



October 22, 2012

The Honorable Thomas J. Curry, Comptroller  
Department of the Treasury  
Office of the Comptroller of the Currency  
250 E Street, S.W.,  
Washington, DC 20219

The Honorable Martin J. Gruenberg, Acting Chairman  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20551

The Honorable Ben S. Bernanke, Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Ave., NW  
Washington, DC 20551

Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III,  
Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions,  
and Prompt Corrective Action (FRS Docket No. R-1438 & RIN 3064-AD95)

Standardized Approach for Risk-weighted Assets; Market Discipline and  
Disclosure Requirements (FRS Docket No. R-1442 & RIN 3064-AD96)

Advanced Approaches Risk-Based Capital Rule; Market Risk Capital Rule (FRS  
Docket No. R-1442 & RIN 3064-AD97)

Dear Sirs:

The National Association of Mutual Insurance Companies (“NAMIC”) appreciates the opportunity to provide comments regarding the three notices of proposed rulemaking (“NPRs”) set forth above (collectively, the “Proposals”)<sup>1</sup> establishing the regulatory

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<sup>1</sup> Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action, 77 Fed. Reg. 52,792 (Aug. 30, 2012); Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements, 77 Fed. Reg. 52,888 (Aug. 30, 2012); Regulatory Capital Rules: Advanced Approaches Risk-Based Capital Rule; Market Risk Capital Rule, 77 Fed. Reg. 52,978 (Aug. 30, 2012).

capital rules of the Board of Governors of the Federal Reserve (the “Federal Reserve”), the Federal Deposit Insurance Corporation (the “FDIC”), and the Office of the Comptroller of the Currency (the “OCC”) (collectively, the “Agencies”).

NAMIC is the largest and most diverse national property/casualty insurance trade and political advocacy association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include small, single-state, regional, and national carriers accounting for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market. Since its inception in 1895, NAMIC has advocated for a strong and vibrant insurance industry.

## **Background**

The *Dodd-Frank Wall Street Reform and Consumer Protection Act* (“Dodd-Frank”) <sup>2</sup> abolished the Office of Thrift Supervision, which regulated savings associations and savings and loan holding companies (“SLHCs”), and transferred its supervisory authorities over these entities to the OCC and the Federal Reserve, respectively. In assuming its new responsibilities, the Federal Reserve has pursued a default option of grafting its existing bank holding company regulatory structure onto SLHCs. While this may be understandable from the Federal Reserve’s perspective as it attempts to achieve simplicity in its own operations and development of new rules under Dodd-Frank, the reality is that it creates a regulatory mismatch between what the Federal Reserve would like to accomplish and the real world business profiles of the new SLHCs placed under its authority. Specifically, unlike bank holding companies, which typically involve entities engaged primarily in the business of banking, for many SLHCs, the banking component of the holding company system represents a relatively small part of the business. Consequently, attempting to apply a bank-centric capital regime or banking standards upon non-banking businesses is problematic. This is especially true for SLHCs that are predominately engaged in insurance, where capital allocation is based on an entirely different business model than banks. Additionally, such insurers must comply with entirely different state laws governing their capital requirements.

Dodd-Frank, through the “Collins Amendment,”<sup>3</sup> requires the Federal Reserve to establish minimum leverage and risk-based capital requirements on depository institution holding companies. The Federal Reserve has proposed a banking standard that bears no meaningful relationship to the allocation of capital and use of leverage in

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<sup>2</sup> *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Public Law 111–203, 124 Stat. 1376 (2010). (“Dodd-Frank”)

<sup>3</sup> Section 171, *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Public Law 111–203, 124 Stat. 1376 (2010).

the insurance world. The Collins Amendment authorizes the Federal Reserve to impose a framework that takes into account insurance-based capital requirements. However, the Federal Reserve has proposed implementing the Collins Amendment in a rigid bank-centric manner. As a result, insurers are confronting tremendous and needless added uncertainty concerning the rules of the road governing capital allocation and how capital should be deployed in the future.

It also should be noted that this uncertainty comes in addition to Federal Reserve reporting requirements that could mandate a costly addition of Generally Accepted Accounting Principles ("GAAP") for insurers not currently using GAAP. Moreover, this costly change could result in regulators receiving less relevant information about the financial strength of enterprises that are engaged predominately in the business of insurance.

