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June 24, 2016

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: FR 2085 – Consolidated Financial Statements for Insurance Nonbank Financial Companies - OMB Control Number 7100

Dear Mr. Frierson:

Prudential Financial, Inc. ("Prudential") appreciates the opportunity to comment to the Board of Governors of the Federal Reserve System (the "Board") on its proposal for collecting consolidated financial information for insurance nonbank financial companies on Form FR 2085 (the "Form"). In doing so, we recognize the substantial efforts that the Board has made to tailor requirements of the Form to reflect the business risks of the insurance industry and existing reporting requirements under U.S. Generally Accepted Accounting Principles ("GAAP").

Nevertheless, we are concerned with the Board's estimate of the hours burden necessary to implement the information collection required by the Form, as well as with the proposed timing requirements for submission of the Form, and we share our views on these subjects below. Also, while we believe the Form overall would appropriately capture relevant insurance data for its reporters, we provide specific suggestions below that we believe would enhance the quality of the reporting generated by the Form and the clarity of its instructions.

Our comments on the proposed Form are organized below by the following topics:

- Our views of the Board's estimates of the hours burden on companies preparing the Form;
- Concerns relating to the proposed timing of the initial Form submission, and subsequent quarterly submissions;
- Specific comments on the format and content of the proposed life and health insurance section (Schedule IRC-I);
- Suggestions concerning the meaning and use of the terms "materiality" and "trading assets;"

- Comments regarding the consistency of the Form with current GAAP reporting; and
- Suggestions to improve the clarity of the Form's instructions.

<u>The Board's estimates of the hours burden on reporting companies</u>.

Prudential believes that the Board's estimates of the hours burden on reporting companies – related to both one-time implementation and ongoing reporting – are substantially understated and do not reflect the totality of the required effort to prepare the Form.

As we have communicated to the Federal Reserve staff, Prudential has not yet initiated projects to develop the systems necessary for the type of financial reporting that would be required by the Form. Given the lack of certainty as to the final form of our reporting requirements to the Federal Reserve, it has not been efficient or cost-effective to begin such significant projects until final requirements are adopted, particularly because this reporting will not serve any other business or regulatory purpose for Prudential. While we currently perform analyses that generate information similar to that required by the Form, we do so at a business unit level only, not a consolidated level, and we use definitions, groupings and systems that are customized for a particular set of products. These current internal processes would require substantial modifications to generate the granular data the proposed Form would require while satisfying the Board's expectations related to formal reporting controls. Based on our initial assessment, we believe that significant time and resources would be required to develop consistent definitions, reporting templates, and infrastructure to consolidate our current segment analyses and populate the FR 2085. We expect that multiple groups across different functions within Prudential will contribute to the preparation and submission of the Form in order to capture such a wide range of data across many jurisdictions and provide for dedicated resources to coordinate the effort and consolidate the information.

As a result, Prudential estimates that the one-time effort to implement processes to prepare the initial submission of the Form will actually be many multiples of the Board's estimated 3,600 hours. Further, if Prudential management determines to implement a more automated solution for the collection and reporting of this data, our compliance burden would increase, as such systems could take several years to be in place.

In addition, we believe that the Board's estimate of 75 hours per reporting period for ongoing reporting is also very significantly understated. This estimate would represent the time of only one full-time employee working on the preparation and submission of the Form for a two-week period. On the contrary, we anticipate that the quarterly submission process will involve many different employees from many different groups throughout the organization, leading to an aggregate time burden that is many times greater than the Board's estimate. We would expect that this burden would be especially high during the initial few periodic submissions, as our processes will be more manual in nature, before being progressively replaced by a more sustainable solution.

Proposals for the timing of the initial submission and subsequent quarterly submissions of the Form.

Prudential has two separate concerns related to the timing proposals presented by the Board. Our first concern relates to the proposed timing of the initial submission of the Form. As discussed above, we believe the Board's estimate of the hours burden for a one-time implementation of the Form is substantially understated. We anticipate that it will take significant time and resources to establish sustainable recurring processes to generate the granular data that will be required by the Form, especially as it relates to the detailed information reporting of insurance liabilities. As a result, Prudential suggests a "phased-in" implementation of the Form, according to the following proposal:

- The initial submission of all of the Form's schedules, with the exception of Schedule IRC-I, Section II, Parts A, B, C and E, would be made for the reporting period ending 12 months following the final publication of the Form (*e.g.*, the first submission would be made in respect of the quarter ended September 30, 2017, if the final version of the Form is published on or before September 30, 2016); and

- Schedule IRC-I, Section II, Parts A, B, C and E, which detail Insurance-related Life and Health underwriting activities by product type, would be submitted using 3 phase-in periods following the initial submission of the Form. The first submission would report in an aggregate manner only, omitting any product detail; the second submission would include the product detail for domestic businesses only; and the third and final submission of this data would add the product detail for international businesses. Regular quarterly reporting of the entire Form would ensue at the end of this phase-in period. We believe that a full submission of the Form would be possible 6 quarters following the initial submission.

