United States Senate

WASHINGTON, DC 20510

February 25, 2014

The Honorable Janet Yellen
Federal Reserve Board
20th and Constitution
Washington D.C 20551

Dear Chairman Yellen:

We write to urge the Federal Reserve to recognize the differences between insurance companies and other financial institutions regarding permissible accounting practices that can be used to comply with financial reporting and other regulatory requirements as the Federal Reserve promulgates new capital standards for insurance companies.

As you are aware, most banks and all publicly traded corporations in the country prepare financial statements using Generally Accepted Accounting Principles (GAAP) accounting. However, there are a number of non-publicly traded insurance companies supervised by the Federal Reserve as savings and loan holding companies (SLHCs) that prepare financial statements using Statutory Accounting Principles (SAP) only.

Statutory accounting, which is built upon GAAP, is designed to address the unique business model of insurance. It is well established as the most effective accounting system for the prudential supervision of insurance companies and ensuring an insurer's ability to meet its most fundamental promise, to satisfy policyholder claims. Congress fully recognized this fact about SAP in its consideration of the Dodd-Frank Act. Specifically, the Senate Report (accompanying the Dodd-Frank Act) states:

> It is the intent of the Committee that in issuing regulations relating to capital requirements of bank holding companies and SLHCs under this section, 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 mutual and fraternals), or have subsidiaries that are insurance companies.[1]

While we applaud the efforts taken by the Federal Reserve and other Federal financial regulators to ensure that our financial institutions operate in a safe and sound manner and that they have enough capital to withstand shocks to the economy, we also believe a "one-size-fits-all" approach to regulation is not always

1 Senate Report 111-176 at 88-89.

the most effective or warranted approach. Such is the case with accounting, where the Federal Reserve has signaled that it wishes to mandate the uniform use of GAAP for all companies, including insurers that presently do not perform such accounting. Such a mandate would impose extraordinary costs on insurers totaling hundreds of millions of dollars without improving the prudential supervision of such companies. Moreover, there are alternative mechanisms the Federal Reserve could employ to obtain a "consolidated" picture of insurance holding companies at a fraction of the cost of imposing GAAP.

Because of the aforementioned reasons, we strongly urge the Federal Reserve to allow non-publicly traded insurance companies supervised by the Federal Reserve as SLHCs to prepare financial statements using SAP reporting. If the Federal Reserve does plan to mandate the use of GAAP accounting for insurance companies not currently preparing such statements, we would like to understand the rationale and whether the Federal Reserve has considered far less costly alternatives.

Respectfully,

Mark Kirk
U.S. Senator

Richard J. Durbin
U.S. Senator

Mike Johanns
U.S. Senator

Sherrod Brown
U.S. Senator