### **Regulatory Capital Rules**

The proposed rules promulgated by the Agencies consist of three NPRs. The Basel III NPR (Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (FRS Docket No. R-1438 & RIN 3064-AD95)) proposes to incorporate changes made by the Basel III agreement into the existing U.S. risk-based capital and leverage capital requirements. The second proposal (Standardized Approach for Risk-Weighted Assets, Docket No. R-1442 & RIN 3064-AD96) would revise existing U.S. risk-based capital requirements for determining risk-weighted assets. Specifically, the NPR proposes to incorporate *inter alia* certain international standards from the standardized approach in the Basel III agreement. These proposals would apply to banking organizations currently subject to minimum capital requirements under existing U.S. rules and top-tier SLHCs domiciled in the United States.

Lastly, the Advanced Approaches Risk-Based Capital Rule (FRS Docket No. R-1442 & RIN 3064-AD97) would revise existing U.S. advanced approaches capital rules to incorporate *inter alia* certain aspects of the Basel III agreement applicable to advanced approaches banking organizations. The Advanced Approaches NPR would apply to existing advanced approaches banking organizations as well as to SLHCs that meet the applicable thresholds set forth in the advanced approaches rules.

NAMIC believes the standards are wholly inappropriate, counterproductive, and contrary to federal law as applied to insurance SLHCs. Specifically, the Agencies propose to apply a Basel III, bank-oriented framework of quantitative capital requirements to all SLHCs, including those that are predominately engaged in the business of insurance ("insurance SLHCs"). As discussed in more detail below, we believe that the Collins Amendment does not mandate the imposition of the Basel III

banking standards on insurance SLHCs, and we further believe these standards are wholly inappropriate for assessing the capital adequacy needs of insurance SLHCs.

To justify the Basel III framework for insurance SLHCs, Federal Reserve officials have indicated that they believe their hands are tied by the Collins Amendment, in mandating the bank standards. However, we argue that the Federal Reserve has the discretion to accept and deem – either strictly or on some modified basis – state-based risk-based capital requirements as equivalent for purposes of satisfying the Collins Amendment. Congress included language in the Collins Amendment that directs the Federal Reserve to establish minimum leverage and risk-based capital requirements not less than the generally applicable standards existing prior to passage of the Dodd-Frank Act. The Collins Amendment requires the establishment of minimum standards; however, nothing in the Collins Amendment precludes the Federal Reserve from establishing standards for insurance SLHCs that rely on the state-based insurance capital rules. Indeed, when Federal Reserve officials have been asked whether they have such discretion, they have not denied that such authority exists. Federal Reserve officials insist, however, that in the absence of the Collins Amendment, they still have the authority to apply the same Basel III framework to insurance SLHCs through section 10(g)(1) of the *Home Owners' Loan Act* (HOLA), as amended by section 616 of the Dodd-Frank Act. This suggests that the policy the Federal Reserve is pursuing is one of choice, not of law.

We reiterate our position that the Federal Reserve is not required to impose Basel III banking standards on all depository institution holding companies, but has the flexibility to impose standards that appropriately consider the capital adequacy needs of insurance SLHCs. Ultimately, we believe the proposed interpretation of the Collins Amendment with respect to insurance SLHCs is unsupportable under longstanding McCarran-Ferguson jurisprudence, which preserves the regulation of the business of insurance for the states. In sum, the approach is ill-advised and could impair the state-based insurance regulatory system.

### **The Insurance Industry**

First and foremost, the Proposals are not appropriate for insurance SLHCs. Just as insurance capital standards would not work well for banks, bank capital standards will not work for insurance companies. Likewise, attempting to force bank-centric standards on groups predominately engaged in insurance will damage and undermine the well-functioning insurance regulatory system without enhancing the transparency or the financial stability of these insurance groups.

The Proposals represent a sea change for insurance SLHCs. Insurance SLHCs would be subjected to an expensive and onerous new quantitative capital regime without

fulfilling the intended purpose of assessing the safety and soundness of the SLHC. As NAMIC has consistently pointed out, there are fundamental differences between the capital structures and business models of insurers and banks. – the different regulatory structures, different underlying business purpose, and the relationship to consumers.

The Proposals fail to take into account the business structures and regulatory requirements of insurance companies and conflict with previous acknowledgements by the Federal Reserve that the different capital approaches reflect inherent differences between banking and insurance, and that they cannot be “harmonized simply by changing the nominal capital charges.”<sup>4</sup> In April of 2011, the Federal Reserve issued a notice of intent indicating that it was considering applying the same bank capital standards to SLHCs as it does to BHCs.<sup>5</sup> In their comments to the notice of intent, various segments of the insurance industry highlighted the inherent flaws in imposing bank-centric capital standards on insurance companies. Despite these comments, the Agencies have decided to press forward with a one-size-fits-all bank capital framework that only gives nominal consideration to the unique characteristics of insurance SLHCs.

