of new capital planning and supervisory stress testing processes. Changing the threshold does not remove supervisory discretion; the Federal Reserve's authority for these detailed and rigorous reviews and processes would remain, no matter the systemic designation. These exercises give the Federal Reserve unobstructed views into a bank's activities and balance sheet. Governor Tarullo highlighted the iterative process of the stress tests—and the value of the methods put in place before Dodd-Frank Act—in his February 2014 testimony to the Senate Banking Committee. The "refinements, which have been informed by the extensive commentary and advice we get from the banks, technical experts, [and] policy analysts, continue to improve what I think is the single most important change in supervisory practice since the financial crisis," Tarullo said.[10] The Fed can and should continue CCAR, but at a level commensurate with business model and risk. Moreover, regional banks remain subject to Basel III capital and liquidity requirements and numerous rules that set protective guardrails outside of Title I's enhanced prudential standards, such as the CFPB and new consumer regulations. Finally, the scrutiny includes constant business unit exams by federal and state regulators.

Systemic Risk Reconsidered

As the Committee reexamines elements of Title I of the Dodd-Frank Act, it must consider two critical and linked questions: What is systemic risk? What makes a bank systemically important? When Dodd-Frank was drafted and passed into law these questions got little or no debate. Instead a bright-line threshold was established without trying to establish any clear relation to systemic risk. The mismatch between the goals of regulators and the statutory definition of systemic risk resulted from political objectives when the Dodd-Frank Act was drafted, not economic and business model considerations. "By setting the threshold for these standards at firms with assets of at least $50 billion, well below the level that anyone would believe describes a 'too big to fail' firm, Congress has avoided the creation of a de facto list of too big to fail firms," Tarullo said in 2011.[11] Since then regulators, lawmakers and academics have been able to observe, measure and reconsider systemic risk. The best working definition of systemic risk may be the recently offered by former Federal Reserve Chairman Bernanke said in a May 10, 2013, speech at the Federal Reserve Bank of Chicago, in which he noted that systemic banks are "financial firms whose distress or failure has the potential to create broader financial instability sufficient to inflict meaningful damage on the real economy."[12] At the March 19 Senate Banking Committee hearing on the regulatory framework for regional banks, Tarullo said systemic risk has basically two definitions: (1) whether a particular firm's stress could

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[10] Daniel Tarullo, hearing titled "Oversight of Financial Stability and Data Security," Senate Committee on Banking, Housing, and Urban Affairs (Feb. 2, 2014).

[11] Daniel Tarullo, "Regulating Systemically Important Financial Firms," at the Peter G. Peterson Institute (June 3, 2011);
http://www.federalreserve.gov/newsevents/speech/tarullo20110603a.htm.

[12] Ben Bernanke, "Monitoring the Financial System," Presented at the 49th Annual Conference on Bank Structure and Competition sponsored by the Federal Reserve Bank of Chicago (May 10, 2013). Available at http://www.federalreserve.gov/newsevents/speech/bernanke20130510a.htm. He also has weighed in on how to measure systemic risk. In April 2014, at a Brookings Institution event, former Fed chair Ben Bernanke responded to a question about too big to fail regulations by noting that "it's not just size…I think it has to do also with opacity, complexity, interconnectedness, and a variety of other things." Ben Bernanke, "Liquidity and the Role of the Lender of Last Resort," Presented at the Brookings Institution. (Apr. 30, 2014).

"lead to a financial crisis," which he called the traditional view of "too-big-to-fail"; and (2) a firm's "importance to the financial system."[13]

In fact, last July, the Banking Committee Subcommittee on Financial Institutions and Consumer Protection conducted a thorough review of this very matter, in a hearing entitled, "What Makes a Bank Systemically Important?" Four economists presented their views and unsurprisingly offered different areas of focus. Nonetheless, the one consistent point that they made was that the $50 billion threshold was not an adequate or appropriate measurement. After first noting "that size is by no means the only distinguishing feature, and the $50 billion threshold is way too low," Richard J. Herring, a Wharton School professor, said "there has been effort to actually try to devise indicators that would help us to understand what this [systemic risk] category looks like. The most refined set have been produced by the Financial Stability Board…They include size,…interconnectedness, which involves certainly capital market interconnections, cross-border activity; complexity; and the lack of substitutes for the services they provide in the global economy…" Paul Kupiec of the American Enterprise Institute noted that "in terms of size alone as a cut-off… any arbitrary size—there is no science that supports $50 billion …. It doesn't support any number." Senator Sherrod Brown raised similar points in his remarks opening the hearing. To quote extensively, Senator Brown noted:

