David J. Turner, Jr.
Chief Financial Officer
Senior Executive Vice President

REGIONS

April 16, 2010

Basel Committee on Banking Supervision
Bank for International Settlements
Attn: Secretariat
CH – 4002
Basel, Switzerland

RE: Consultative Document: Strengthening the resilience of the banking sector

Ladies and Gentlemen:

Regions Financial appreciates the opportunity to submit this letter on the Consultative Document, *Strengthening the resilience of the banking sector*, published by the Basel Committee on Banking Supervision in December 2009. We agree with the Committee's stated objective of improving the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of negative spillover from the financial sector to the real economy. The recent financial crisis underscored weaknesses in the global regulatory framework; as a result, enhancements are necessary to reduce risk and thereby strengthen the banking system.

While we support the Committee's primary objective, we believe some of the proposals included in the document should be reconsidered or revised. We are convinced that several of the proposals are pro-cyclical and would have serious unintended consequences. Outlined below are key issues that we believe warrant further consideration.

Tier 1 Hybrids

Properly structured hybrid instruments provide a level of true loss absorption in times of stress. The ability to defer payments over time can provide a significant cushion against losses. Further, U.S. hybrid instruments, including long-dated cumulatively-deferrable Trust Preferred, performed well through the crisis as "going concern" capital. A substantial amount of these instruments were exchanged into equity, strengthening the core capital of many institutions. As a result, it seems reasonable that a limited amount of Trust Preferred and other tax-deductible hybrid instruments should be included in banks' Tier 1 capital going forward. In the event that the Committee decides to phase-out

Regions Financial Corporation
Post Office Box 11007
Birmingham, Alabama 35288
(205) 264.5033
Fax (205) 264.0875

of these instruments, appropriate grandfathering and transitional arrangements should be made. These arrangements should allow for both existing securities and new issuances prior to the finalization of the rule to be included in Tier 1 through their maturity. A lengthy and gradual grandfathering period is necessary to avoid market disruption.

Deferred Tax Assets

As proposed, Deferred Tax Assets (DTA's) are to be fully deducted from Tier 1 Capital. Full deduction is overly punitive as these instruments have inherent value and do absorb losses. An overly conservative approach could serve as a disincentive to prudently provide for losses, which is a significant component of DTA's for most financial institutions. Additionally, the full deduction of DTA's from regulatory capital would increase pro-cyclicality by reducing banks' common equity during downturns. Clearly, these are unintended consequences that run counter to the interests of the banking industry and the overall spirit of the proposals. The most realistic method to employ would be to mirror the current framework for financial accounting purposes in place which mandates a reserve for unrealizable DTA's. These evaluations are subject to both each company's internal controls over financial reporting and to an external audit review. We believe that all of the DTA's that are evaluated as realizable under generally accepted accounting principles should be counted as Tier 1 capital. As going concerns, entities will "more likely than not" generate sufficient taxable income over the long-term. If limitations on DTA realization are incorporated, the framework currently employed by the Federal Reserve in the U.S. would be a more reasonable approach to follow. Under this framework, DTA's are included up to the lesser of 10% of Tier 1 or the amount that may be utilized in one year.

Loan Loss Reserves

The proposal states that the Committee will reconsider the inclusion of excess allowances in Tier 2 Capital subject to a limit of risk-weighted assets. Reserves undoubtedly represent standby capital available to absorb potential losses and therefore should be treated or counted as capital buffers. Again, exclusion of any of the allowance is pro-cyclical and serves as a disincentive to prudently provide for losses. At a minimum, the Committee should maintain the current U.S. treatment, which allows for up to 1.25% of risk-weighted assets.

Leverage Ratio

Regions Financial is supportive of an international leverage ratio as a non risk-based backstop risk measure. However, there are components of the ratio that are overly conservative and should be further studied by the Committee. For example, certain types of revocable credit facilities that are common in the U.S. should be excluded from the ratio, e.g. HELOC's that are unconditionally cancelable by the issuer at any time. Additionally, while we support efforts to harmonize netting standards internationally, the inability to net derivative and repo exposures entirely is unnecessarily punitive and

would, in effect, overstate a firm's leverage. The ability to purchase and net offsetting protection through credit derivatives on individual exposures should also be allowed for the purposes of calculating gross leverage. The current proposal unrealistically assumes that such hedges are worthless in a downside scenario or that all counterparties are unable to pay claims while the holder of the protection survives. Also of concern is the impact that the leverage ratio could have in combination with the proposed liquidity standards. As outlined under the liquidity proposal, banks will be required to hold more liquid assets funded by long-term debt, thereby expanding balance sheets and reducing the leverage ratio. Finally, since the proposed ratio represents a departure from the current U.S. metric, banks in the U.S. could be held to both the new international standard as well as the existing U.S. version. Multiple leverage ratios would only serve to cause confusion.

Mortgage Servicing Rights
The full deduction of Mortgage Servicing Rights (MSR's) from banks' capital ratios is excessively punitive. MSR's have identifiable revenue streams that represent a source of capital. Additionally, there is an active market for mortgage servicing assets; valuation information is readily available. Ignoring the value of these assets could negatively impact a bank's willingness to hold these assets, which in turn, could restrict availability of mortgage lending to credit-worthy borrowers. At most, some hair-cut may be appropriate, such as the U.S. requirement whereby 10% of the balance is deducted from capital (net of DTL).

We appreciate the opportunity to comment on the Consultative Document. We believe industry input is critical and should be thoroughly analyzed. We respect the sense of urgency, but think unnecessarily rushing matters could prove harmful. We also believe that the Capital and Liquidity proposals, taken together, will lead to onerous capital-raising needs, which will have a significant impact on the availability of credit. Please contact me should you have any questions.

Sincerely,

David J. Turner, Jr.