American Insurance Association

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VIA ELECTRONIC MAIL

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov

Re: Supervision and Regulation Assessments for Bank Holding Companies and Savings and Loan Holding Companies With Total Consolidated Assets of $50 Billion or More and Nonbank Financial Companies Supervised by the Federal Reserve Board (Regulation TT: Docket No. R-1457; RIN 7100–AD–95)

Ladies and Gentlemen:

The American Insurance Association (AIA) appreciates the opportunity to comment on the proposal of the Board of Governors of the Federal Reserve System (Board) to implement Section 318(c) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).[1] AIA represents approximately 300 major U.S. insurance companies that provide all lines of property-casualty insurance to U.S. consumers and businesses. AIA members write more than $117 billion annually in U.S. property-casualty premiums and approximately $225 billion annually in worldwide property-casualty premiums. Our members have a strong interest in ensuring that implementation of Section 318(c) of the Dodd-Frank Act proceeds in a manner that appropriately reflects the unique status of insurance companies when assessments are applied to banking organizations and nonbank financial institutions that are, or may have, affiliates that are property-casualty insurance companies.

SUMMARY

Section 318(c) of the Dodd-Frank Act amended Section 11 of the Federal Reserve Act to direct the Board to collect a total amount of assessments, fees or other charges from specified companies that is equal to the total expenses the Board estimates are necessary or appropriate to carry out the Board's supervisory and regulatory responsibilities with respect to such companies. The companies covered by Section 318(c) are bank and savings and loan holding companies with total consolidated assets of $50 billion or more, and nonbank companies supervised by the Board under Section 113 of the Dodd-Frank Act.

[1] 78 *Fed. Reg.* 23162 (April 18, 2013).

AIA believes that for bank and savings and loan holding companies, and nonbank companies subject to Board supervision, the Board should rely upon Statutory Accounting Principles (SAP) rather than Generally Accepted Accounting Principles (GAAP) when considering the financial statements of insurance company affiliates.

In connection with determining which foreign companies will be subject to assessments, AIA believes that the Board should not use a foreign company's worldwide assets. Rather, the Board should use only the asset size of the company's U.S. operations because the Board is not the primary supervisor of foreign companies. A company's U.S. operations are the more appropriate measure of the Board's cost incurred in carrying out its supervisory and regulatory responsibilities and should be determinative in the first instance of whether or not a fee should be assessed on the company. Moreover, imposing an assessment on the U.S. operations of large foreign holding companies simply because they possess worldwide assets of $50 billion or more exposes these companies to double assessment by their home supervisors and the Board.

AIA also believes it appropriate that a company's assessment reflect the fact that the Board's expenses associated with supervising and regulating insurance activities of an assessed company will be minimal because the company's insurance activities are already subject to intensive oversight and assessment by state insurance authorities.

REPORTING STANDARDS

The Board indicates that if a U.S. domiciled company does not report total consolidated assets in its public reports or uses a financial reporting methodology other than U.S. GAAP, the Board may use, at its discretion, any comparable financial information that the Board may require from the company for this determination. Many insurance companies, such as mutuals, reciprocals, and foreign-owned insurers, do not prepare GAAP-based financial statements because it serves no regulatory purpose to do so. Thus, requiring GAAP-based financial statements would result in an unnecessary burden for these insurers. Since all insurers operating in the U.S. must prepare SAP financial statements, AIA believes SAP financial information should provide suitable information to the Board, without imposing the unnecessary expense of developing GAAP reporting systems on insurers that do not report GAAP financial statements.

As the Board is aware, state law requires insurance companies to prepare their financial statements in accordance with SAP, which is specific to insurance companies. SAP has been established by the National Association of Insurance Commissioners (NAIC) to provide information that is used for different purposes than GAAP. SAP financial statements provide information by which regulators can assess the ability of the insurance company to meet its obligations to policyholders. Hence, SAP can be viewed as treating the insurer as a liquidating concern in order to determine the worth of a company if it were to immediately cease operations.

GAAP guidelines treat a company as a going concern, and assume that it will remain in operation indefinitely. As a result, GAAP financial statements provide information that enables investors to assess the long-term profitability of the business and the future cash flows that may be available to investors. The purpose of GAAP financial statements is to provide investors with insight into the ongoing value of the company, not just its present value.

SAP records assets more conservatively than under GAAP. Unlike GAAP-prepared statements, financial statements prepared in accordance with SAP do not include certain intangible and non-liquid assets such as tax credits and goodwill. As a result, the value of assets using SAP is typically lower than when using GAAP. Additionally, equity values under SAP differ from those determined under GAAP. While GAAP records stockholder equity, SAP records statutory policyholder surplus, and establishes different standards for calculating net income than GAAP. Net income is an important component of equity; thus, the values recorded under statutory policyholder surplus may differ significantly from the amount of stockholder equity.