> The three regional banks headquartered in my home State of Ohio…serve customers throughout the State with other regionals located/headquartered in other States…
>
> These banks operate under a very traditional banking model. The CEO of one of them talked about her bank as a "core funded bank," the term she used. They take deposits, they lend to families and small businesses. Each has assets of over $50 billion, making them subject to enhanced supervision by the Federal Reserve. While non-banks are judged based upon a specific set of criteria, the Dodd-Frank Act requires all banks, as we know, with more than $50 billion in assets to automatically be viewed as systemically important…
>
> Each of these three Ohio banks serves an important role in the communities they serve, but from what I can tell, none of these regional institutions would threaten the United States or global financial system or economy if they were to fail. Many in Washington attack the Financial Stability Oversight Council, or FSOC, for designating institutions as systemic. Let us be clear: the $50 billion line was created by Congress, not by FSOC.[14]

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[13] "Examining the Regulatory Regime for Regional Banks," Senate Banking Committee hearing, March 19, 2014.

[14] Senate Banking Financial Institutions Subcommittee hearing, "What Makes a Bank Systemically Important?" July 16, 2014.) At hearing, Professor Thomson said: "I do not think that having a hard and fast number, a bright-line rule in legislation like the $50 billion or $250 billion, is useful for making the designation."

In drafting some rules, regulators have made distinctions that show they recognize business model differences. They established multiple filing deadlines for resolution plans, primarily based on non-bank assets.[15] Consistent with this view of divergent risk profiles, regulators finalized a leverage rule that only applies to bank holding companies with more than $700 billion in assets or more than $10 trillion in assets under management. Also, the Federal Reserve recently created a Large Institution Supervision Coordinating Committee (LISCC) that seeks to incorporate "systemic risk considerations into the supervision program." The LISCC aims to bring an interdisciplinary "approach to the supervision of … large, systemically important financial institutions." The LISCC does not monitor any regional banking organizations; however, it oversees several nonbank financial firms that recently went through the FSOC designation process.[16] Not all of these methods have been explained publicly—although more transparency from the Federal Reserve on these issues would further refine our understanding of systemic risk. Nonetheless, when these tests are applied to regional banks, the results consistently indicate that such firms, with their traditional banking business models and basic organizational structures, present very little risk to the banking system.

An activity-based approach to systemic risk

Asset thresholds are inherently limited as the determinant of riskiness and can have unintended consequences. Federal Reserve Chair Janet Yellen noted at a recent House Financial Services Committee that any asset threshold contained "elements of arbitrariness."[17] Federal Reserve Governor Daniel K. Tarullo also has questioned the $50 billion threshold for SIFI status established by Dodd-Frank, in part due to his recognition of the common business models of most banks larger than $10 billion in assets. Although these 80 banks "obviously they vary enormously in size, from just over $10 billion in assets all the way up to the very large regional banks with hundreds of billions in assets, Tarullo said in May, "they bridge the $50 billion threshold for enhanced prudential standards established by Dodd-Frank. "Yet, whatever their size, most banking

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[15] Under the Federal Reserve and FDIC's joint regulation implementing the DFA's resolution planning requirements, covered companies with more than $250 billion in total nonbank assets were required to submit their initial resolution plans before other covered firms and generally have been subject to more stringent regulation. The agencies explained in their preamble to the resolution plan rules that this "group comprises the largest, most complex" BHCs. 76 Fed. Reg. 67323, 67330 (2011). Tarullo, in his speeches and testimony, distinguishes between the "largest, most systemically important U.S. banking organizations" (for instance, the G-SIBs) and other banks that merely surpass $50 billion in assets. Two examples are his speech entitled "Toward Building a More Effective Resolution Regime: Progress and Challenges" at the Federal Reserve Bank of Richmond Conference (Oct. 18, 2013). (Available at http://www.federalreserve.gov/newsevents/speech/tarullo20131018a.htm) and his testimony on Dodd-Frank Implementation to the Senate Banking, Housing and Urban Affairs Committee for their hearing entitled "Mitigating Systemic Risk Through Wall Street Reforms" (July 11, 2013). Testimony available at http://www.federalreserve.gov/newsevents/testimony/tarullo20130711a.htm.

[16] In addition, a Senate proposal to address the risks of large, complex organizations, Terminating Bailouts for Taxpayer Fairness Act (S. 798), introduced by Senators Sherrod Brown (D-OH) and David Vitter (R-LA), proposes a $500 billion threshold, far above the DFA standard, for the highest capital levels.

