



May 5, 2022

*By electronic submission to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)*

Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, D.C. 20551

**Re: Framework for the Supervision of Insurance Organizations (Docket No. OP-1765)**

Dear Ms. Misback:

United Services Automobile Association (“USAA”) welcomes the opportunity to comment on the *Framework for the Supervision of Insurance Organizations* proposed by the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”) and published in the Federal Register on February 4, 2022 (the “**Proposal**”).<sup>1</sup> As discussed in more detail below, we support the Proposal, subject to several suggested clarifications and enhancements.

USAA is a membership-based association which, together with its family of companies, serves present and former military officers and enlisted personnel, their families, and other eligible membership categories. Since USAA’s establishment in 1922 by a group of U.S. Army officers, we have pursued a mission of facilitating the financial security of our members and their families by providing a full range of competitive financial products and services, including insurance and retail banking.

Part I of this letter includes our general comments on the Proposal. Part II provides feedback on Section A of the Proposal, the determination of complex and noncomplex supervised insurance organizations (“**SIOs**”) and the proportional application of supervisory expectations. Part II recommends an approach that appropriately tailors to SIOs the existing regulatory guidance typically applicable to banking organizations. Part III provides feedback on Section B of the Proposal, the supervisory ratings system. Part IV provides feedback on Section C of the Proposal, the coordination with state insurance regulators, and recommends methods for effectively leveraging the work of state insurance regulators – such as adjusting certain reporting requirements – to reduce burdens on both the Federal Reserve and SIOs.

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<sup>1</sup> Board of Governors of the Federal Reserve System, *Framework for the Supervision of Insurance Organizations*, 87 Fed. Reg. 6537 (Feb. 4, 2022) (“**Proposal**”).

Our recommendations aim to clarify and enhance the tailored approach to support the Federal Reserve’s supervisory objectives. Where possible, we have provided responses to specific questions posed by the Federal Reserve in the Proposal.

## **I. General Comments**

In general, we support the Proposal, the Federal Reserve’s commitment to tailoring its supervision and regulation of SIOs, and the establishment of a transparent framework for supervision of SIOs. We do not believe any further clarification is needed to identify or describe which firms would be subject to the proposed framework.<sup>2</sup> We also appreciate the Federal Reserve’s clear recognition that the risks arising from insurance activities are materially different from those of traditional banking activities. If the Proposal is finalized with our suggested enhancements, we believe application of the proposed framework will achieve a reasonable balance between serving the Federal Reserve’s supervisory goals and minimizing unnecessary burden on SIOs.

We concur that supervision of SIOs should be appropriately tailored to focus on the material risks that could pose a threat to an SIO’s safety and soundness and its ability to serve as a source of strength for its depository institution subsidiaries. We also agree with the approach of collaborating with, and leveraging the work of, the SIO’s primary state regulators.

## **II. Section A – Proportionality – Supervisory Activities and Expectations**

USAA supports the Proposal’s concept of “proportionality” – applying supervisory guidance and conducting activities in a manner that is proportionate to each firm’s individual risk profile. We believe it is appropriate to tie supervisory expectations to the underlying risks of the firm and appreciate the acknowledgment in the Proposal that the risks arising from banking activities and insurance activities are very different. We recommend that supervisory activities and expectations be adjusted to focus on the material risks of an SIO other than those that are already the subject of state insurance regulatory activities or examinations (e.g., relying on the work of state insurance regulators with respect to solvency, insurance company governance, management of risks associated with the business of insurance).

### *Section A.1 – Complex and Noncomplex Supervised Insurance Organizations*

#### Determination of complexity

While USAA generally supports the factors for determining complexity listed in the Proposal as appropriate, we do not believe that depository institution asset size alone should determine SIO complexity as it does not accurately represent the risk level or supervisory oversight required of

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<sup>2</sup> Response to Question 10: “What additional clarity, if any, is needed to describe which firms would be subject to the proposed framework?”

an SIO. We suggest that an SIO whose depository institution subsidiary has average assets greater than \$100 billion should not be automatically designated as complex and recommend that asset size be considered with the other factors listed in the Proposal for determining complexity. In addition, we suggest adding as an additional factor the source of funding for noninsurance operations (e.g., deposits, securitizations, private placements) and the degree of reliance on short-term funding.<sup>3</sup>

#### Clarify the calculation and role of risk profile

The Proposal refers to a firm's "risk profile" in a variety of ways, and it indicates that the risk profile is unique and reassessed annually by the Federal Reserve.<sup>4</sup> However, it is not clear from the Proposal how the risk profile is determined or calculated. For example, the risk profile does not appear to be the product of the complexity determination or risk assessment. We recommend clarifying how the Federal Reserve calculates a firm's risk profile. We also recommend clarifying how the risk profile is used in determining supervisory activities.