We believe that the current modernized state-based system of financial supervision provides effective, appropriate, and transparent regulation of insurance company operations. The Annual Statement filed by each company provides extensive information, including a balance sheet; income statement and cash flow statement; an extensive schedule showing the history of how loss reserve estimates have developed over time; and a schedule that contains separately-reported data on each security that the company owns. Nearly all property/casualty insurers must include an actuarial opinion with the Annual Statement as to whether the company’s loss and loss adjustment expense reserves make a “reasonable provision” for the company’s future claim and expense liabilities.

Regulators also utilize the Insurance Regulatory Information System (“IRIS”), which is part of the NAIC’s Financial Solvency Tools (“FAST”). For property/casualty insurers, IRIS consists of a series of 12 financial ratios, aimed at key financial indicators including capital adequacy, changes in business patterns, underwriting results, reserve adequacy, and asset liquidity. The FAST system also includes ratios focusing on profitability, asset quality, investment yield, affiliate investments, reserves, reinsurance, liquidity, cash flows, and leverage. In addition, insurers are subject to stringent capital and surplus requirements. Risk-based capital (“RBC”) formulas for life, property/casualty, and health

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<sup>4</sup> Report of the NAIC and the Federal Reserve System Joint Subgroup on Risk-based Capital and Regulatory Arbitrage (May 24, 2002)

<sup>5</sup> Notice of Intent To Apply Certain Supervisory Guidance to Savings and Loan Holding Companies, 76 Fed. Reg. 22662 (April 22, 2011)

insurers apply separate RBC charges for an insurer's business and underwriting risk, asset risk in affiliates, asset risk in other investments, and credit risk.

The NAIC's Model Law on Examinations requires each state to conduct an on-site examination of each domiciled insurer at specified intervals. These examinations, conducted according to the NAIC's Financial Condition Examiners Handbook, include an extensive compilation of schedules, procedures, outlines, and other guidance. If a state regulator determines that a company's financial condition is endangered, state statutes provide broad authority to require companies to take corrective action. In sum, this extensive system of financial supervision, examination, and correction provides the most essential consumer protection – ensuring that the promise of financial protection is fulfilled – and satisfies the needs of assessing the safety and soundness of an SLHC.

In 2008, the NAIC's Solvency Modernization Initiative ("SMI") articulated the U.S. insurance financial solvency framework and the core principles underlying it. The seven core principles include:

- **Regulatory Reporting, Disclosure, and Transparency** - Insurers file standardized annual and quarterly financial reports utilized by regulators to assess the insurer's risk and financial condition. Qualitative and quantitative information is presented in a transparent format utilizing standardized accounting designed to ensure solvency.
- **Off-site Monitoring and Analysis** - Off-site solvency monitoring and risk-focused surveillance allows for continual solvency monitoring.
- **On-site Risk-focused Examinations** - On-site monitoring includes examinations of corporate governance, management oversight, and financial strength, including risk identification and mitigation.
- **Reserves, Capital Adequacy, and Solvency** - States enforce requirements for insurers to maintain adequate reserves, capital, and surplus at all times and in such forms so as to provide an adequate margin of safety.
- **Regulatory Control of Significant, Broad-based Risk-related Transactions/ Activities** - State regulations govern virtually all facets of insurance company operations, including licensing requirements; change of control; the amount of dividends paid; transactions with affiliates; and reinsurance.
- **Preventive and Corrective Measures, Including Enforcement** - The regulatory authority takes preventive and corrective measures that are timely, suitable, and necessary to reduce the impact of risks identified during on-site and off-site regulatory monitoring.
- **Exiting the Market and Receivership** - The state-based insurance regulatory system provides a sound legal and regulatory framework for the orderly exit of insurers from the marketplace. In the event of an insolvency, a receivership system and the guaranty fund system ensure the payment of policyholder obligations subject to appropriate restrictions and limitations.

These SMI efforts have already produced significant new accreditation standards addressing group supervision of insurers.<sup>6</sup> These modifications include revisions to the NAIC Model Holding Company Act and the adoption of the NAIC Model Risk Management Own Risk Solvency Assessment Act (“RMORSA”) which include consolidated reporting and examinations and group-wide capital assessment. These tools include information on non-insurance subsidiaries.

