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Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, N.W.
Washington, D.C. 20551

RE: Docket No. R-1673; RIN 7100-AF56; Regulatory Capital Rules: Risk-Based Capital Requirements for Depository Institution Holding Companies Significantly Engaged in Insurance Activities

Dear Madame:

The Auto Club Group ("ACG"), Auto Club Services, Inc. ("ACS") and Auto Club Insurance Association ("ACIA"), each a grandfathered unitary savings and loan holding company ("SLHC"), appreciate the opportunity to submit these comments on the Notice of Proposed Rulemaking on "Regulatory Capital Rules: Risk-Based Capital Requirements for Depository Institution Holding Companies Significantly Engaged in Insurance Activities" published by the Board of Governors of the Federal Reserve System ("Board") on October 24, 2019 (84 FR 57240) (the "NPR").

We support the Board's significant effort to research, develop, and implement a risk-based capital framework for Depository Institution Holding Companies Significantly Engaged in Insurance Activities that protects safety and soundness for depositors. The Building Block Approach ("BBA") that adjusts and aggregates existing legal entity capital requirements to determine an enterprise-wide capital requirement provides a sufficient, uniform basis for the industry to calculate, report, and enhance its level of capital. As discussed more fully below:

- The proposed minimum BBA ratio of 250 percent exceeds the minimum RWA ratio of 8 percent applicable to banks;

- The BBA's additional buffer of 235 percent renders the total required capital to far exceed bank capital requirements and therefore may unnecessarily place insurance savings and loan holding companies at a competitive disadvantage when compared to other IDIHCs;
- The BBA meets all legal requirements, and therefore a separate capital requirement under Section 171 is not necessary; and
- The exemption for entities engaged in commercial activities, as outlined in footnote 34, should specifically include non-operating, non-top tier holding companies that are primarily pass-through entities.

The Auto Club Group, Auto Club Insurance Association, and Auto Club Services, Inc.

ACG, a Michigan nonprofit membership organization headquartered in Dearborn, Michigan, is a member of the federation of automobile clubs doing business under the American Automobile Association ("AAA") banner. Established in the early 1900s, ACG provides roadside emergency, travel, and other automotive services to its members. ACG is one of the largest motor clubs in AAA and the only AAA club to have a federally chartered savings bank.

Auto Club Insurance Association ("ACIA") is a Michigan reciprocal, inter-insurance exchange that offers automobile and homeowners property and casualty and life insurance products directly or through various subsidiaries. ACIA's primary regulator is the Michigan Department of Insurance and Financial Services.

Auto Club Services, Inc. ("ACS") is a wholly owned subsidiary of the top tier holding company, ACG. ACS is the attorney-in-fact for ACIA and is the management company for the organization. ACS conducts no separate activities.

For purposes of regulation by the Board, ACG is considered the top-tier holding company, although ACIA is the primary operational entity within the consolidated group. By virtue of their ownership and control of Auto Club Trust, FSB, each of ACG, ACIA, and ACS is a registered savings and loan holding company pursuant to Section 10 of the Home Owners' Loan Act of 1933 ("HOLA").

Auto Club Trust, FSB

Auto Club Trust ("ACT"), a federal savings bank regulated by the Office of the Comptroller of the Currency, is the banking affiliate of the three related grandfathered unitary savings and loan holding companies: ACG, ACIA, and ACS.

ACG and its 9,500 employees serve approximately 12.5 million American Automobile Association ("AAA") members and insureds through 250 branded offices in 13 states and 2 U.S. territories: Florida, Georgia, central and northern Illinois, northern Indiana, Iowa, Michigan, Minnesota, Nebraska, North Carolina, North Dakota, South Carolina, Tennessee, Wisconsin, Puerto Rico, and the US Virgin Islands.

Responses to the NPR

A. Overview of the BBA

Question 1: The IAIS is currently considering a MAV approach for the ICS; in contrast, the BBA aggregates existing company-level capital requirements throughout an organization to assess capital adequacy at various levels of the organization, including at the enterprise level.