#### Risk Assessments

The Proposal references an annual risk assessment that we understand is an existing process internal to the Federal Reserve. We recommend that the final version of the Proposal provide for sharing of information used in the risk assessment with the SIO prior to or during the annual risk assessment. We also believe that allowing SIOs the opportunity to provide feedback and documentation to inform risk assessment results would further support the Federal Reserve's supervisory goals and recommend that the final version of the Proposal be updated to provide for such interaction.

We understand that supervisory activities are based on the risk assessment results, rather than on the complexity determination, and that the risk assessment process allows for tailoring supervisory activities and expectations regardless of the complexity determination. We recommend that the final version of the Proposal clearly make this point. We also recommend that the final version of the Proposal clarify that the risk assessments will be focused on those risks not already covered by the appropriate state insurance regulators and that the risk assessments leverage the relevant work of state insurance examiners. Additionally, the planned supervisory activities that result from the risk assessment should consider the existing state insurance regulatory oversight of those risks that are material to the business of insurance: capital management; liquidity; insurance pricing and reserving models; cybersecurity/IT; reinsurance

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<sup>3</sup> Response to Question 1: "What additional factors, if any, should the Board consider when considering the complexity of supervised insurance organizations?"

<sup>4</sup> See Proposal, 87 Fed. Reg. at 6541.

and related counterparty credit, investment credit, interest rate risk; asset liability management; and catastrophe and non-catastrophe insurance risk.<sup>5</sup>

*Section A.2 – Supervisory Expectations*

As the Federal Reserve has previously noted, holding company supervision “is not intended to impose bank-like supervision...nor is it intended to duplicate or replace supervision by the...functional regulators.”<sup>6</sup> The Proposal references a number of Federal Reserve Supervision and Regulation (“SR”) letters, several of which are currently applicable to SIOs and others that have limited application or are not currently applicable to SIOs. Apart from SR 15-19,<sup>7</sup> we generally support the application of certain SR letters to SIOs as described in the Proposal. For the reasons discussed below, we recommend that SR 15-19 not apply to SIOs. Though not referenced in the Proposal, for the reasons discussed below we also recommend that the Proposal supersede the application of SR 12-17 to certain SIOs.<sup>8</sup>

As the SR letters were written with banking organizations in mind, we recommend including in the final version of the Proposal clear acknowledgement that it is appropriate to tailor application of such SR letters to ensure guidance directed at banking organizations is not applied to insurance businesses and activities. Tailoring of the application of SR letters should also account for the differences in risks between banking and insurance activities and the existing system of state insurance regulation and supervision. In addition, we recommend that the final version of the Proposal confirm that the inclusion of any supervisory guidance that is currently applicable to SIOs is not intended to signal an increase in supervisory expectations related to that guidance.

Given the diversity of business lines, characteristics, and risk profiles of SIOs, USAA agrees with the perspective in the Proposal that the management and risk management practices necessary to meet expectations vary from organization to organization. We recommend that the final version of the Proposal also provide that the application of supervisory guidance and supervisory expectations will vary *within* an SIO. Compliance and operational risk management programs within an SIO, like issues management, risk control self-assessments (“RCSAs”), debt/liquidity coverage, and third-party risk management, may be implemented differently across

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<sup>5</sup> Response to Question 2: “What other considerations beyond those outlined in this proposal should be considered in the Board’s assessment of whether a supervised insurance organization has sufficient financial and operational strength and resilience to maintain safe and sound operations?”

<sup>6</sup> SR 00-13: Framework for Financial Holding Company Supervision, <https://www.federalreserve.gov/boarddocs/srletters/2000/sr0013.htm>; see Board of Governors of the Federal Reserve System, Bank Holding Company Supervision Manual, Sec. 3950.0.2.3 (*last updated* Dec. 2003).

