TIAA CREF
Financial Services

Jonathan Feigelson
Senior Managing Director, General Counsel and Head of Corporate Governance

730 Third Avenue | 12th Floor
New York, NY 10017

T 212 916-4344
F 212 916-6980
JFeigelson@tiaa-cref.org

October 18, 2012

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

Re: **Proposed Agency Information Collection Activities; Comment Request – FR Y-15 (Docket No. FRS-2012-0237)**

Dear Secretary deV. Frierson:

TIAA-CREF appreciates the opportunity to comment on the Request for Comment on Information Collection Proposals (the "Proposal") issued by the Board of Governors of the Federal Reserve (the "FRB") on August 20, 2012. The Proposal would require U.S. bank holding companies ("BHCs") and savings and loan holding companies ("SLHCs") with $50 billion or more in total consolidated assets to complete the Banking Organization Systemic Risk Report (the "Report") on form FR Y-15. For the reasons set forth below, TIAA-CREF submits that completion of the FR Y-15 in the timeframe stated in the Proposal would place significant undue burdens on insurance companies that are SLHCs ("Insurance-centric SLHCs") who are not currently required to file financial statements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), and would not provide the FRB with useful information regarding such entities and therefore, should be reconsidered.

I. Background

TIAA-CREF is a leading provider of retirement services in the academic, research, medical and cultural fields managing retirement assets on behalf of 3.7 million clients at more than 15,000 institutions nationwide. The mission of TIAA-CREF is "to aid and strengthen" the institutions we serve by providing financial products that best meet the special needs of these organizations and help their employees attain lifelong financial well-being. Our retirement plans offer a range of options to help individuals and institutions meet their retirement plan administration and savings goals as well as income and wealth protection needs.

TIAA-CREF is comprised of several distinct corporate entities. Teachers Insurance and Annuity Association of America ("TIAA") was founded in 1918 and is a life insurance company domiciled in the State of New York operating on a non-profit basis with net admitted general account assets of $213.9 billion.[1] TIAA is a wholly-owned subsidiary of the TIAA Board of Overseers, a special purpose New York not-for-profit corporation. The College Retirement Equities Fund ("CREF") issues variable annuities and is an investment company registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940. TIAA-CREF also sponsors a family of equity and fixed-income mutual funds.

Based on their indirect ownership of TIAA-CREF Trust Company, FSB ("TIAA-FSB"), TIAA and the TIAA Board of Overseers are registered as SLHCs under the Home Owners' Loan Act ("HOLA"). TIAA-FSB provides TIAA-CREF with the ability to offer our clients deposit and lending products integrated with our retirement, investment management and life insurance products in a manner that enhances our ability to help them attain the aforementioned goal of lifelong financial well-being.

II. The FR Y-15 Will Not Collect the Correct Information to Determine Whether an Insurance-centric SLHC is Systemically Important [2]

For Insurance-centric SLHCs, particularly those not otherwise required to prepare consolidated financial statements in accordance with GAAP, the burden created by the Report far outweighs its benefit. As TIAA-CREF and others have stated in prior comment letters, bank-centric, GAAP financial statements which do not adequately consider the nature and behavior of an insurance company's liabilities are not the best tools to use to determine whether an insurance company is systemically important. As stated by the International Association of Insurance Supervisors ("IAIS") "insurers vary widely from banks in their structures and activities and consequently in the nature and degree of risks they pose to the global financial system."[3] Any systemic risk that may be presented by an insurer is better measured by Statutory Accounting Principles ("SAP") which value insurance assets and liabilities conservatively and result in a conservative measure of capital surplus. The calculation of insurance Risk Based Capital ("RBC") using the National Association of Insurance Commissioners ("NAIC") model ("NAIC RBC") is designed to mitigate any insurance industry systemic risk by promoting individual insurance company solvency standards.[4]

---

[1] As of June 30, 2012.

[2] TIAA-CREF supports the comments made by the American Council of Life Insurers ("ACLI") in its letter dated October 11, 2012.