What are the comparative strengths and weaknesses of the proposed approaches?

How might an aggregation-based approach better reflect the risks and economics of the insurance business in the U.S.?

> **Comment 1:** The primary strength of an aggregation-based approach is its alignment with the current NAIC risk-based standards for capital adequacy and their related thresholds for regulatory intervention at the legal entity level. As a result, there are fewer opportunities for mismatched solvency regulations that would cause inappropriate capital allocations between a firm's parent insurer and its subsidiary depository institution. This alignment strengthens the relationship between state and federal regulatory regimes, improves market soundness, and bolsters consumer confidence.
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> One notable weakness of the ICS is its inherent assumption of capital fungibility throughout an enterprise with its top-down approach. The financial costs, regulatory limitations, and tax impacts of transporting capital throughout a firm's legal structure (without netting a resultant enterprise wide risk reduction) should be reasonably considered in the creation of solvency metrics. Overlooking or oversimplifying these considerations can be particularly concerning if the metric is to be used to assess financial health in a stress scenario.

Question 2: In what ways would an aggregation-based approach be a viable alternative to the ICS?

What criteria should be used to assess comparability to determine whether an aggregation-based approach is outcome-equivalent to the ICS?

> **Comment 2:** We support the statement made by David A. Sampson, President and CEO of the American Property Casualty Insurance Association (APCIA) at the September 12, 2019, Hearing of the Senate Committee on Banking, Housing, and Urban Affairs.
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> The states and the Board are developing aggregation-based group capital assessment systems that promise to be a better fit for the U.S. market and regulatory system than the ICS in addition to being much more susceptible to ongoing maintenance and continued relevancy. Both the states and the Board are building upon the current U.S. legal entity solvency regulation regime and accounting systems to develop this approach. The aggregation methodology leverages the existing legal-entity regulatory approach in the U.S. to allow both a legal entity/jurisdictional view, as well as a combined view of an insurance group's capital.
>
> The NAIC's Group Capital Calculation initiative (GCC) and the Board's parallel Building Block Approach (BBA) are both based upon aggregation of current insurance company capital resources and capital requirements, using the long-established state risk-based capital (RBC) system and, where applicable, corresponding existing requirements for non-U.S. subsidiaries of a U.S.-based insurance group. These approaches would require significantly reduced transition costs since they are based on current accounting and capital

requirements. Because the GCC and BBA require aggregation of legal entity information (rather than the ICS' consolidated, top-down approach), they will be more transparent in that regulators will know both the location and availability of capital within legal entities of the group (which is not a feature of the ICS).

The aggregation methodology also uses audited data (which the ICS does not), can be applied by any home jurisdiction (and a number of other jurisdictions are interested in using an aggregation method), and provides a pragmatic incremental way forward for the U.S. to achieve the IAIS' stated goals for the ICS without compromising the current accounting and regulatory framework. The aggregation methodology also addresses the issue of capital fungibility, which is a fatal flaw in the ICS approach.

B. Dodd-Frank Act Capital Calculation

Question 3: As an alternative to consolidation, what are the advantages or disadvantages of permitting a holding company to deconsolidate the assets and liabilities of its subsidiary state- and certain foreign-regulated insurers and deduct from equity its investment in these subsidiary insurers?

Comment 3: We do not propose to offer a response to this question.

Question 4: As an alternative to consolidation, what are the advantages or disadvantages of permitting a holding company to deconsolidate the assets and liabilities of its subsidiary state- and certain foreign-regulated insurers, and risk weight the holding company's equity investment in these subsidiary insurers?

Comment 4: We do not propose to offer a response to this question.

Question 5: What is the appropriate risk weighting for a holding company's equity investment in its subsidiary state- and certain foreign-regulated insurers?

Comment 5: We do not propose to offer a response to this question.

Question 6: What other calculations, if any, should the Board consider to ensure that the minimum risk-based capital requirement for insurance depository institution holding companies complies with section 171 of the Dodd-Frank Act?