[17] "Monetary Policy and the State of the Economy," House Financial Services Committee hearing, February 25, 2015.

organizations in this group are overwhelmingly recognizable as traditional commercial banks," he added.[18] Most notably, the Financial Stability Board (FSB) and the Basel Committee for Bank Supervision (BCBS) relied on activity-based measures to identify "Global Systemically Important Banks." The fact that the regulators moved beyond the Dodd-Frank formulation to a multi-factor test is an implied recognition of the fundamental imprecision and limitations of an asset-only method of determining systemic risk. The FSB and BCBS developed the five factor test involving size, interconnectedness, substitutability, complexity, cross jurisdictional activity in order to "reflect the different aspects of what generates negative externalities and makes a bank critical for the stability of the financial system." The assessment was finalized in November 2011 and has been used to assess and identify global systemic banks ever since. The organizations felt that the use of multiple considerations provided a considered examination and that "the advantage of the multiple indicator-based measurement approach is that it encompasses many dimensions of systemic importance, is relatively simple, and is more robust than currently available model-based measurement approaches and methodologies that only rely on a small set of indicators.[19]

As it turns out, the Federal Reserve used a very similar systemic risk assessment test domestically when it issued a rule proposal that would use the assessment test to determine the systemic risk scores of each of the bank holding company designated as SIFIs under the Dodd-Frank Act. The proposal further states that upon determining each firm's "systemic score," those firms whose score exceed a specified level would be assigned a capital surcharge. These surcharges would increase by preset amounts to correspond with any increase in a systemic firm's systemic score.[20] Both Tarullo Comptroller of the Currency Thomas J. Curry highlighted their support for activity-based approaches at the March 19 Senate Banking Committee hearing. Tarullo referenced the activity test when explaining the methods the Federal Reserve uses to supervise the most

[18] Daniel Tarullo, "Rethinking the Aims of Prudential Regulation," Presented at the Federal Reserve Bank of Chicago Bank Structure Conference (May 8, 2014). Available at http://www.federalreserve.gov/newsevents/speech/tarullo20140508a.htm .

[19] The Financial Stability Board (FSB) is an international body that was established after the 2009 G-20 London summit in April 2009 as a successor to the Financial Stability Forum (FSF). The Board includes all G-20 major economies and the European Commission. The Department of Treasury, the Board of Governors of the Federal Reserve, and the Securities and Exchange Commission are the U.S. based regulatory bodies that participate in the FSB. The FSB monitors and assesses vulnerabilities affecting the global financial system and proposes actions needed to address them. In addition, it monitors and advises on market and systemic developments, and their implications for regulatory policy. http://www.financialstabilityboard.org/about/history/
The Basel Committee on Banking Supervision BCBS consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located. http://www.bis.org/publ/bcbs201.pdf

[20] http://www.federalreserve.gov/newsevents/press/bcreg/20141209a.htm The rule proposal sets the G-SIB surcharge at a systemic risk level that is four times times higher than the score of the largest regional bank, fifteen times higher than the typical regional bank and more than thirty times higher than the smallest regional bank.

complex firms and how it might apply the G-SIB surcharge. "What we have in our largest institution portfolio at the Fed [LISCC], are the institutions internationally that have been identified as of global systemic importance," he said. "Now there, as I think you all know, we do distinguish; first off by segregating that group of eight, and have special requirements applicable to them, and secondly, even among those eight, we vary the requirements, for example in our proposal for capital surcharges. So depending on size, complexity, interconnectedness, substitute ability, the proposed surcharge may be greater or lesser, even among those eight banks. Although one may have a different set of views on exactly what the set of criteria are, many people have tried to give their own precise formulas. I think all of those people are engaged in the same exercise, which is to say, 'let's identify the systemic importance of those institutions whose failure would really put the whole system at risk.'" [21]

In addition to assessment methodology in the Federal Reserve's proposed rule for G-SIB surcharges, the Federal Reserve has also used activity-based standards—similar to those in the proposed rule— to conduct statutorily required evaluations of proposed acquisitions by two regional banking organizations. In each transaction, both of which occurred after the passage of DFA, the Federal Reserve had to consider "the extent to which a proposed acquisition, merger or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system." The Federal Reserve assessed numerous factors, including: asset size, competition and availability of alternative providers for services, interconnection, complexity and international activity. It further noted that even after the transaction, PNC would not engage in business activities or "participate in markets to a degree that in the event of financial distress…would pose material risk to other institutions." In each case, the Federal Reserve approved the acquisitions, by PNC and Capital One, concluding that there would be no impact on U.S. financial stability. In approving PNC's purchase of RBC Bank, the Federal Reserve found that PNC engages "in a relatively traditional set of commercial banking activities, and the increased size of the combined organization would not increase the difficulty of resolving the organization's activities." [22]

