

United States House of  
Representatives  
Committee on  
Financial Services

2129 Rayburn House  
Office Building  
Washington, D.C. 20515

July 22, 2016

The Honorable Janet Yellen  
Chair  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Ave. NW  
Washington, DC 20551

Dear Chair Yellen:

We write to you in our capacity as members of the House Financial Services Committee regarding the pending joint notice of proposed rulemaking (NPR) to implement Section 956 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank). As we understand it, this NPR intends to contain the systemic risk present in incentive-based compensation practices of financial institutions. Yet, this rulemaking takes a broad approach to financial regulation; the effects of which we fear are not adequately accounted for in the associated analysis.

Insurance savings and loan holding companies (insurance SLHCs) would be subject to these proposed regulations. However, the NPR seems to lack consideration of an appropriate analysis of the risks, existing practices and restrictions at insurance companies, or work of other insurance supervisors. The NPR's focus on limiting the systemic risk of large banking institutions and negligence of its effect on insurers is evident, and we're concerned that, despite our many conversations and mutual recognition of the vast differences between banks and insurers, the Federal Reserve Board (Board) and other federal financial regulators have again failed to account for those differences and appropriately tailor regulations based on the structure of a company and the actual risk it poses to the U.S. financial system.

Congress has time and time again been clear in its intent for banks and insurers to be regulated differently. The powers enumerated in Dodd-Frank both support and enable this distinction, and Congress' consistent deference of insurance regulation to the states is codified in law and has been consistently reinforced by Congress. Moreover, in the past, the Board has noted that insurance SLHCs are "less complex, less international, and do not pose systemic risk<sup>1</sup>," which begs the questions of their need to be subject to the heightened restrictions on executive compensation in this rulemaking.

Given the absence of analysis of this rule's effect on insurers, and the recognized lack of systemic risk posed by insurance SLHCs, we ask that the Board undertake an analysis of

incentive-based compensation practices at insurers (similar to the Board's Horizontal Reviews of banks), consult with insurance stakeholders, including state insurance supervisors, and tailor the final rule to insurance. Appropriately tailoring the final rule to insurance is consistent with the Congressional intent behind Dodd-Frank for targeted regulation based on systemic risk, and distinguishing between insurers and banks.

Agencies responsible for financial regulation must undertake all rulemakings with the utmost diligence in order to avoid any unintended damage to our financial markets and the American people. As the only federal regulatory body with supervisory authority over insurers, we ask that you seek careful and thoughtful approaches to insurance regulation. Thank you for your consideration. We look forward to your response and to resolution of this important issue.

Sincerely,



Blaine Luetkemeyer  
Chairman  
Subcommittee on Housing and Insurance  
House Financial Services Committee



Lynn Westmoreland  
Vice Chairman  
Subcommittee on Housing and Insurance  
House Financial Services Committee



Scott Garrett  
Chairman  
Subcommittee on Capital Markets and  
Government Sponsored Enterprises  
House Financial Services Committee



Robert Hurt  
Vice Chairman  
Subcommittee on Capital Markets and  
Government Sponsored Enterprises  
House Financial Services Committee



Bill Huizenga  
Chairman  
Subcommittee on Monetary Policy  
and Trade



Mick Mulvaney  
Vice Chairman  
Subcommittee on Monetary Policy  
and Trade



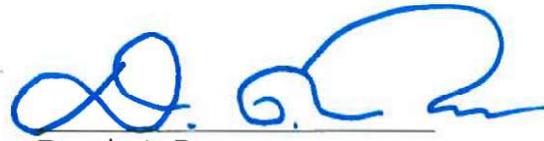
Andy Barr  
Member of Congress



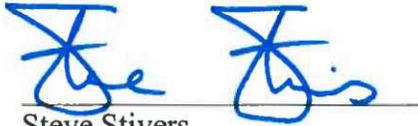
Keith J. Rothfus  
Member of Congress



Stevan Pearce  
Member of Congress



Dennis A. Ross  
Member of Congress



Steve Stivers  
Member of Congress



Patrick McHenry  
Member of Congress



J. French Hill  
Member of Congress

cc: Governor Daniel Tarullo  
Mr. Scott Alvarez  
Mr. Tom Sullivan

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<sup>1</sup> Capital Requirements for Supervised Inst. Significantly Engaged in Ins. Activities, 81 Fed. Reg. 38634 (proposed June 14, 2016) (to be codified at 12 C.F.R. ch. 2).