As a result of the strong and enforced system of financial oversight, there is no question that the property/casualty insurance industry weathered the financial crisis well. There is near unanimous agreement that traditional property/casualty insurers pose no systemic risk to the nation’s economy. The International Association of Insurance Supervisors (“IAIS”) in its November 2011 report on Insurance and Financial Stability found that “insurers engaged in traditional insurance activities were largely not a concern from a systemic risk perspective” as a result of the specific nature of the insurance business model and in the way insurance liabilities are funded and claims are settled. In fact, the IAIS concluded that insurers provide “an important contribution to the financial soundness of banks and more broadly to financial stability.”<sup>7</sup> The 2011 Annual Report of the Financial Stability Council found that “insurance institutions were only indirectly affected by the crisis” and that “the traditional U.S. insurance market largely functioned without disruption in payments to consumers throughout the financial crisis and the recovery.”<sup>8</sup> Highlighting the performance of the insurance industry the report found that “only 28 of approximately 8,000 insurers became insolvent in 2008 and 2009, and those insurers are being resolved pursuant to applicable state law.”<sup>9</sup>

NAMIC has long supported capital standards that capture the material risks of insurers’ activities and exposures, including insurance SLHCs. Adequate capital standards, along with other regulatory provisions and tools, help to establish the necessary environment in which insurers can provide products that consumers demand, and are, therefore, necessary for the competitive marketplace that U.S. consumers have long

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<sup>6</sup> The NAIC accreditation program is designed to establish and maintain standards to promote sound and consistent financial solvency regulation by ensuring that adequate solvency laws and regulations are in place in each state. Other requirements include effective financial analysis and examination processes, coupled with organizational review and licensing standards. NAIC accreditation of a state is contingent upon the state meeting or exceeding the standards for insurer solvency, and other operational requirements.

<sup>7</sup> “Insurance and Financial Stability,” International Association of Insurance Supervisors, (November 2011), pg. 3. <[http://www.iaisweb.org/temp/Insurance\\_and\\_financial\\_stability.pdf](http://www.iaisweb.org/temp/Insurance_and_financial_stability.pdf)>

<sup>8</sup> 2011 Annual Report, Financial Stability Council (August 6, 2011), pg. 55 & 24. <<http://www.treasury.gov/initiatives/fsoc/Documents/FSOCAR2011.pdf>>

<sup>9</sup> *Ibid.* at 61-62.

been afforded. NAMIC believes that the current risk-based capital formula, coupled with financial disclosures, is effective in capturing the material risks of property/casualty insurers on a consolidated basis. As the Agencies seek credible, reliable, and relevant information on insurance company SLHCs, we believe the current framework provides the information needed. Instead of requiring bank-centric standards for companies that predominantly engage in insurance activities, the strength of the insurance company at the holding company level is best illustrated by these insurance-centric tools. Since the primary goal of the Agencies is to assure that the holding company is a source of strength for the underlying depository institution, NAMIC believes that all customers--both those of the insurance company and the depository institution--are better off if the Agencies work with state regulators and stakeholders to develop capital standards specifically designed to measure the strength of these organizations, utilizing existing capital requirements and accounting practices as the starting base.

### **Collins Amendment**

Section 171(b)(4)(D) of the Dodd-Frank Act (the "Collins Amendment") imposes, over time, minimum leverage and risk-based standards on U.S. bank holding companies, including U.S. intermediate holding companies of foreign banking organizations, thrift holding companies, and systemically important nonbank financial companies. The Collins Amendment also directs the appropriate federal banking supervisors to develop capital requirements for all insured depository institutions, depository institution holding companies, and systemically important nonbank financial companies to address systemically risky activities. The minimum leverage and risk-based capital requirements applicable to these institutions are subject to two floors. They must be:

- Not less than the generally applicable risk-based capital requirements and the generally applicable leverage requirements.
- Not quantitatively lower than the above requirements that were in effect for insured depository institutions as of the date of enactment of the bill.

NAMIC believes that an application of the Collins Amendment to insurance SLHCs that simply grafts a BHC model on such groups could interfere with state-level regulation of insurance.