Such a "phase-in" approach would give Prudential sufficient time to complete a thorough analysis of our insurance contracts and their riders, particularly in our foreign operations, where the form of such contracts can be more diverse. This would also allow Prudential time to improve its infrastructure and processes to better meet the Board's expectations.

Our second timing concern relates to the quarterly submissions of the Form. The Board's proposal requires submission of the Form within 45 calendar days after the end of each calendar quarter, including the fourth quarter. As a large accelerated filer under the applicable periodic reporting rules of the Securities and Exchange Commission ("SEC"), Prudential is required to submit its annual report on Form 10-K within 60 days after the end of the fourth calendar quarter. In addition, the statutory ("STAT") financial statement reporting regime of the various domestic state insurance departments also provides for 60-day reporting following year-end. As a result, as currently proposed, reporters such as Prudential would be required to submit the Form in respect of the fourth calendar quarter 15 days in advance of corresponding reporting to the SEC and state insurance departments. Since Prudential expects to rely upon the same GAAP reporting infrastructure that supports our SEC periodic reporting process and to a lesser extent our STAT reporting process for our insurance subsidiaries, an accelerated timeline for year-end reporting would require a change in our current infrastructure and the creation of new processes for the submission of the proposed Form. Prudential is concerned that the relatively accelerated timeline currently required by the Form may create compliance issues for the company and respectfully requests that the Board adopt a 60-day reporting period for fourth quarter reporting. We believe that the use of a reporting period that is consistent with SEC periodic reporting and insurance STAT reporting would greatly reduce the burden of the Form's reporting regime on our existing infrastructure, and we can discern no disadvantage to the Board in extending the filing for these few days.

The format and content of the proposed life and health insurance section (Schedule IRC-I).

Prudential appreciates the efforts the Board has made to develop schedules to capture details regarding changes in insurance liabilities. We agree that the reporting of changes in insurance liabilities between balance sheet dates, if done at an appropriate level of detail and capturing the major categories of change, is useful. However, the product groupings as currently proposed, including the base and rider splits, present some of our most significant challenges with respect to the Form. Our review of Schedule IRC-I, Section II, Part A has raised the following concerns:

- As currently drafted, the domestic sections in Parts A-1, A-2, B-1 and B-2 of Section II differentiate by lines of business, such as Life, Accident and Health, Annuities and Closed Block, with further product differentiation proposed (*e.g.*, Term Life, Variable /Universal Life, Whole Life, etc.). Prudential is concerned that the use of the proposed product differentiation will not result in a consistent application, as the classification is not consistent with how we currently report this information under GAAP or how we manage our businesses. Moreover, the proposed classification will require substantial effort to assign each product to the appropriate grouping, as well as significant infrastructure development to generate the required reports. We urge the Board instead to rely upon existing line of business and product classifications under GAAP for the domestic section, as is proposed for the International section. For example:

    - Short duration insurance contracts (FAS 60 SD);

  - o Long duration insurance contracts with fixed and guaranteed features (FAS 60 LD / FAS 97 LP);
  - o Long duration insurance contracts that are not fixed or guaranteed; (FAS 97 UL); and
  - o Investment contracts (FAS 97 INV, FAS 91)

- Prudential suggests adding a new line of business or column titled "Other" or "Hybrid" to the International sections in Parts A-3 and B-3 of Section II, to better capture bundled or hybrid products that defy simple life / health / annuity classifications, such as products with both life and health benefits in the base contract. As a result, our suggested categories would be: Life, Accident and Health, Annuities, Other, and Closed Block.

- The materiality of a reporter's particular operations should also be taken into account when determining the level of granular detail prescribed by the Form. For example, such detailed product reporting for relatively insignificant international operations will require extensive analysis of contract riders and product splits but would prove to be of very limited utility to a recipient of the Form due to the low value of the portfolio. As a result, Prudential suggests that such immaterial operations be reported in the proposed "Other" column.

Definitions of "materiality" and "trading assets".