Comment 6: Since the proposed BBA framework is a comprehensive aggregation of capital and built around the generally applicable bank capital requirements, it is sufficient to address the 2014 Amendment to Section 171. The proposed 250 percent BBA minimum requires a level of capital that exceeds the banking rules 8 percent adequately capitalized threshold. Therefore, no additional calculations for IDIHCs should be necessary.

Question 7: Should the generally applicable minimum leverage ratio be excluded from the section 171 calculation?

Comment 7: Yes, the generally applicable minimum leverage ratio should be excluded. The NAIC RBC framework assigns unique risk weightings to assets, premiums, and reserves and includes a diversification benefit. The BBA framework synchronizes the insurance and banking risk-based capital requirements. A separate capital requirement that essentially assigns the same level of risk to cash, bonds, equities, receivables, etc. should be considered carefully for its viability and necessity considering the asset-intensive nature of the insurance industry, particularly for life insurers.

Question 8: What are the advantages or disadvantages of applying the generally applicable minimum leverage capital requirement to an insurance SLHC or insurance SLHC mid-tier holding company, as defined in this proposal, with the same exclusion of insurance subsidiaries as set out in this proposal for the generally applicable minimum risk-based capital requirement?

Comment 8: We do not propose to offer a response to this question.

Question 9: What are the advantages or disadvantages of applying a supplementary leverage ratio requirement to an insurance SLHC or insurance SLHC mid-tier holding company, as defined in this proposal, with the same exclusion of insurance subsidiaries as set out in this proposal for the generally applicable minimum risk-based capital requirement?

Comment 9: We do not propose to offer a response to this question.

Question 10: What would the advantages and disadvantages be of allowing a holding company to elect not to consolidate some, but not all, of its subsidiary state- and certain foreign-regulated insurers?

Comment 10: We do not propose to offer a response to this question.

Question 11: When should the Board permit a holding company to request to change a prior election regarding the capital treatment of its insurance subsidiaries?

Comment 11: The Board should permit a holding company to request a change to a prior election at least annually or when management anticipates material changes to the holding company's legal structure (i.e. merger, acquisition, or divestiture) to the extent that capital adequacy is materially impacted. Firms should be afforded enough flexibility to make changes to its capital structure as long as the safety and soundness of the depository institution are secured.

IV. The Building Block Approach

B. Covered Institutions and Scope of the BBA

Question 12: What are the advantages and disadvantages of including all insurance depository institution holding companies (including bank holding companies significantly engaged in insurance activities and insurance depository institution holding companies that control covered savings associations) within the scope of the final BBA rule, as planned?

Comment 12: The approach to include all IDIHCs within scope is prudent since a depository institution's holding companies are in the best position to provide timely sources of tier 1 capital. We understand the purpose of the BBA is to establish an enterprise wide risk-based capital framework that incorporates legal entity capital requirements such as the requirements prescribed by state insurance regulators, taking into account differences between the business of insurance and banking.

A potential disadvantage would occur with respect to the applicability of the BBA to holding companies that are non-operating entities. In this regard, there would be little advantage to applying the BBA to an entity that is primarily a pass-through entity with no operations, particularly if the board and management teams are the same as other entities that are within the scope of the BBA.

We note that footnote 34 attempts to address the applicability of the BBA to commercial entities; however, we would welcome additional explicit clarification documented in the final rule to exclude non-operating and pass-through commercial entities from capital requirements under the BBA. Applying bank capital rules to commercial enterprises that do not primarily hold capital or liquid assets for the same purposes as a depository institution would be unduly burdensome and encumber commercial-focused holding companies with unintended costs and inefficiencies associated with redeploying capital when a bank is already deemed sufficiently well capitalized.

2. Applicable Capital Framework

Question 13: The Board invites comment on the proposed approach to determine applicable capital frameworks. What are the advantages and disadvantages of the approach?

What is the burden associated with the proposed approach?

Comment 13: In general, the proposed approach to determine applicable capital frameworks is logical and appropriate for insurers and depository institutions. We believe this method works toward a seamless coexistence of insurance and banking capital rules.