<sup>7</sup> SR 15-19: Federal Reserve Supervisory Assessment of Capital Planning and Positions for Firms Subject to Category II or III Standards, <https://www.federalreserve.gov/supervisionreg/srletters/sr1519.htm>.

<sup>8</sup> SR 12-17 / CA 12-14: Consolidated Supervision Framework for Large Financial Institutions, <https://www.federalreserve.gov/supervisionreg/srletters/sr1217.htm>.

lines of business and still be considered safe and sound practice – i.e., different does not mean unsafe or unsound.<sup>9</sup>

### SR 12-17

We read the Proposal as inviting recommendations for further clarity on the supervisory guidance applicable to SIOs.<sup>10</sup> Though not cited in the Proposal, SR 12-17 outlines a supervisory framework for certain large institutions subject to Federal Reserve supervision, including USAA. The Proposal establishes a supervisory framework for SIOs, including USAA. To avoid confusion and to clarify the Federal Reserve’s expectations, we recommend that the Proposal clearly indicate that the final version of the Proposal is the sole supervisory framework for SIOs and supersede the application of SR 12-17 with respect to SIOs.

### Governance and Controls

In noting how Federal Reserve examiners will evaluate Board and Senior Management Effectiveness (in the Governance and Controls portion of the new rating system), the Proposal instructs examiners to rely to the fullest extent possible on the examination reports of insurance and bank supervisors and information concerning risk and management in specific lines of business, including specific reliance on state insurance regulators to evaluate and assess how an SIO manages the pricing, underwriting, and reserving risk of insurance operations.<sup>11</sup> We agree with this approach and believe this instruction recognizes the well-established system of state insurance regulation and supervision and supports minimizing the burden associated with supervisory duplication.

The Proposal reflects the Federal Reserve’s expectation that complex SIOs have internal audit practices in place similar to banking organizations and that SRs 03-5 and 13-1<sup>12</sup> will apply to SIOs without modification. On that basis, we recommend that the final version of the Proposal include language similar to that found in SR 12-17, “in certain instances, supervisors may be

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<sup>9</sup> Response to Question 3: “What additional clarity, if any, is needed to describe the supervisory guidance related to the evaluation of a firm’s governance and controls, capital management, and liquidity management under the proposed framework?”

<sup>10</sup> Response to Question 3: “What additional clarity, if any, is needed to describe the supervisory guidance related to the evaluation of a firm’s governance and controls, capital management, and liquidity management under the proposed framework?”

<sup>11</sup> See Proposal, 87 Fed. Reg. at 6542.

<sup>12</sup> SR 03-5: Amended Interagency Guidance on the Internal Audit Function and its Outsourcing, <https://www.federalreserve.gov/boarddocs/srletters/2003/sr0305.htm>; SR 13-1 / CA 13-1: Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing, <https://www.federalreserve.gov/supervisionreg/srletters/sr1301.htm>.

able to rely on a firm’s internal audit or internal control functions in developing a comprehensive understanding and assessment” of an SIO.<sup>13</sup>

We support the proposed reliance on state insurance regulators for evaluating and assessing pricing, underwriting, and reserving issues for insurance activities, but request the final version of the Proposal extend reliance on state insurance regulators to assessing model risk and other risks material to the business of insurance operations. For instance, the Actuarial Standards of Practice (“ASOP”) require the evaluation and mitigation of model risk by means of testing, validation, reviews by independent professionals, and governance and controls.<sup>14</sup> USAA proposes that models relating to these activities be tested, validated, and risk assessed by actuaries and other insurance professionals in accordance with the ASOP requirements. These models could be inventoried and monitored through the enterprise model risk management program in compliance with SR 11-7,<sup>15</sup> but actual evaluation and validation would be carried out through the insurance line of business professionals based on insurance standards. Additionally, we respectfully request that in the final version of the Proposal the Federal Reserve tailor the supervisory expectations for model risk in insurance businesses based on how it is analyzed, mitigated, and examined under insurance regulatory standards rather than a bank-like supervision approach to model risk.