To address "materiality," the instructions to the Form refer to concepts contained in FASB Concepts Statements, SEC Staff Accounting Bulletins and accounting rules; however, the term is not defined in the Form or instructions. We believe that defining materiality specifically within the Form would assist reporters in focusing their reporting on data and information that are most relevant and meaningful to regulators. Prudential suggests that "materiality" for purposes of the Form be made consistent with GAAP reporting to minimize differences and potential confusion. For example, Prudential owns a *de minimis* property and casualty insurance operation that is being run-off, as well as immaterial life insurance operations in several international jurisdictions. Reporting data for these operations in many detailed schedules would require significant effort and new processes without providing regulators with any actual meaningful information about the company.

We also request additional clarity on the definition of "trading assets" within the Form's instructions. Prudential's assets classified as trading for accounting purposes do not meet the definition of "trading" described in the general instructions to the trading assets schedule (Schedule IRC-D) as assets acquired "principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements." According to Paragraphs 6, 7 and 12 of FAS 115, classification of a security as "trading" shall not be precluded simply because the entity does not intend to sell it in the near term. The primary purpose of Prudential's assets classified as trading is to support insurance liabilities and they are classified as such due to an accounting designation to either (1) allow changes in value to match similarly measured liabilities or (2) serve as a practical expedient for complex financial instruments to eliminate the need to separately report embedded derivatives. As a result, for purposes of the Form, Prudential proposes to report assets that it has designated as "trading" in its GAAP reporting in the fair value option column of the securities schedule (Schedule IRC-B). Similarly, Prudential's free standing derivatives are primarily used for hedging purposes rather than trading purposes, without meeting the strict definition of hedge accounting. Prudential proposes to report the positive "mark to market" on its derivatives in "other assets" and the negative "mark to market" in "other liabilities," which would be consistent with the company's current GAAP reporting.

The consistency of the Form's requirements with existing GAAP reporting.

As noted above, we recognize the efforts made by the Board to tailor the Form to the insurance industry and to existing GAAP reporting. We firmly believe that the Form's requirements should be consistent with existing GAAP reporting – both with respect to the required accounting rules and the reporting presentation – in order to minimize potential confusion for external stakeholders and avoid the burden of producing separate data for separate reporting principles. Consistency would also allow reporters to rely on their GAAP reporting infrastructure, while minimizing the need for reconciliations between the two bases of reporting. It would also comport with the Dodd-Frank Act's directive that the Board, in getting reports from a nonbank financial company, use reports the company is required to provide to other regulatory agencies, information that is otherwise required to be reported publicly, and externally audited financial statements. 12 U.S.C. 5361(a)(2). In this regard, we include in Annex A to this letter examples of where we believe the Form's consistency with GAAP reporting could be enhanced.

Clarity of instructions.

Prudential believes that some portions of the Form's instructions could be clarified to avoid confusion and reporting inconsistencies. We include in Annex B examples of these items.

* * *

We thank you for the opportunity to comment on the proposed Form. We welcome the opportunity to discuss these comments with you, and any other questions you may have, either in person or by telephone.

Sincerely,

REBoyle

Robert E. Boyle

Annex A

Inconsistencies with GAAP Reporting

Amortization of Deferred Profit Liability

Current Draft: The FR 2085 includes the amortization of Deferred Profit Liability (DPL) in the Policyholder Benefits & Losses incurred on Future Policy Benefits line item (schedule IRI, line 7.b), which is inconsistent with GAAP, where it is included in Premiums (schedule IRI line 1.b).

Our proposal: The FR 2085 should be consistent with GAAP rules and report the amortization of DPL in the Premium line item (line 1.b).

Interest Credited to Policyholder Account Balances

Current Draft: The definition of interest credited indicates that the reporter must provide "a guaranteed yield".

Our proposal: The FR 2085 definition should be consistent with GAAP rules, which do not necessarily require a "guaranteed yield".

Unearned Income related to loans

Current Draft: Loans must be reported net of unearned income in schedule IRC-C.

Our proposal: Currently Prudential follows SSAP37, which instructs companies to report unearned income as a liability, rather than a contra asset. As a result, as currently proposed, the reporting of total assets and total liabilities in the proposed Form would differ from our SEC filings. As such, Prudential proposes unearned income as a liability in the FR 2085 consistent with GAAP reporting.

Annex B

Clarity of Instructions to the Form

1. Definition of Group and Individual business

Issue: The instructions do not include a definition of Group or Individual business in Schedule IRC-I, Part II, related to the Domestic portion of the Form. The instructions should define both groups, or refer to the U.S. STAT reporting definition (as STAT includes such a distinction).