One concern of note is the application of U.S. federal banking rules on non-insurance, non-banking entities.

Upon adoption of the BBA, a top-tier depository institution holding company would continue to be held to NAIC RBC rules and the subsidiary depository institution would continue to be held to U.S. federal banking rules. Transfers of capital outside these regimes should be viewed more as efficient allocation strategies and less as regulatory arbitrage provided that covered insurance and banking institutions are sound.

Imposing capital rules intended to protect deposit holders onto non-depository businesses that often have disparate investment strategies widens the target of bank regulation without netting a corresponding reduction in enterprise wide risk.

An alternative solution to the application of bank rules to non-operating entities (“NOEs”) would be to align capital requirements with the NOE’s immediate parent. This solution reduces the need for ad hoc calculations in the building block documentation, preserves the efficient deployment of capital and reduces implementation burden.

3. Building Block Parents

a) Capital-Regulated Companies and Material Financial Entities as Building Block Parents

Question 14: What other definitions of materiality, if any, should the Board consider for use in the BBA?

Examples may include a threshold based on size, off-balance sheet exposure, or activities including derivatives or securitizations.

Comment 14: We do not propose to offer a response to this question.

Question 15: What thresholds, other than the proposed threshold for exposure as a percentage of total assets, should the Board consider for use in the BBA's definition of materiality?

What are the advantages and disadvantages of using a threshold-based on the top-tier depository institution holding company's building block capital requirement?

Comment 15: We do not propose to offer a response to this question.

Question 16: The Board invites comment on the use of material financial entity concept.

What are the advantages and disadvantages to the approach?

What burden, if any, is associated with the proposed approach?

Comment 16: We do not propose to offer a response to this question.

Question 17: The Board invites comment on the proposed treatment of intermediaries.

What are the advantages and disadvantages of the approach?

What burden, if any, is associated with the proposed treatment?

Comment 17: We do not propose to offer a response to this question.

Question 18: What risk-sensitive approaches could be used to address the risks presented by asset managers in an insurance depository institution holding company's enterprise?

Comment 18: We do not propose to offer a response to this question.

Question 19: What forms or structures, if any, do asset managers or their holding companies take in insurance enterprises, such that they may fall within the proposed definition of an MFE?

Comment 19: We do not propose to offer a response to this question.

b) Other Instances of Building Block Parents

Question 20: Are the additional instances where the Board proposed to identify building block parents appropriate?

For example, with regard to a company that would be a building block parent because it is a party to one or more reinsurance or derivative transactions with other inventory companies, is material, and is engaged in activities such that one or more inventory companies are expected to absorb more than 50 percent of its expected losses, would a different level of expected losses (i.e., a level other than 50 percent) be more appropriate?

Comment 20: We do not propose to offer a response to this question.

D. Aggregation in the BBA

Question 21: How can the Board improve the calculation of the allocation share?

Should the Board further clarify the data sources for the inputs to the allocation share calculation?

Would it be better to use a simpler methodology, such as relying only on common equity ownership percentages?

Comment 21: The calculation of the allocation share as proposed is logical and reasonable. To ease implementation burden and provide clarification of the data sources, the final rule could employ the ownership percentages in Schedule Y of the statutory annual statement as guidance within the final rule. This proposed solution further aligns capital requirements when adjustments to Authorized Control Level (ACL) are calculated for the BBA.

V. Scaling Under the BBA

D. Approach Where Scalars are Not Specified

Question 22: The Board invites comment on the proposed approach to scalars and the associated white paper.

What are the advantages and disadvantages of the approach?

What is the burden associated with the proposed approach?

Comment 22: The proposed use of scalars is a practical approach to synchronize the bank and insurance capital regimes. The limitations of the historical probability of default (PD) approach are clearly and concisely disclosed in the whitepaper. The primary advantage of the PD approach is its ease of implementation into the BBA framework with unique factors for available and required capital.