USAA agrees that overall model validation as well as SIO policy and procedure adherence should be the focus of examiners, rather than model appropriateness or the assumptions or output of a model. For enterprise metrics defined as models that cover both insurance and bank activities, we request that such models be treated the same as models that will only apply to the business of insurance, as those enterprise metrics are more comparable to models that cover only insurance activities.

In reviewing the compliance risk considerations outlined in SR 08-8, we concur with the application of the Federal Reserve’s expectation in SR 08-8 that organizations maintain an effective compliance risk management program that is appropriately tailored to an organization’s risk profile.<sup>16</sup> The guidance notes that such programs should include processes to detect compliance issues as well as compliance monitoring and testing components. We interpret SR 08-8 to allow tailoring in a compliance risk management program to individual lines of business. We recommend that the final version of the Proposal clarify that the method and manner in which an SIO applies risk and compliance programs across lines of business will vary and be tailored in recognition of the specific activities, risks, and functional regulator supervisory

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<sup>13</sup> See, e.g., SR 12-17, Section C.d (p.10).

<sup>14</sup> Actuarial Standards Board, Actuarial Standards of Practice No. 56, *Modeling*, Section 3.6 (Oct. 1, 2020), <http://www.actuarialstandardsboard.org/asops/modeling-3/>.

<sup>15</sup> SR 11-7: Guidance on Model Risk Management, <https://www.federalreserve.gov/supervisionreg/srletters/sr1107.htm>.

<sup>16</sup> SR 08-8 / CA 08-11: Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles, <https://www.federalreserve.gov/boarddocs/srletters/2008/sr0808.htm>.

expectations of those lines of businesses – e.g., model risk management, fraud management, RCSAs, third-party risk management.

With respect to the application of SR 13-19 to SIOs,<sup>17</sup> we recommend that the final version of the Proposal clarify how the Proposed Interagency Guidance on Third-Party Relationships (published July 2021)<sup>18</sup> will apply to SIOs and Federal Reserve examiners' expectations on third-party risk management programs and controls if such interagency guidance becomes effective. We also recommend that footnote 11 of the Proposal include “or successor” to account for such proposed interagency guidance.<sup>19</sup>

### Capital Management

With respect to considerations of capital management within the Proposal, we agree with the Federal Reserve's reliance to the fullest extent possible on the information provided by state insurance regulators, including the Own Risk and Solvency Assessment (“ORSA”) and the state insurance regulators' written assessment of the ORSA.

Footnote 12 of the Proposal indicates that SR 15-19 “[i]s applicable to complex supervised insurance organizations, however, Federal Reserve focuses on the sections most relevant for these firms.”<sup>20</sup> SR 15-19 is not applicable to SIOs today. We do not believe the proposed application of SR 15-19 to SIOs is necessary as the provisions of the guidance that would be most appropriate for SIOs are already present in the Proposal. Further, numerous laws, regulations, and supervisory guidance referenced in SR 15-19 are not currently applicable to SIOs (e.g., Regulation Q, Subparts E and F of Regulation YY, Subparts O and P of Regulation LL).<sup>21</sup> If SR 15-19 is made applicable to SIOs, the references to these authorities would likely create significant confusion for SIOs, supervisory staff, and others. For these reasons, we recommend that the final version of the Proposal remove any reference to SR 15-19.

Further, we request clarification in the final version of the Proposal as to the role of an independent internal audit function with respect to the supervisory framework and the capital planning process. Language in the Proposal provides that the capital management framework should include an independent internal audit function and other review functions with appropriate staff expertise, experience, and stature in the organization, to monitor the adequacy

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<sup>17</sup> SR 13-19 / CA 13-21: Guidance on Managing Outsourcing Risk, <https://www.federalreserve.gov/supervisionreg/srletters/sr1319.htm>.

<sup>18</sup> Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation, *Proposed Interagency Guidance on Third-Party Relationships: Risk Management*, 86 Fed. Reg. 38182 (July 19, 2021).

<sup>19</sup> See Proposal, 87 Fed. Reg. at 6544 n. 11.

<sup>20</sup> *Id.* at 6545 n.12.