Regional Banks and Systemic Risk

It is clear that regulators have developed more precise and nuanced tests for assessing systemic risk than was the basis for the original Dodd-Frank standard. Beyond determinations about financial stability related to merger activity, the Federal Reserve has gathered systemic risk indicators, similar to ones the FSB used to designate the G-SIBs,

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[21] "Regional Banks," Senate Banking Committee Hearing, March 19, 2015; In answering a question from Chairman Shelby at the March 19 hearing, Curry said the stood behind his comments reported in the *American Banker* (September 24, 2014): "Fifty billion dollars was a demarcation at the time [but] it doesn't necessarily mean you're engaged in that activity that they are trying to target. The better approach is to use an asset figure as a first screen and give discretion to the supervisors based on the risks in their business plan and operations…It's just too easy to say, 'This is the cutoff.' I'm a little leery of just a bright line."

[22] Federal Reserve System, Order Approving Acquisition of a State Member Bank (Dec. 23, 2011); http://www.federalreserve.gov/newsevents/press/orders/order20111223.pdf

from the 33 banks under Title I enhanced supervision. Using that data, the Office of Financial Research (OFR) recently published an analysis that once again starkly illustrates the gulf in business activity and potential systemic impact between regional banks and more complex firms. The report concludes that "the largest banks tend to dominate all indicators of systemic importance…" It emphasizes that "some dimensions of systemic importance are not captured by the indicators," highlighting the "extent to which a bank engages in maturity and liquidity transformations" including "funding long-term illiquidity assets with short-term liabilities." As highlighted throughout this testimony this short-term funding issue is not relevant to core deposit-funded regional banks, and, in fact, it is a factor that the Federal Reserve has said it is working on a proposed rule that would address its concerns about funding about complex financial.[23] Tarullo underlined the Federal Reserve's concern about short-term funding—and its relationship to systemic risk—at the March 19 Senate Banking Committee hearing on regional bank regulation.[24]

The OFR study of systemic risk shows scores that range from 505 down to 19. However, the OFR did not publish data on more than 20 banks—including Regions Bank—that it reviewed because their systemic risk scores were so low. The full OFR data table was put into the record at the March 19 Senate Banking Committee hearing; it showed the systemic risk scores U.S. G-SIBs ranging from 505 to 148 while scores of the regional banks ranged from 30 to 4, with most regionals clustered at the lower end. While Tarullo has noted that "sheer size" can sometimes impact a firm's systemic risk, the OFR report shows that asset-size alone is not a consistent indicator of risk. While Regions Bank's assets are one-twentieth of those of JPMorgan Chase's, Regions' overall risk score is one-fiftieth of the more complex firm. (A Barclays analyst also published a set of scores for all banks and that analysis is consistent with the OFR study, an expected outcome because both analyses involve application of the methods prescribed by the FSB and BCBS, and use of common data provided by the banks. [See Appendix, Table B]) The OFR study would further indicate that the typical regional bank does not have sufficient size or footprint where its role in local lending, or credit intermediation, would give it systemic status, especially given the competitive—and substitutable—lending environment and that a regional bank could be easily be resolved by traditional FDIC intervention.

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[23] Office of Financial Research Brief Series, "Systemic Importance Indicators for 33 U.S. Bank Holding Companies: An Overview of Recent Data," 15-01. February 12, 2015

[24] "Regional Banks," Senate Banking Committee hearing, March 19, 2015.

TABLE 8. Office of Financial Research: Systemic Risk Indicators

Figure 1. Systemic Importance Indicators Reported by Large U.S. Bank Holding Companies ($ billions)

Systemic risk scores are based on size, interconnectedness, substitutability, complexity, and cross-jurisdictional activities