Moreover, insurance regulatory assessments, such as guarantee fund assessments and state premium taxes, have traditionally been assessed based on the SAP financials. Federal income tax liability is also based on SAP. Accordingly, we see no public policy reason for the Board to depart from the prevailing practice in the insurance industry by requiring insurers to use GAAP.[2]

Because of the importance of this issue to insurers, AIA believes that the Board should provide in its final rule that, in determining whether a company that is an insurer or has insurance affiliates is subject to assessment under Section 318(c), the Board will use financial statements of the insurance company prepared in accordance with SAP.

FOREIGN COMPANIES

The Board proposes to apply assessments to foreign companies that are bank or savings and loan holding companies with total consolidated assets of $50 billion or more. The assessment, however, will be based upon the total consolidated assets of the company's U.S. operations. AIA believes that the Board should not use a foreign company's worldwide assets in determining <u>whether</u> to impose an assessment under Section 318(c). Rather, the Board should use only the asset size of the company's U.S. operations because this is the more appropriate measure of the Board's cost incurred in carrying out its supervisory and regulatory responsibilities.

Unlike U.S. domiciled bank and savings and loan holding companies, the Board is not the primary supervisor of foreign companies. Accordingly, it is inappropriate for the Board to determine that a foreign company's U.S. operations are subject to assessment regardless of size simply because it possesses worldwide assets of $50 billion or more. This is particularly true in instances where the foreign company is already subject to assessment by its home country supervisor. By imposing an assessment on the foreign company's U.S. operations, the Board is in effect imposing a double assessment on the company. In this regard, AIA believes that

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[2] If the company guarantees performance of assets in a separate account, it generally must reserve for any liability in respect of such a guarantee in its general account.

Section 318(c) provides the Board with the necessary flexibility to adopt this recommendation by authorizing the Board to collect assessments, fees and charges for expenses that the Board estimates are "necessary or appropriate." Accordingly, AIA believes that the Board should consider only the U.S. assets of the foreign company when determining which companies to impose assessments under Section 318(c).

ASSESSMENT FORMULA

The Board proposes to assess each company subject to assessment a minimum of $50,000. In addition, each company would be assessed an additional amount based upon the percentage its assets are of the total assessable assets of all assessed companies times the assessment rate, after taking into account the minimum assessment. AIA believes that this approach, while simple to administer, is unfair to those companies, such as insurers, that do not present significant risk to the financial system and whose activities are supervised primarily by state insurance authorities.[3] Because a company's insurance activities will already be subject to intensive oversight and assessment by state authorities, AIA believes it appropriate that a company's assessment reflect the fact the Board's expenses associated with supervising and regulating insurance activities will be minimal.

AIA believes the Board should also take into account that state insurance authorities typically impose an assessment for carrying out their supervisory and regulatory functions. In recognition of the functions performed by state insurance authorities, and to avoid duplicate charges for supervisory functions already performed by state regulators, the Board should provide a credit against a company's assessment for expenses the company incurs in connection with state supervisory functions.

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AIA appreciates the opportunity to provide comments to the Board on its proposed rule. AIA

[3] We have presented the reasons why regulated property-casualty insurers do not pose a systemic threat in several submissions to the Financial Stability Oversight Council. *See, e.g.,* Comments of the American Insurance Association in Response to Advance Notice of Proposed Rulemaking Regarding Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies Pursuant to Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Docket No. FSOC-2010-0001) (Nov. 5, 2010) (available at www.regulations.gov, *Doc. ID FSOC-2010-0001-0029 through FSOC-2010-0001-0029.3*); Comments of the American Insurance Association in Response to Notice of Proposed Rulemaking Regarding Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies Pursuant to Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, (Docket No. FSOC-2010-0001) (Feb. 25, 2011) (available at www.regulations.gov, *Docket ID FSOC-2011-0001-0027*); Comments of the American Insurance Association in Response to Second Notice of Proposed Rulemaking Regarding Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies Pursuant to Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, (Docket No. FSOC-2010-0001) (Dec. 16, 2011) (available at www.regulations.gov, *Docket ID FSOC-2011-0001-0056*).

believes it is important that the Board's rule be fashioned in a manner that takes into account the unique status of property- casualty insurers in the U.S. financial system.

Respectfully submitted,

J. Stephen ("Stef") Zielezienski
Senior Vice President & General Counsel
American Insurance Association
2101 L Street, N.W., Suite 400
Washington, DC 20037
202-828-7100