One burden associated with the proposed approach will be the ongoing maintenance of transparently updating the scalars and an agreed-upon timeframe for when the scalars will be updated and when they will be effective for each filing year. In addition, any future potential changes to the NAIC RBC framework that could have a downstream impact on the BBA scalars as well as potential governmental intervention that could occur in future recessions should be top of mind as the scalars are updated.

Question 23: How should the Board develop scalars for international insurance capital frameworks if needed?

Comment 23: We do not propose to offer a response to this question.

VI. Determination of Capital Requirements under the BBA

C. Capital Requirement for a Building Block

Question 24: The Board invites comments on all aspects of the proposed adjustments to capital requirements.

Should any of the adjustments be applied differently?

What other adjustments should the Board consider?

Comment 24: We do not propose to offer a response to this question.

5. Risks Relating to Title Insurance

Question 1: Is the proposed risk weighting approach for risks relating to title insurance appropriate?

For example, would a different risk weight (i.e., a risk weight other than 300 percent) be more appropriate?

Comment 1: We do not propose to offer a response to this question.

VII. Determination of Available Capital Under the BBA

B. Regulatory Adjustments and Deductions to Building Block Available Capital

Question 25: The Board invites comments on all aspects of the proposed adjustments to available capital.

Should any of the adjustments be applied differently?

What other adjustments should the Board consider?

Comment 25: Although the proposal to include adjustments for prescribed or permitted practices is likely an unfavorable development for IDIHCs, the desire for uniformity of federal regulation across states is acknowledged and reasonable as it pertains to this proposal. Due to the limited number of firms affected by the BBA proposal, we request that the final rule employ a more flexible approach to allow the Board to have the ability to assess the nature and materiality of potential adjustments to building block available capital on an ad hoc basis that preserves the best interest of depositors and policyholders alike.

1. Criteria for Qualifying Capital Instruments

Question 26: What other criteria, if any, should the Board consider for determining available capital under the BBA?

Comment 26: We generally concur with the observations made by the APCIA regarding senior debt and surplus notes.

ACG further understands that in developing the BBA, the Board sought to tailor it “to be an insurance-centric standard” while at the same time recognizing that the Board has already established precedent in some similar areas with respect to other regulated institutions (i.e., other than SLHC's significantly engaged in insurance activities). The tension between those two objectives can be seen with respect to the NPR's divergent approaches to available capital and, specifically the criteria for capital instruments. In that regard, comparing and contrasting the NPR's approach for surplus notes and for senior debt is instructive.

Under U.S. GAAP, both surplus notes and senior debt are liabilities, i.e., they represent amounts that have been borrowed and which are to be repaid to a lender. Insurance supervisors have nonetheless allowed insurers to report them as components of capital for supervisory purposes, under certain circumstances, the most important of which are that the instruments be effectively subordinated to policyholders, and that amounts to repay principal and interest be subject to supervisory approval.

ACG understands that the primary concern of the Board, and as reflected in the proposed criteria, is that surplus notes and their principal and interest transactions, while subject to approval of a state regulator, are not subject to approval by a federal regulator, such as the Board. The NPR proposes to grandfather in existing surplus notes, but new notes must comply with the criteria, which presumably would qualify a new surplus note as capital only if it required dual sign-offs, i.e., by a state supervisor as well as the Board itself. We urge The Board to tailor the final rule to retain the treatment historically accorded capital instruments by state supervisors, without requiring dual state-federal supervisory approval..

However, with respect to senior debt, there are other criteria that would preclude capital treatment. ACG understands that this treatment is primarily related to precedent in the banking rule for which the Board felt compelled to make consistent across SLHCs, whether or not engaged in insurance activities.