Bank Holding Company (stock ID)	Size	Interconnectedness			Substitutability			Complexity			Cross-Jurisdictional Activity		2013 Score (percent)
	Total exposures	Intrafinancial system assets	Intrafinancial system liabilities	Securities outstanding	Payments activity	Assets under custody	Underwriting activity	Amount of OTC derivatives	Adjusted trading and AFS securities	Level 3 assets	Foreign claims	Total cross-jurisdictional liabilities	
Weight (percent)	20	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	10	10	
JPMorgan Chase & Co. (JPM)	3,570	422	544	599	321,458	21,320	508	68,004	446	69	693	674	**5.05**
Citigroup Inc. (C)	2,895	421	513	596	300,783	11,096	331	59,472	130	46	839	742	**4.27**
Bank of America Corp. (BAC)	2,696	294	220	489	83,705	136	390	54,887	203	32	387	246	**3.06**
Wells Fargo & Co. (WFC)	1,961	110	129	508	28,761	2,400	86	4,880	128	37	70	130	**1.72**
Goldman Sachs Group, Inc. (GS)	1,518	337	107	310	9,585	866	371	50,355	138	43	347	319	**2.48**
Morgan Stanley (MS)	1,283	535	182	231	9,812	1,369	262	43,611	316	23	353	470	**2.60**
U.S. Bancorp (USB)	525	11	22	139	6,918	959	17	106	13	4	3	34	**0.35**
PNC Financial Services (PNC)	425	18	13	68	2,004	161	10	252	26	11	5	2	**0.30**
Bank of New York Mellon Corp. (BK)	410	79	230	61	166,279	23,590	6	1,158	39	0	87	164	**1.50**
HSBC N.A. Holdings Inc. (HSBC)	406	36	55	50	1,061	43	49	5,194	40	4	43	1	**0.38**
State Street Corp. (STT)	345	30	209	43	59,122	20,411	-	1,141	54	8	47	125	**1.48**
Capital One Financial Corp. (COF)	336	14	2	94	914	3	2	63	16	4	9	2	**0.19**

Notes: This list shows BHCs with assets over $250 billion. The eight gray-shaded BHCs were G-SIBs as of 2013. HSBC North America is a holding company for the U.S. operations of HSBC Holdings, plc, incorporated in the United Kingdom.
Sources: Company Y-15 reports, OFR analysis

Besides the immense gaps between the G-SIBs and most regional banks, another striking element of the OFR report is the vast number of zeroes that regional banks score on most of the key systemic measures. Regions Bank, for instance gets a zero on eight of the 12 categories in the Barclays report. Overall, the 20 regionals score a total of 149 zeroes out of the 240 possible categories that are examined. By way of contrast, of the 96 measures applied to the largest eight banks, collectively, they only achieve two total zeroes. These risk assessments ultimately provide greater clarity with respect to the question of whether firms present systemic risk at all. [See Appendix, Tables C-E, for references to the differences among systemic risk among firms with assets above $50 billion.]

TABLE 9. Office of Financial Research: Systemic Importance Score

Bank Holding Company	Size (Exposure) Rank	Systemic Score Rank	2013 BCBS Weighted Score (out of 100%)
JPMorgan Chase & Co.	1	1	5.05
Citigroup Inc.	2	2	4.27
Bank of America Corporation	3	3	3.06
Morgan Stanley	6	4	2.60
Goldman Sachs Group, Inc., The	5	5	2.48
Wells Fargo & Company	4	6	1.72
Bank of New York Mellon Corp	9	7	1.50
State Street Corporation	11	8	1.48
Northern Trust Corporation	23	9	0.49
HSBC North America Holdings	10	10	0.38
U.S. Bancorp	7	11	0.35
PNC Financial Services Group, Inc.	8	12	0.30
Deutsche Bank Trust Corporation	33	13	0.20
Capital One Financial Corporation	12	14	0.19
American Express Company	16	15	0.17
TD Bank US Holding Company	13	16	0.14
SunTrust Banks, Inc.	14	17	0.14
BBVA Compass Bancshares, Inc.	27	18	0.12
BB&T Corporation	15	19	0.12
BMO Financial Corp.	18	20	0.12
Ally Financial Inc.	19	21	0.11
Regions Financial Corporation	22	22	0.11
Fifth Third Bancorp	17	23	0.10
Unionbancal Corporation	20	24	0.09
Keycorp	24	25	0.08
M&T Bank Corporation	25	26	0.08
Discover Financial Services	30	27	0.06
Santander Holdings USA, Inc.	28	28	0.05
RBS Citizens Financial Group, Inc.	21	29	0.05
Comerica Incorporated	29	30	0.05
Zions Bancorporation	31	31	0.04
Huntington Bancshares Incorporated	32	32	0.04
Bancwest Corporation	26	33	0.04

Conclusion

Creating a dynamic, business activity-based approach in the current threshold's place not only would establish a fairer method for supervising banks, but it would strengthen regulators' ability to appropriately tailor rules and deploy their own resources to match differences among banking organizations. Regulators have used activity-based factors—including size, complexity, interconnectedness, global activity and substitutability—in other contexts to determine how firms might impact the stability of the financial system. And like the OFR study, they reached the conclusion that regional banks are fundamentally different than complex banks and individually they don't threaten financial stability. In the end, an improved regulatory system better aligned with bank complexity and risk would ensure safety and soundness while promoting U.S. economic growth and job creation.