[3] IAIS, Globally Systemic Important Insurers: Proposed Assessment Methodology, 11 (May 31, 2012) (www.iaisweb.org/view/element_href.cfm?src=1/15384.pdf ("IAIS Report").

[4] See Report of the NAIC and Federal Reserve System Joint Subgroup on Risk Based Regulatory Arbitrage (May 24, 2002) at 16 ("A main focus of insurance company solvency regulation is the adequacy of technical provisions (reserves reported as liabilities in statutory financial statements). For life and property/casualty insurance companies in the United States, technical provisions for unpaid policy claims are subject to minimum standards (i.e., the reserves must be determined to be adequate to discharge insurance policy obligations. The conservative nature of the margin in technical provisions relative to liability amounts based on best estimate assumptions for life insurers decreases the need for capital to absorb unanticipated losses.").

Insurance liabilities are significantly different than bank liabilities. For insurance companies, a key concern is solvency and the ability to pay policyholders over long periods. Unlike banks, which typically are funded by immediately payable deposits, insurers have longer-term liabilities. Insurance liabilities tend to operate independent of the business cycle in that they are predetermined (e.g., annuities, term life) or randomly dispersed (e.g., natural disasters) and thus the payout schedule is not a function of economic conditions. Unlike banks, insurers' stable liabilities provide them far greater freedom to choose when to sell assets, and they are unlikely to be forced to liquidate assets to satisfy short-term obligations in times of economic difficulty or market disruption, as is common among traditional banking entities.[5]

NAIC RBC and life insurance enterprise risk management focus on the solvency of the insurer and the matching of assets to liabilities over the long-term. Bank-centric metrics focus on short-term events and will not accurately reflect an insurer's solvency. More specifically, bank capital standards focus primarily on equity capital, not adequacy of reserves, and lending activities and related regulatory capital considerations.

The factors in the insurance company RBC calculation represent the capital necessary for a mismatch of asset and liability cash flows which is not considered in the bank capital model.[6] RBC accounts for both assets and liabilities, and the fact that insurers manage both long-term assets and long-term liabilities, making them unlikely to face the liquidity constraints that manifest themselves as systemic risk. RBC evaluates the same categories of risk identified in the Report including affiliate risk, interest rate risk, market risk and operational risk. Such measured criteria will provide the FRB with an appropriate picture of the relevant factors in the evaluation of an insurance company's potential for systemic risk. For these reasons, the quarterly and annual financial statements already prepared by insurance companies are a superior source of information for the FRB.

III. The Proposal Does Not Afford Insurance-centric SLHCs Sufficient Time to Comply

The Proposal would require Insurance-centric SLHCs to provide consolidated financial information, GAAP financial statements and FRB reporting in an unreasonably short period and seems to ignore the exemption that was provided to certain Insurance-centric SLHC's by the FRB's December 29, 2011 release.[7] As an Insurance-centric SLHC with the majority of our

[5] This strength is particularly evident in periods of market disruption or with regard to less liquid assets where insurance companies do not contribute to the downward pressure on asset prices created by the short-term liquidity needs of other types of investors.

[6] NAIC Risk Based Capital General Overview, July 15, 2009.

[7] Agency Information Collection Activities Regarding Savings and Loan Holding Companies; Announcement of Board Approval Under Delegated Authority and Submission to OMB, 76 Fed. Reg. 81933 (December 29, 2011).

business in insurance, the December 2011 release exempted TIAA from preparing consolidated GAAP financial statements and filing the FR Y series of reports until the development and implementation of capital standards for SLHCs. As the FRB is aware, the capital standards for SLHCs have not been finalized and TIAA-CREF and others have commented to the FRB that the use of bank-centric, GAAP based measures are inappropriate for measuring capital of an insurance company. Nevertheless, the Proposal requires the submission of information on a consolidated basis in a matter of months. In order to provide such information, non-GAAP Insurance-centric SLHCs will have to collect data that has not previously been collected and develop a second set of accounting policies.