Nonetheless, ACG considers it anomalous that senior debt and surplus notes will be treated differently. Both are debt for GAAP, and both are subordinated to policyholders. Perhaps the primary difference is that, under the proposed rule, the Board will review and, if appropriate, approve surplus notes, whereas it will not propose to do so for distributions from the insurer that could be used to repay senior debt. The difference in treatment also highlights a departure from the manner in which supervisors in other jurisdictions evaluate and qualify debt for capital treatment, and a departure with international standards. Recently, in Abu Dhabi, the IAIS agreed to criteria that a jurisdiction could use as a "national discretion" in its implementation of the ICS that would allow structurally subordinated senior debt to qualify (existing ICS criteria already can qualify contractually subordinated debt). Given the state-based jurisdiction over insurance companies in the United States, we would encourage the Board to incorporate that "national discretion" into the final rule, and accord the state supervisors the current level of deference to govern capital instruments of IDIHCs.

While ACG appreciates that there is precedent for treatment of surplus notes and senior debt in the banking rule, such treatment did not benefit at the time from any considerations involving supervision of insurers. Given the anomalistic and divergent treatment between surplus notes and senior debt in the NPR, ACG believes the proposed treatment of surplus notes and senior debt should be revisited by the Board and made more consistent with domestic state insurance supervisory practices and emerging international standards.

Question 27: One of the criteria, concerning capital instruments that contain certain call features, requires the top-tier depository institution holding company to obtain prior board approval before exercising the call option.

Should the Board apply a de minimis threshold below which this approval is not needed?

Comment 27: We do not propose to offer a response to this question.

Question 28: Are there other approaches, other than grandfathering, that the Board should consider to address surplus notes issued by insurance depository institution holding companies or their subsidiaries before November 1, 2019?

Comment 28: We do not propose to offer a response to this question.

Question 29: What grandfathering date should the Board use?

Comment 29: We do not propose to offer a response to this question.

C. Limit on Certain Capital Instruments in Available Capital Under the BBA

Question 30: What alternate formulations of the limit on tier 2 capital may be more appropriate, while still ensuring appropriate quality of capital?

Comment 30: We do not propose to offer a response to this question.

Question 31: Aside from a limit on tier 2 capital instruments, are there other ways to ensure sufficiently loss absorbing available capital and/or prevent an institution from relying disproportionately on capital resources that are less loss absorbing?

Comment 31: We do not propose to offer a response to this question.

VIII. The BBA Ratio, Minimum Capital Requirement and Capital Conservation Buffer

A. The BBA Ratio and Proposed Minimum Requirement

Question 32: The Board invites comment on the proposed minimum capital requirement.

What are the advantages and disadvantages of the approach?

What is the burden associated with the proposed approach?

Comment 32: The overall design of utilizing existing capital regimes for insurers and banks, scaling to a common framework and then aggregating into a single simplified ratio, is a welcome advancement and addresses concerns communicated to the Board in the past.

Page 86 of the NPR document describes the proposed minimum BBA ratio of 250 percent as the product of translating 8 percent of RWA under banking rules to its NAIC RBC equivalent with an additional margin of safety for data or model uncertainty in order to account for an adequate degree of confidence in the BBA requirement. In a hypothetical example of a bank with $100 million of RWA if it held total capital of $8 million, it would have a Total RBC Ratio of 8 percent and otherwise be considered adequately capitalized under the Prompt Corrective Action (PCA) framework.

Translating this to its BBA equivalents, ACL would be $1.06 million ($100 million * 1.06 percent) and TAC would be $1.7 million ($8 million – {$100 million * 6.3 percent}). The resulting BBA ratio would be 160 percent, very near the Regulatory Action Level (RAL) of 150 percent of ACL under the NAIC's RBC for Insurers Model Act. Based on the actions prescribed between RAL under insurance rules and adequately capitalized under the PCA rules, these appear to be reasonable points to anchor the two capital regimes together.

Using the same math with a 9 percent RBC ratio, the BBA equivalent is 255 percent which is near the proposed minimum BBA ratio of 250 percent. Comparing the 8 percent and 9 percent RBC ratios with their BBA equivalents leads us to question why the proposed BBA minimum ratio is not equivalent to an 8 percent adequately capitalized standard and if the BBA equivalent of 100 basis points of RBC ratio is necessary or overly conservative even before the 235 percent capital conservation buffer is added on.