<sup>21</sup> 12 C.F.R. Part 217; 12 C.F.R. § 252.40 *et. seq.*; 12 C.F.R. § 252.50 *et. seq.*; 12 C.F.R. § 238.130 *et. seq.*; 12 C.F.R. § 238.140 *et. seq.*



of capital risk measurement and management processes.<sup>22</sup> This could be interpreted as making the internal audit function responsible for monitoring the adequacy of capital risk measurement and management processes. We recommend clarifying in the final version of the Proposal that the independent internal audit function's role is to independently assess risk and objectively evaluate governance and internal controls.

### Liquidity Management

We appreciate the Federal Reserve's acknowledgment in the Proposal that SIOs have different liquidity exposures than banking organizations. The Proposal indicates that supervisory expectations will be based on the sections of SR 10-6<sup>23</sup> that are most relevant to the liquidity characteristics of SIOs and provides examples referencing intra-day liquidity management and liquid assets.<sup>24</sup> USAA largely supports this approach, but we request clarification of regulatory guidance for cash flow forecasting requirements. Comprehensive cash flow forecasting requirements, on both a consolidated basis and by a major legal entity, should allow appropriate flexibility to tailor frequency and granularity based on respective insurance business models, materiality, and the occurrence of any significant events (e.g., catastrophes) or changes in operating environment.

### **III. Section B – Supervisory Ratings**

USAA supports the proposed supervisory rating system. The three component ratings capture key aspects of an SIO's practices and capabilities that are critical to the resilience and strength of an SIO and represent the core areas that support serving as a source of strength to a depository institution.

We understand the new rating system will allow an SIO with open supervisory matters to receive a rating of "Broadly Meets Expectations" or "Conditionally Meets Expectations." We agree with this direction as it permits a flexible approach recognizing that supervisory matters vary in significance and considers an organization's progress to resolve any open supervisory matters.<sup>25</sup>

In addition, USAA supports the omission of a composite rating.<sup>26</sup> We do not believe assigning a composite rating for an SIO provides additional information or clarity beyond the three component ratings and could obscure the importance of the individual component ratings.

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<sup>22</sup> See Proposal, 87 Fed. Reg. at 6545.

<sup>23</sup> SR 10-6: Interagency Policy Statement on Funding and Liquidity Risk Management, <https://www.federalreserve.gov/boarddocs/srletters/2010/sr1006.htm>.

<sup>24</sup> See Proposal, 87 Fed. Reg. at 6545.

<sup>25</sup> Response to Question 5: "What additional clarity, if any, is needed to describe the ratings process, including the ratings definitions?"

<sup>26</sup> Response to Question 6: "Should the final framework include a composite rating?"



Though not cited in the Proposal, SR 16-4 provides for reliance on the work of regulators of insured depository institution subsidiaries by regulators of bank holding companies and savings and loan holding companies.<sup>27</sup> In a substantially similar manner to SR 16-4, we recommend that the final version of the Proposal reflect the Federal Reserve’s intention to rely to the fullest extent possible on state insurance regulators, with respect to the evaluation and assessment of SIOs, when assigning supervisory ratings and also regarding, without limitation, consumer protection, claims, complaints, and solvency/asset management expectations. Further, we recommend that state insurance regulators’ ratings and assessments within three years of issuance, absent a material change in the SIO, be relied upon to the fullest extent possible to avoid any duplication of effort. Additionally, the final version of the Proposal should provide for annual or recurring meetings between the Federal Reserve and applicable state insurance regulators to better understand and leverage the work performed by state agencies as such work relates to the assignment of supervisory ratings.

#### **IV. Section C – Incorporating the Work of other Supervisors**

##### *Collaboration with state insurance regulators*

USAA appreciates the Federal Reserve listing actions examiners may take to support collaboration with state insurance regulators. We interpret the reference to Federal Reserve examiners “[c]ollaboratively working with the states and the National Association of Insurance Commissioners [(“NAIC”)] on the development of policies that affect insurance depository institution holding companies” as an effort to avoid duplicative work and minimize supervisory burden.<sup>28</sup> We recommend that the final version of the Proposal identify those types of policies for collaboration. We do not interpret the Proposal’s listing of areas of collaboration with state regulators as reflecting a requirement or expectation that SIOs should become subject to additional supervisory obligations, for example, participation in supervisory colleges. We recommend that the final version of the Proposal include language confirming that understanding.