Appendix

TABLE A. Requirements Adopted by Regulators without a Statutory Mandate

Brief Description	Citation and Web Link
Capital Ratio Disclosures: Detailed public disclosure requirements regarding capital ratios, such as the common equity tier 1 capital ratio and the leverage ratio, i.e., Basel III "Pillar 3" Requirements. (Federal Reserve, FDIC and OCC)	12 CFR §§ 217.61-63
Resolution planning requirements for insured depository institutions: Requirement for insured banks to submit so-called "living wills" to the FDIC, separate from the bank holding company living will requirement. (FDIC)	12 CFR § 360.10
Liquidity Coverage Ratio (LCR): Quantitative liquidity standards that require covered institutions to maintain high-quality liquid assets for 30 days of anticipated cash outflows under stress conditions. (Federal Reserve, FDIC and OCC)	12 CFR §§ 249.60-63
OCC Heightened Expectations: Detailed risk management standards for national banks and other OCC-regulated institutions, including detailed requirements for management and the board. (OCC)	12 CFR § 30
Volcker Rule Market-Making: Limits on the ability of banking entities to treat other banking entities with $50 billion or greater in trading assets or liabilities as customers for purposes of the Volcker Rule's market-making exemption. (Federal Reserve, FDIC, OCC, SEC and CFTC)	12 CFR § 248.4(b)(3)
Volcker Rule Quantitative Metrics: Banking entities with $50 billion or greater in trading assets or liabilities required to begin collecting and reporting quantitative metrics as of June 30, 2014, more than two years before other banking entities. (Federal Reserve, FDIC, OCC, SEC and CFTC)	12 CFR § 248.20
Volcker Rule Enhanced Compliance Program: Banking entities with $50 billion in assets or greater are subject to supplemental compliance requirements, including a CEO attestation requirement. (Federal Reserve, FDIC, OCC, SEC and CFTC)	12 CFR Appendix B to Part 248—Enhanced Minimum Standards for Compliance Programs
Intermediate Holding Company Requirement for Foreign Banks: Foreign banks with $50 billion or more in non-branch U.S. assets are required to form intermediate holding companies in the United States. (Federal Reserve)	12 CFR § 252.153 and Section 165(b)(2) of Dodd-Frank
CCAR: Capital planning and public disclosure requirements. (Federal Reserve)	12 CFR § 225.8
FSOC: FSOC uses the $50 billion asset threshold when determining if a non-bank financial institution should be subject to evaluation for SIFI designation. (FSOC)	12 CFR Appendix A to Part 1310
Federal Reserve Consolidated Supervision Framework: The Federal Reserve has adopted an enhanced supervision framework for bank holding companies with $50 billion in assets or greater. (Federal Reserve)	SR 12-17; SR 13-24; and SR 13-23.