We would propose a more reasonable approach may be to leverage existing parallels between insurance and banking regulatory intervention thresholds and calibrate the BBA minimum ratio closer to the 8 percent adequately capitalized threshold or 160 percent in BBA terms with a more reasonably and clearly defined margin of safety that avoids holding IDIHCs to a higher capital standard than the rest of the industry.

B. Proposed Capital Conservation Buffer

Question 33: The Board invites comment on the proposed minimum capital buffer.

What are the advantages and disadvantages of the buffer?

What is the burden associated with the buffer?

Comment 33: Given the sufficiency of the BBA ratio (as proposed or lowered), we request that the minimum capital buffer be eliminated from the final rule, as it is unnecessary to achieve adequate capital protection. Continuing with the hypothetical example from the comment to Question 32, a bank with $100 million of RWA and $10.5 million of total capital would have a total RBC ratio of 10.5 percent. The BBA-equivalents for TAC and ACL would be $4.2 million and $1.06 million, respectively, or a BBA ratio of 396 percent. As a result, the difference in BBA ratios of 396 percent and 160 percent is 236 percent. This is very near the proposed BBA buffer and validates that the proposed 235 percent is equivalent to the 2.5 percent capital conservation buffer under bank capital rules.

Uncertainty arises regarding the need for an additional 235 percent of ACL in the form of available capital to act as a barrier to capital outflows from discretionary distributions at the IDIHC top-tier parent. Depending on the size of a subsidiary bank to its insurer parent and the bank's share of the enterprise's available capital, the proposal to restate the 2.5 percent capital conservation buffer for banks into insurance terms and stacking it with a 250 percent BBA required minimum could represent an extraordinary escalation in capital requirements for ISLHCs.

Moreover, it is important to note that subsidiary depository institutions would continue to be held to their own 2.5 percent capital conservation buffer, thus providing depositors with ample protection. An alternative to the 235 percent BBA buffer could be to include 2.5 percent of the subsidiary IDI's RWA as a dollar adjustment to the top-tier building block parent's capital requirement on top of the BBA minimum. This would scale the capital conservation buffer to the size and risk profile of the subsidiary IDI without creating a capital burden on the parent insurer.

If the proposed buffer is not eliminated entirely, then at a minimum we request additional impact analysis be performed prior to the implementation if the buffer is to be scaled from bank requirements. Transition provisions were similarly afforded to banking organizations when their regulatory capital requirements were finalized in 2013, and clarification would need to be provided on the maximum payout ratios for discretionary distributions in the event the capital conservation buffer is breeched.

X. Reporting Form and Disclosure Requirements

Question 34: What should the Board consider in determining the reporting cycle for the BBA?

Comment 34: The Board should take into account the March 1 annual deadline for insurers' annual statements and RBC filings along with the quarterly Call Reports for depository institutions. It is also likely that non-bank, non-insurance legal entities that become a part of the BBA calculation would only have audited financial statements published on an annual basis. Based on these circumstances, a BBA filing deadline around April or May would be a reasonable reporting cycle.

Question 35: Aside from what is currently proposed for public disclosure under the BBA and associated reporting form, should additional information submitted to the Board pursuant to the BBA be made public?

Comment 35: The proposed requirements to publicly disclose the building block available capital, building block capital requirement, and BBA ratio for the top-tier parent of an IDIHC's enterprise is reasonable and appropriate.

XI. Impact Assessment of Proposed Rule

B. Analysis of Potential Burdens

4. Impact on Financial Intermediation

Question 36: The Board invites comment on all aspects of the foregoing evaluation of the potential impacts of the proposed rule.

Are there additional impacts that the Board should consider?

Would the magnitude of any impact be different than as described above?

Comment 36: We concur in the caution expressed by the APCIA in its comment letter.

The Auto Club Insurance Association, The Auto Club Group, and Auto Club Services, Inc., very much appreciates the Board's consideration of this correspondence and would be pleased to answer any questions the Board or the staff might have.

Very truly yours,

John Bruno

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Sent via email to regs.comments@federalreserve.gov