2. Definition of Domestic and International

Issue: The instructions include a very high level description on page IRC-I-4, which refers to a "line of business." Prudential suggests the instructions clarify that this distinction is based on the location or domicile of the writing company, rather than the line of business it is reported in.

3. Column Description for domestic business within Part II of Schedule IRC-I

- **Short-Term A&H / Long-Term Disability (Columns E / F)**

  Issue: Group long-term disability contracts are classified as short duration contracts under U.S. GAAP, as they offer protection for a short duration and would be reported in Column E according to the instructions. However, if the intent is to understand and capture specific product risk, then this product should be reported in Column F (long-term), as the claims period is long-term in nature.

- **Fixed Deferred Annuities and Variable Deferred Annuities (Column I, J)**

  Issue: The instructions on page IRC-I-15 may not be aligned with typical industry use of the terms "fixed deferred annuities" and "variable deferred annuities." The instructions should clarify if the two lines are intended to distinguish between deferred annuities (insurance contracts) with fixed and guaranteed terms vs. those without.

- **Life Contingent Payout Annuities (Column K)**

Issue: The Policyholder Account Balance Roll Forward should not include this column, as it reported in Future Policy Benefits.

- **Deposit-Type Contracts (Column L)**

Issue: Prudential believes that all GAAP investment contracts (both FAS 97 INV and FAS 91) would be reportable in this column consistent with GAAP classifications. In addition, the current instructions state that contracts "that do not incorporate mortality or morbidity risks" should be reported here. Prudential suggests adding the word "significant" in front of the word "mortality" to read: contracts "that do not incorporate significant mortality or morbidity risks".

- **Regulatory Closed Block (Column N)**

Issue: The definition of Regulatory Closed Block does not align with the common industry definition of regulatory closed blocks. Prudential suggests aligning the instructions to GAAP, SOP 00-3 (ASC 944-805-12 to 17)

- **Net Amount at Risk (NAR) (Column B of Part C)**

Issue: Insurers may be using different approaches and assumptions when calculating NAR, which would reduce comparability across companies. Disclosure of key assumptions may help understand the values reported.

4. Line Items within Schedule IRC-I, Part II

- **Reinsurance recoverables**

Issue: Prudential suggests the instructions confirm that a reinsurance recoverable related to items excluded from the roll forward should be included in the liabilities excluded sections, lines 16.f. of Part A and lines 13.e. of Part B.

- **Reserves released and expenses (Line 7)**

Issue: The instructions should clarify that line 7 includes all benefit and expense reserve releases related to experience. The references to "true ups" and "unlocking" are confusing since most reserves reported in future policy benefits roll forward would not be subject to "true ups" or "unlocking" in the absence of a loss recognition event.

- **<u>Changes in actuarial assumptions and methodologies (Line 8)</u>**

  Issue: The instructions do not cover whether system conversion, modeling refinement, methodology refinement, correction of an error and accounting policy changes should be reported in this line item or in line 10 (Other).

- **<u>Other (Line 9 of Part B)</u>**

  Issue: The instructions erroneously refer to future policy benefits instead of policyholder account balances on page IRC-I-23.

5. DAC and VOBA Roll Forward (Schedule IRC-I, Section II, Part E)

Issue: The instructions should clarify that deferred sales inducement assets are excluded from the asset roll forward.

6. Reinsurance Assets (Schedule IRC-I, Section III)

Issue: Reinsurance assets are not clearly defined on page IRC-I-30 or in the glossary. The instructions do not cover whether modco receivables would be reported in this section.

7. Credit Rating (Schedule IRC-B, Part C)

Issue: The instructions are unclear as to whether NAIC ratings could be used for fixed income products.

8. Policyholder Liabilities and Other Policyholder Funds (Schedule IRC, Lines 24.a, 24.b and 25)

Issue: The Form should follow GAAP reporting:

- Many components of other policyholder funds are reported within Policyholder Account Balances (Line 24(b)). If amounts are split between Lines 24(b) and 25, values will not tie to IRC-I, Section II.
- Some companies report negative VOBA in Future Policy Benefits. If amounts are split between Lines 24(a) and 25, values will not tie to IRC-I, Section II.
- Policyholder account balances and future policy benefits are reported gross of reinsurance in our GAAP reports. We can provide the associated actuarial reinsurance recoverable balances to show net balances in IRC-I, Section II. However, since lines 24-25 of the IRC Consolidated Balance Sheet would need to report the gross balances (since reinsurance recoverables are already reported in assets), the IRC lines would not tie to the net balances in the IRC-I, Section II summary (contrary to the instructions).