We remind the FRB that, as it has acknowledged previously, the development of GAAP accounting policies for an Insurance-centric SLHC will require numerous substantive accounting judgments. These judgments will have to be evaluated, tested and reconciled before the financial statements can be finalized. The results of this intensive analysis may likely affect an insurance company's business and investment decisions and time is needed to assess these impacts. Given the number of important decisions that will have to be made regarding GAAP accounting treatment, it is unreasonable to think that this transition could be accomplished in a short period. The operational work and substantive decision making associated with such a drastic change could not be accomplished in the time afforded by the Proposal.

For example, life insurance and annuity policy reserves under existing GAAP are valued using different assumptions than under SAP which will require significant change to valuation processes, procedures and systems. This effort requires significant manual involvement initially, which only starts to subside partially as changed processes are operationalized. Incrementally, the methodology to be used is being amended by the Financial Accounting Standards Board ("FASB"), which is currently targeting a fourth quarter 2012 Insurance Contracts Exposure Draft release ("Exposure Draft"). Substantive changes to financial statement reporting and valuation are anticipated in the Exposure Draft, and the NAIC also is nearing completion of significant statutory valuation changes via implementation of principles based reserving. It will be particularly burdensome during such a period of change for companies to develop a set of accounting policies and processes to address existing GAAP when the Exposure Draft project likely will result in further significant changes to GAAP and the need to change those accounting policies and processes again.

Another example is the identification and recognition of deferred acquisition costs ("DAC") required for GAAP. The deferral, capitalization and amortization of DAC are not required under SAP as policy acquisition costs are more conservatively expensed at the beginning of the policy. Under GAAP, certain acquisition expenses are amortized over the life of the policy corresponding with the expected revenue stream. The SAP methodology is more conservative and results in the recognition of higher expenses, and consequently reduced capital, in the short-term. DAC requires identifying specific types of acquisition costs related to specific activities for which deferral and amortization are appropriate. Recent GAAP guidance that defers only costs related to successful efforts (generally, contracts signed) while increasingly conservative, is still less conservative than associated SAP guidance. Under

GAAP, detailed product profitability tests are needed to substantiate deferral. Different amortization methods can apply to broad product classes and future amortization speed might be adjusted based on future events. The development of policies and procedures for the identification, classification, and extraction of DAC expenses to address these issues requires a significant amount of resources and time and provides no benefit in the assessment of an entity's systemic significance.

Another area that will require significant work is the application of fair value accounting (ASC 320 which was formerly codified in GAAP under FAS 115, Accounting for Certain Investments in Debt and Equity Securities) to an insurance company's portfolio of debt securities. Application of this standard will require significant effort and changes the valuation basis for investment positions. As we and others, including the ACLI, have pointed out in various comment letters, life insurance companies tend to make long-term investments using debt securities which they often hold to maturity but may sell if circumstances warrant. Fair value accounting for such debt securities creates equity volatility which is not consistent with the investment posture by which TIAA is managed.

TIAA-CREF appreciates the flexibility the FRB and our designated Reserve Bank, the Federal Reserve Bank of Boston, have shown as they have assumed supervision for our SLHC pursuant to Section 312 of DFA. When the FRB began the process of implementing its new supervisory authority over SLHCs, it noted in its April 2011 Notice of Intent that it was considering applying to SLHCs capital and leverage requirements applicable to BHCs "to the extent reasonable and feasible taking into consideration the unique characteristics of SLHCs and the requirements of HOLA."[8] In Supervisory Release 11-11, the FRB expressed the view that it would take time for the FRB to better understand SLHCs' business models and operations and that it would take SLHC management time "to make operational changes in response to the Federal Reserve's supervisory expectations."[9] Similarly, in exempting certain Insurance-centric SLHCs from many of the bank holding company reporting requirements, the FRB stated that SLHCs, particularly SLHCs that are insurance companies "could not develop reporting systems to comply with the Federal Reserve's existing reporting requirements within a reasonable period of time or without incurring inordinate expense."[10] While the FRB confirmed its preference for consolidated financial data from large financial institutions, with respect to exempted SLHCs, the FRB stated, "insurance SLHCs will be exempt only until consolidated regulatory capital rules are finalized for SLHCs, at which time they **may** be required to file consolidated financial statements."[11]

---

[8] Notice of Intent to Apply Certain Supervisory Guidance to Savings and Loan Holding Companies, 76 Fed. Reg. 22662, 22,665 (emphasis added).

