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Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Regulation Y; Docket No. R-1425, RIN 7100-AD 77, Capital Plans

Ladies and Gentlemen:

SunTrust appreciates the opportunity to comment on the proposed amendments to Regulation Y requiring large bank holding companies to submit capital plans to the Federal Reserve on an annual basis and requiring such bank holding companies to provide prior notice to the Federal Reserve under certain circumstances before making a capital distribution. SunTrust is broadly in support of these amendments as they are consistent with both industry and regulatory practice over the past several years, and has several suggestions around operational aspects of these amendments that may improve both the accuracy of the underlying work and its benefit to the bank holding companies and various regulatory bodies that will rely on it. These suggestions are detailed below.

The following comments are ordered consistent with the organization of the document outlining the proposed amendments.

<u>Section III. Capital Plans, A. Annual capital planning requirement</u>

The proposed amendments include the following three distinct requirements for capital plans, with specific comments where needed:

1) An assessment of the expected uses and sources of capital over a nine-quarter forward-looking planning period (beginning with the quarter preceding the quarter in which the bank holding company submits its' capital plan) that reflects the bank holding company's size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions

   Comment: SunTrust recommends reconsidering the nine-quarter planning period. In practice, this is not a nine-quarter forecast, as the first of the nine quarters (the 4th quarter) will be complete prior to the submission of the capital plan (the proposal requests that the plan be submitted on January 5th). This puts a bank holding company in a difficult situation, as it will be basing forecasts on end of 3rd-quarter data, but will not be submitting its' capital plan until 4th quarter results are complete, if not finalized. This adds both inaccuracy and complexity to the process, as by the time the capital plans are submitted, the data used will be long out of date. Possibly worse, significant new information for the 4th quarter could be available that would skew the accuracy of the stress tests and potentially materially impact the capital plans. To address this, the bank holding companies' planning teams must decide to either ignore this material data or largely overwrite their forecasts for the 4th quarter (stressed and expected) with actual results. The former approach cannot be desirable and the latter approach results in a forecast that has a meaningful gap between the first two periods—i.e., the (actual, if not finalized) 4th quarter "forecast" and the 1st quarter forecast (which was forecasted based on end of 3rd-quarter data). As a better approach, SunTrust suggests delaying the submission date to later in the 1st quarter, for example March 21st. This would allow bank holding companies to use actual, finalized 4th quarter results, base their annual capital planning process on actual year-end numbers (more consistent with management practice), and eliminate the gap between the forecast's first and second quarters. The capital planning process would cover the same planning horizon (two full calendar years) but in a way that would be cleaner, more accurate, and more useful to both the bank holding companies submitting the capital plans and the regulatory agencies using them.

2) A detailed description of the bank holding company's processes for assessing capital adequacy

   Comment: SunTrust requests confirmation that it is not necessary to include this description in the capital plan itself, but that it can be included as a separate document (e.g., in a policy or a framework document), as long as this document receives sufficient management review. A description of these processes is extremely detailed (it could easily be longer than the plan itself), and it may easily distract readers from the critical elements of the capital plan.

3) An analysis of the effectiveness of these processes

    Comment: SunTrust requests additional detail as to what is required for bank holding companies to determine "effectiveness" and that, similar to the above, confirmation that this analysis can be reviewed by senior management and submitted as a separate document. For example, would it be sufficient that the capital adequacy and planning process be reviewed in parts or in whole by the independent internal audit function? If so, would it be enough to note this in the capital plan, or simply submit the audit report along with the capital plan? Are there other means to show the effectiveness of these processes?

Section III. Capital Plans, D. Federal Reserve action on a capital plan

Comment: The proposal's description of the timing of the Federal Reserve's review and response to a bank holding company's capital plan indicates that the bank holding company would not be notified until March 15th of Year 2 whether or not the Federal Reserve had any objections to dividend payments in the 1st quarter of Year 2. This leaves very little time for 1st quarter distributions. SunTrust recommends instead that the Federal Reserve consider five full quarters in its Year 1 review of a bank holding company's capital plan. Bank holding companies would be required to maintain the dividend assumptions for the 1st quarter of Year 2 (the 5th quarter being reviewed) that were defined in the Year 1 capital plan. This approach would give bank holding companies the flexibility to maintain existing dividend schedules, which typically allow for 1st quarter distributions to be made prior to March 15th.

Section IV. Prior notice requirements

Comment: The Board explicitly requested comments on whether there should be a de minimis exception regarding materiality. For example, should the Board exempt a capital distribution from the proposed prior notice requirements if the effect of that distribution, combined with all other capital distributions in the prior 12 months to which the Federal Reserve has been given prior notice, would reduce the bank holding company's tier 1 risk-based capital ratio by 10 basis points or less? SunTrust strongly supports more detail being provided around materiality and minimum materiality thresholds, with a particular focus on safety and soundness. Certainly, as in the example provided, changes to capital actions that do not jeopardize well-capitalized minimums and do not result in a risk-based capital ratio (either currently or forecast) decreasing by more than 10 basis points lower than that in the capital plan should be permitted without the proposed prior notice requirements. Though we believe that this exception would include the following, we request that you provide clarity around two possible applications of this.

First, ensure that timing changes are addressed in these exceptions. For example, a proposed capital action's timing may be dependent on an event outside of the bank holding company's control, such as the release of a regulatory rule. The delay of this rule would, by necessity, delay the bank holding company's proposed capital action. Assuming the outside delay is resolved within the given planning year (that is, prior to the submission of the next year's capital plan), and the delay in the capital action does not impact the safety and soundness of the institution (that is, capital ratios are not more than 10 basis points lower either currently or forecast), the carrying out of the capital action should be permitted without the bank holding company meeting the proposed prior notice requirements. Similarly, share buybacks are often tied to more than just capital ratios (they may be driven by share price as well, for example). It should be permissible for bank holding companies to define share buybacks using flexible timing "ranges" or to delay share buybacks with explicit timing until favourable market conditions exist without the proposed prior notice requirements.

Second, ensure that capital actions are sufficiently flexible to respond to greater than forecast performance. If an institution outperforms the results submitted in its' capital plan, it should be able to increase capital actions without being subject to the prior notice requirements so long as the de minimis threshold is not breached.

If there are any questions regarding these comments, please contact me directly at 404-813-5760.

Sincerely,

Aleem Gillani