In response to the decision of the United States Supreme Court in *United States v. South-Eastern Underwriters Association*, 322 U.S. 533 (1944), that insurance was "interstate commerce" and subject to regulation by the federal government, Congress, in 1945, enacted the McCarran-Ferguson Act (15 USC 1011, *et seq.*). The McCarran-Ferguson Act provided for the continued regulation of insurance by the states and

provided a narrow exemption from the general federal antitrust laws.<sup>10</sup> The McCarran-Ferguson Act further provided that no Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance unless such Act specifically relates to the business of insurance.

The Supreme Court outlined the framework in which McCarran-Ferguson preemption questions are to be addressed in *Humana Inc. v. Forsyth*. The test under McCarran-Ferguson is whether state statutes will be invalidated, impaired, or superseded by the application of federal law. The Court held that a direct conflict with state law is not required in order to compel preemption. It is enough that the federal law may "interfere with a State's administrative regime."<sup>11</sup> It appears clear from both the statute and the Agencies proposed rules that the likelihood of interference with the various state administrative regimes is high.

The McCarran-Ferguson test is whether state statutes will be invalidated, impaired, or superseded by the application of federal law. In the case of the application of the Collins Amendment we believe the answer is, "Yes." The Collins Amendment requires the Federal Reserve to establish minimum leverage and risk-based capital requirements. The bank-centric approach proposed by the Agencies differs from state-mandated risk-based capital and reserve requirements. At worst, the two standards could be in conflict, placing the insurer in a no-win situation. At best, notwithstanding the significant costs of maintaining two accounting systems, the requirements will be calculated with differing accounting standards and represent different goals in that insurance standards are focused broadly on solvency, while the federal standards focus more narrowly on risk and leverage which are subsets of solvency.

### **Statutory Accounting**

The Standardized Approach NPR appears to require exempt SLHCs to provide a variety of disclosures explicitly based on GAAP. Specifically, the Basel III NPR notes that SLHCs should follow the instructions to the FR Y-9C report for purposes of the Basel III NPR capital calculations which would require reporting under GAAP even for companies that currently only utilize non-GAAP practices. The NPR proposes to require GAAP reporting even though such exempted SLHCs are not currently filing FR Y-9C quarterly reports.

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<sup>10</sup> The Sherman Act (prohibits restraint of trade and monopolistic practices), the Clayton Act (prohibits anti-competitive practices), the Robinson-Patman Act (an amendment to the Clayton Act prohibits price discrimination among customers who compete against each other), and the Federal Trade Commission Act (prohibits unfair methods of competition and deceptive practices).

<sup>11</sup> *Humana Inc., v. Forsyth* (1999), 525 U.S. 299, 309-10, 119 S.Ct. 710

Since the early 1900s, state regulators through the NAIC have maintained their own accounting system, commonly known as statutory accounting principles ("SAP"). Each insurer must use statutory accounting to file its financial statements with the state regulators in the states in which the insurer is licensed to do business. The important difference between GAAP and SAP is the purpose of each system. One of the primary objectives of GAAP accounting is to provide important financial information to the investing community to make informed decisions on a going concern basis regarding whether to invest in publicly traded companies. In contrast, SAP reporting was designed from the outset with a regulatory focus on solvency (monitoring for solvency and financial soundness) to ensure that policyholders receive payment and has a long history of highly effective use in the insurance sector. It provides appropriately conservative measures of insurance assets and liabilities. Although oversimplified, SAP generally differs from GAAP in that it recognizes liabilities earlier and/or at a higher value and recognizes assets later and/or at a lower value.

In early 2001 SAP underwent significant revision, called codification, based on the principles of conservatism, consistency, and recognition. Although SAP has grown closer to GAAP, the insurance accounting system remains significantly more conservative, and companies will generally show higher surplus and earnings under GAAP than under SAP.

We continue to believe that SAP offers the Agencies better information to assess an insurer's financial health and for fulfilling their regulatory responsibilities governing holding companies engaged primarily in insurance activities. SAP is also well recognized within the accounting profession as an Other Comprehensive Basis of Accounting ("OCBOA") and like GAAP, also allows for audited financial statements. Additionally and very importantly, SAP forms the foundation for insurer's Risk Based Capital ("RBC") Requirements which better reflect the risks for which capital is needed by insurance enterprises. We believe the Federal Reserve would benefit from the use of these insurer RBC requirements and the conservative nature of SAP.