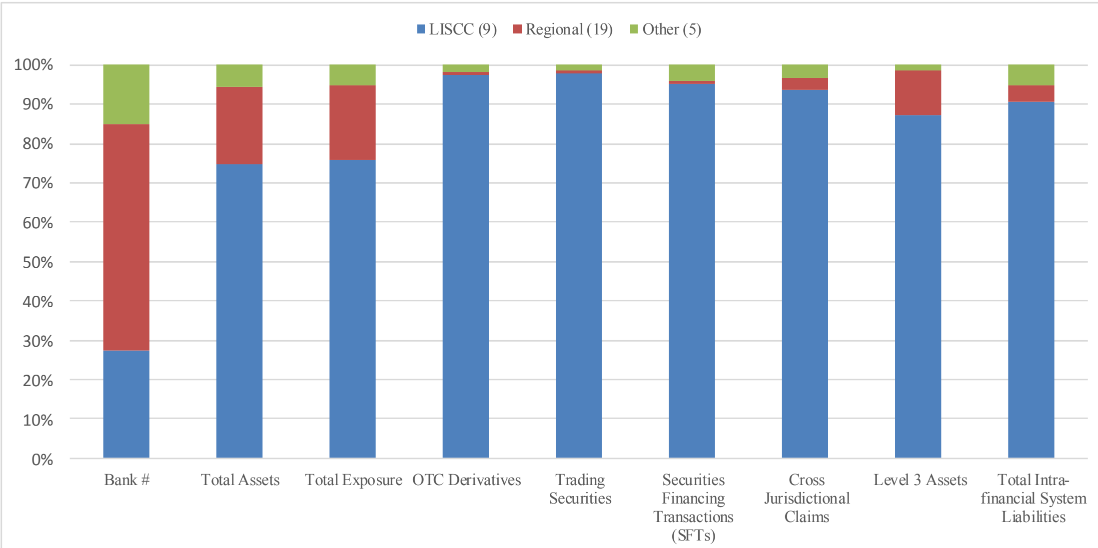
TABLE B. Barclays Systemic Risk Study

Calculating G-SIB Surcharges Using Method 1

Category	Size	Interconnectedness			Substitutability [25]			Complexity			Cross-jurisdictional activity		Total Method 1 Score	G-SIB Surcharge
Systemic Indicator	Total Exposures	Intra-financial system assets	Intra-financial system	Securities outstanding	Payments Activity	Assets under custody	Underwritten transactions in	Notional amount of OTC	Trading and AFS securities	Level 3 assets	Cross-jurisdictional claims	Cross-jurisdictional		
Indicator Weight	20.00%	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	10.00%	10.00%		
Method 1 Scores *G-SIBs:*														
JPM	78	26	34	27	84	103	55	51	65	56	32	35	**504**	**2.0%**
C	63	26	32	27	79	54	36	45	19	37	39	38	**426**	**2.0%**
BAC	59	18	14	22	22	1	42	41	30	26	18	13	**305**	**1.5%**
MS	28	34	11	10	3	7	28	33	46	19	17	24	**259**	**1.5%**
GS	33	21	7	14	3	4	40	38	20	35	16	16	**247**	**1.5%**
WFC	43	7	8	23	8	12	9	4	19	30	3	7	**171**	**1.0%**
BK	9	5	14	3	43	114	1	1	6	0	4	8	**150**	**1.0%**
STT	8	2	13	2	15	99	0	1	8	6	2	3	**148**	**1.0%**
Non-G-SIBs:														
NTRS	3	3	1	1	9	27	0	0	2	0	1	3	**49**	**0.0%**
HSBC	9	2	3	2	0	0	5	4	6	3	2	0	**38**	**0.0%**
USB	11	1	1	6	2	5	2	0	2	3	0	2	**35**	**0.0%**
PNC	9	1	1	3	1	1	1	0	4	9	0	0	**30**	**0.0%**
COF	7	1	0	4	0	0	0	0	2	3	0	0	**19**	**0.0%**
AXP	4	0	2	7	0	0	0	0	1	0	1	1	**17**	**0.0%**
STI	5	0	0	2	0	0	1	0	2	2	0	0	**14**	**0.0%**
BCO MPS	2	0	0	1	0	0	9	0	0	0	0	0	**12**	**0.0%**
BBT	5	0	1	3	0	0	1	0	1	2	0	0	**12**	**0.0%**
BMO	4	1	0	1	1	1	1	0	2	0	0	0	**11**	**0.0%**
ALLY	3	0	1	5	0	0	0	0	1	0	0	0	**11**	**0.0%**
RF	3	0	0	1	0	0	5	0	1	0	0	0	**11**	**0.0%**
FITB	4	0	1	2	0	1	1	0	1	0	0	0	**10**	**0.0%**
UNBC	3	1	0	1	0	1	0	0	1	2	0	0	**9**	**0.0%**
KEY	3	0	0	1	0	0	1	0	0	2	0	0	**8**	**0.0%**
MTB	2	0	0	1	0	0	3	0	0	0	0	0	**8**	**0.0%**
DFS	2	0	0	3	0	0	0	0	0	0	0	0	**6**	**0.0%**
SHUSA	2	0	0	1	0	0	0	0	2	0	0	0	**5**	**0.0%**
CFG	3	0	0	0	1	0	0	0	0	0	0	0	**5**	**0.0%**
CMA	2	1	0	1	0	0	0	0	0	0	0	0	**5**	**0.0%**
ZION	2	0	0	0	0	0	0	0	0	1	0	0	**4**	**0.0%**
HBAN	1	0	0	1	0	0	0	0	0	1	0	0	**4**	**0.0%**