[9] http://www.federalreserve.gov/bankinforeg/srletters/sr1111.pdf

[10] Proposed Agency Information Collection Activities; Comment Request, 76 Fed. Reg. 53, 129, 53,133 (Aug. 25 2011).

[11] 76 Fed. Reg. 81936, emphasis added

Based on this continuing uncertainty, TIAA reasonably believed that the FRB would afford exempted SLHCs a reasonable period of time to build the policies and processes necessary to comply with the BHC reporting requirements. In the absence of guidance from the FRB to the contrary, TIAA has engaged in planning based on our understanding that the FRB's comments recognizing the difficulties exempted SLHCs would have in building the appropriate systems meant that the FRB would conform its implementation date to the specific effective date for SLHC capital standards of July 21, 2015, as set forth in the Collins Amendment to the DFA.[12]

The Proposal states that the purpose of collecting consolidated systemic risk data from SLHCs is to enable the FRB to "assess the systemic risk implications of proposed mergers and acquisitions and may be used to determine whether an institution is a domestic systemically important bank."[13] TIAA-CREF believes it would be more efficient for the both the FRB and Insurance-centric SLHCs to collect this information in a more targeted way, and in the first instance, use financial data that is supplied to insurance regulators at the time of a proposed merger or acquisition.

The Proposal's request for data to determine systemic importance is inconsistent with the Financial Stability Oversight Council's ("FSOC") final rule for designation of systemically important nonbank financial institutions ("Final Rule"). [14] The Appendix to the Final Rule sets forth specific quantitative criteria for a company to be considered for designation. The quantitative test states that companies that have $50 billion in total consolidated assets **and** meet thresholds for one of five other criteria related to derivative exposure, outstanding indebtedness, credit default swaps, leverage and short-term debt ratio, will be moved into Stage 2 for further consideration of whether such an entity should be designated as systemically important. By including SLHCs on the basis that they have $50 billion in assets, the FRB is ignoring the second part of the FSOC's criteria. In the Preamble to the Final Rule, the FSOC stated, "the thresholds-based approach set forth in the interpretive guidance offers greater transparency, consistency, and ease of application for the Council, nonbank financial companies, market participants, and other members of the public, and requires less reliance on subjective assumptions." The FRB's request for systemic risk data from entities that do not meet the FSOC's threshold runs counter to the FSOC's intention to provide transparency to nonbank financial companies and market participants.

---

[12]Section 171(b)(4)(D) of the DFA provides that SLHCs should not be subject to consolidated minimum capital requirements until five years after the enactment of DFA or July 21, 2015.

[13] Proposed Agency Information Collection Activities; Comment Request, 77 Fed. Reg. 50102, 50105 (August 20, 2012).

[14] Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 12 C.F.R. § 1310, Appendix A, IIIa, 77 Fed. Reg. 21637, 21661 (April 11, 2012).

IV. Conclusion

For the reasons set forth above, TIAA-CREF believes that the Proposal will place unreasonable burdens on Insurance-centric SLHCs without providing commensurate benefit to the FRB. Insurance-centric SLHCs that do not currently compile consolidated financial statements utilizing GAAP will be unable to provide useful information in the format required by the Report on a timely basis. At a minimum, these exempt SLHCs should be afforded the timeframe contemplated within the Collins Amendment to the DFA.

We thank the FRB for consideration of our views and welcome the opportunity for further dialogue on this issue.

Very truly yours,

Jonathan Feigelson
Senior Managing Director, General Counsel
& Head of Corporate Governance

cc: Honorable Ben S. Bernanke