Particularly important from our perspective is that numerous non-publicly traded insurers, such as mutual insurance companies, use SAP exclusively or use GAAP only on a limited basis. If the Agencies require the application of consolidated GAAP-based accounting solely for purposes of reporting under the Basel III system, the transitional costs will be extraordinary, requiring changes in accounting systems, internal control systems, and training of personnel, thereby creating significant burdens without providing any appreciable benefit in meeting the regulatory goals of safety, soundness, and identification of risks to the holding company. Furthermore, although the burdens are significant for both small and large insurers, they would be particularly acute in

instances where the thrift is a relatively small component of the larger insurance holding company and further amplified in large insurance companies with relatively small thrifts.

The tremendous expenditures required to establish new GAAP accounting systems in addition to SAP far outweigh any practical utility the Federal Reserve could plausibly generate in mandating GAAP reporting. Moreover, this is not a temporary condition. Indeed, it is extremely difficult for us to envision any scenario where the benefits of mandating GAAP on permanent basis for exempted insurers as proposed would be justified. NAMIC believes that any benefits the Federal Reserve might hope to achieve in uniformity by compelling GAAP reporting on bank-oriented reporting forms is outweighed by the resulting costs and burdens imposed by mandating a switch. We believe a SAP-based reporting requirement would better align with the needs and stated purpose of the Agencies to determine the safety and soundness of insurance group SLHCs.

Reliance on SAP would also be fully consistent with Congress's understanding of this issue. For example, the Senate Banking Committee report on Dodd-Frank relating to new capital and source of strength requirements imposed on SLHCs under Section 616, states that "[The] Federal Reserve should take into account the regulatory accounting practices and procedures applicable to, and capital structure of, holding companies that are insurance companies (including mutuals and fraternal)," and that Section 616 is not intended "to mandate that insurance companies otherwise subject to alternative regulatory accounting practices and procedures use GAAP reporting."<sup>12</sup> In addition, allowing the use of SAP accounting would be in accord with President Obama's January 18, 2011 Executive Order on Improving Regulation and Regulatory Review. Among other things, the Executive Order instructs agencies "to weigh the costs and benefits" of proposed rules and "to seek to find the least burdensome tools for achieving regulatory ends."<sup>13</sup>

## Timing

The Proposals would require SLHCs to comply with the new minimum capital standards beginning in January 2013. The 2013 timeline is simply not reasonable, and, in fact, is impossible for insurance group SLHCs that have never used GAAP. The number of compliance systems – including accounting and management information systems – and basic capital structure changes necessary for these companies to generate GAAP reports cannot be completed in the proposed timeframe.

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<sup>12</sup> S. Rep. No. 176, 111th Cong., 2nd Sess. (2010).

<sup>13</sup> Exec. Order No. 13,563, 76 Fed. Reg. 3821 (Jan. 21, 2011)

The proposed 2013 effective date would also go against explicitly stated Congressional intent. Congress was keenly aware of the difficulties that the change would present and was clear in its intention that SLHCs should not be subject to consolidated minimum capital requirements until five years after the enactment of Dodd-Frank.<sup>14</sup> Specifically, the statute provides that “for any depository institution holding company that was not supervised by the Board of Governors as of May 19, 2010, the requirements of this section, except as set forth in subparagraphs (A) and (B), shall be effective 5 years after the date of enactment of this Act.” As such, compliance should be required no earlier than July 21, 2015.

## **Conclusion**

The proposed capital standards are not appropriate for SLHCs that are predominately engaged in insurance. Just as insurance capital standards would not work well for banks, bank capital standards do not work well for insurance companies or the regulators who supervise them. NAMIC urges the Agencies to work with insurance regulators and industry stakeholders to develop standards that are appropriate for insurers. Similarly, NAMIC is concerned with the Agencies’ proposal to compel the use of GAAP accounting standards. The addition of GAAP accounting requirements will be costly and burdensome and provide little utility to either the Federal Reserve or SLHCs. We urge the Agencies to work to incorporate standards based on SAP accounting for SLHCs that otherwise do not use GAAP reporting. Under any scenario, the application of new capital standards to SLHCs should be accompanied by adequate transition time. The January 2013 proposed effective date is unrealistic. The Agencies should require compliance no earlier than July 2015 as directed by Congress. Finally, we note that application of the Collins Amendment to insurance companies is highly likely to interfere with the administration of state insurance laws and regulations as it is inconsistent with the McCarran-Ferguson Act.

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<sup>14</sup> Section 171(b)(4)(D) of the Dodd-Frank Act (Collins Amendment).