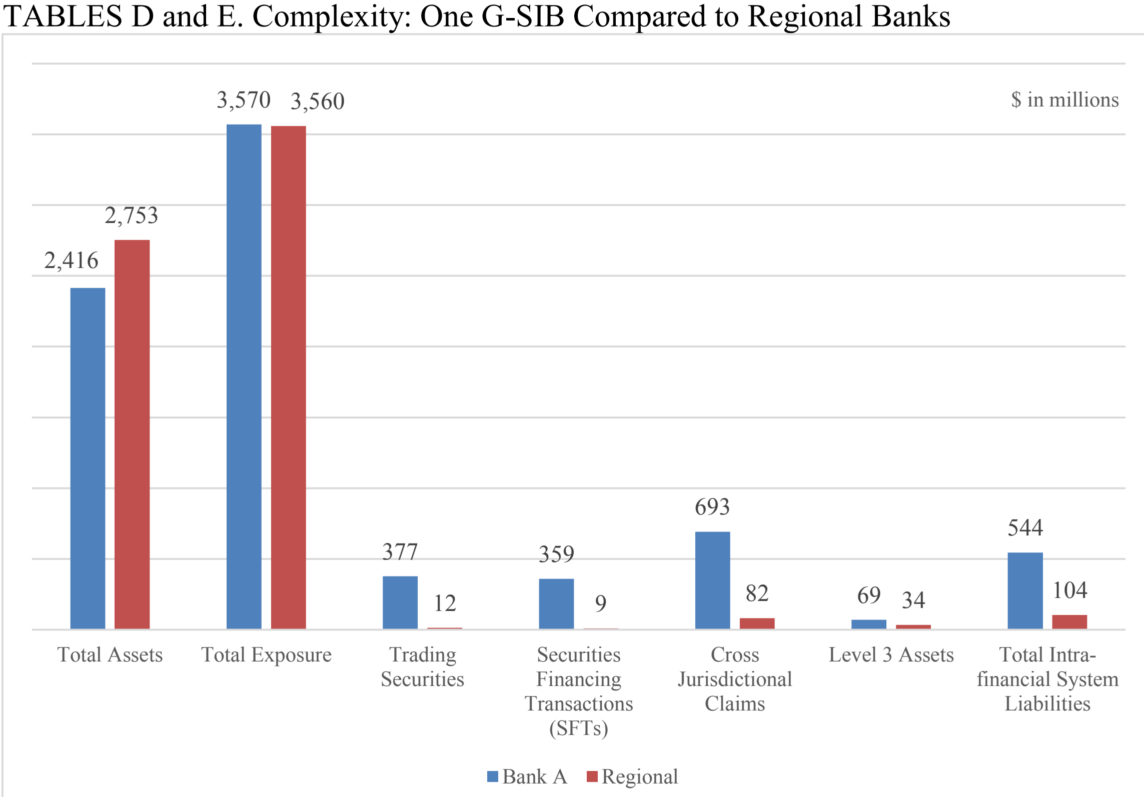
[25] *Note that the sum of the systemic indicator scores for the indicators in the substitutability category is capped at 100 bps. That is the case for JPM, C, BK and STT.*

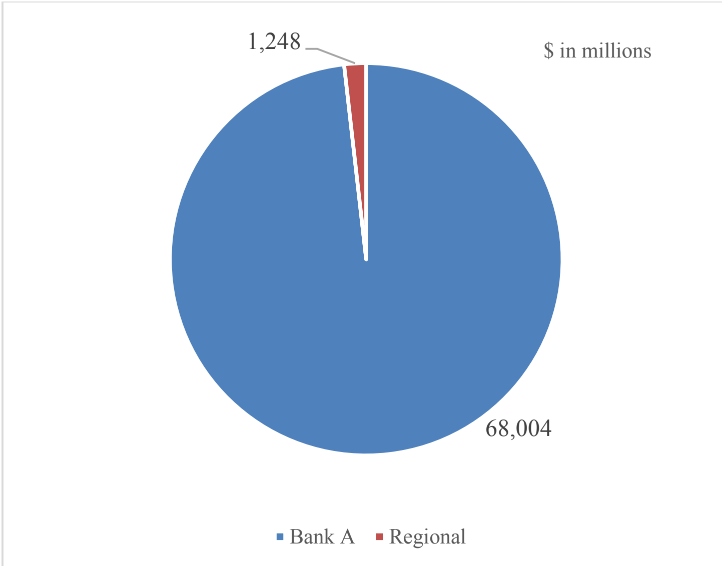
TABLE C. Systemic Risk is Concentrated in the Largest Firms



Source: FR Y-15
LISCC banks: JPM Chase, Citi, Wells Fargo, Bank of America, Goldman Sachs, Morgan Stanley, State Street, Bank of New York Mellon, and Deutsche Bank
Regional Banks: US Bank, PNC, Capital One, BB+T, SunTrust, TD Bank, Fifth Third, Regions, M&T, Key Bank, Huntington, Zions, Union, BBVA Compass, Santander, Bank of the West, Comerica, BMO Harris, and Citizens
Other banks: Northern Trust, HSBC, American Express, Discover, and Ally Financial

TABLES D and E. Complexity: One G-SIB Compared to Regional Banks





Source: FR Y-15
Regional Banks: US Bank, PNC, Capital One, BB+T, SunTrust, TD Bank, Fifth Third, Regions, M&T, Key Bank, Huntington, Zions, Union, BBVA Compass, Santander, Bank of the West, Comerica, BMO Harris, and Citizens