The state regulatory landscape of insurance is complex, robust, and prescriptive. In addition to the examples of reliance on the work of, and collaboration with, state insurance regulators in the Proposal, we suggest the final version of the Proposal provide additional clarity with respect to the specific interactions expected to occur between the Federal Reserve and state insurance regulators. This additional clarity would promote a more collaborative, integrated supervisory process for SIOs (e.g., reliance on state insurance regulators’ determinations and ratings to inform risk assessments). Further, we recommend that the final version of the Proposal provide

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<sup>27</sup> SR 16-4: Relying on the Work of the Regulators of the Subsidiary Insured Depository Institution(s) of Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of Less than \$100 Billion, <https://www.federalreserve.gov/supervisionreg/srletters/sr1604.htm>.

<sup>28</sup> See Proposal, 87 Fed. Reg. at 6549.

specifically for leveraging state regulators' financial analysis examination findings, regulatory actions, and risk ratings.

*Reporting; Reliance on information available from insurance supervisors<sup>29</sup>*

USAA has identified additional opportunities for the Federal Reserve to rely on filings made by SIOs with state insurance regulators and the NAIC and thereby reduce the burden associated with certain Federal Reserve reporting requirements without jeopardizing any of the Board's supervisory objectives. For example, we respectfully submit that the Board could rely to a great extent on filings regarding insurance company investments to populate the Organization Chart in the Form FR Y-6 and not require SIOs to submit FR Y-10, FR Y-11, or FR 2314 reports with respect to such investments. Under this approach, SIOs would continue to file the FR Y-6 and could include the Schedule Y provided to state insurance regulators with the Annual and Quarterly Statements in lieu of the FR Y-6 Organization Chart. The Federal Reserve would, of course, retain the ability to request additional information when warranted.

A notable category of the types of investments that would be exempt from special reporting if our recommendation is accepted would be the passive real estate-related investments that many insurers hold in a balanced, diversified portfolio of bonds, equities, and other instruments through special purpose vehicles such as limited partnerships ("LPs") or limited liability companies ("LLCs") for tax management, liability limitation, and other reasons. These LP and LLC investments meet the definition of "company" within the meaning of FR Y reporting forms and are captured by reporting requirements that also apply to actively managed operating subsidiaries. We note that the investment vehicles are comparable in form to special purpose entities set up for leasing transactions that the Federal Reserve has exempted from FR Y-11 reporting.<sup>30</sup>

When the ownership interests and asset sizes meet specified reporting thresholds, reporting requirements are triggered that would not apply if the investments consisted solely of bonds, stocks, or other instruments. The investments, however, are essentially passive. In these circumstances, we respectfully suggest that the supervisory value of the information collected by the FR Y-6 Organization Chart, FR Y-10, FR Y-11, and FR 2314 reports with respect to these investments is outweighed by the costs and other resources that must be devoted to their preparation and submission. Importantly, USAA provides extensive reporting on such investments in its filings with one of its state regulators, the Texas Department of Insurance.

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<sup>29</sup> Response to Question 7: "What additional measures, if any, should the Board take to fulfill its goal to rely to the fullest extent possible on work of other relevant supervisors, including state insurance regulators?"

<sup>30</sup> General Instructions for the FR Y-11 at GEN-3 ("Any subsidiary that is a special purpose vehicle (SPV) formed as a vehicle for specific leasing transactions (for example, when an SPV is engaged in a single leasing transaction)").

The Schedule Y (an NAIC form required by state insurance regulators nationwide of insurers in holding company systems) included in statutory annual statements, and updated quarterly, contains a detailed listing of the “affiliated real estate organizations” and other entities in which a firm holds a direct or indirect interest, including virtually all the entities that would be reported on FR Y reports. Part 1A of the Schedule Y (Detail of Insurance Holding Company System) further indicates which entity is the direct holder of an interest in each entity, as well as the percentage interest held. Other schedules in the statutory annual statement indicate which assets have been acquired or disposed of during the year being reported on, as well as the aggregate amount of such investments (mostly captured in the category “Joint Venture or Partnership Interests That Have Underlying Characteristics of Real Estate”). In sum, we respectfully suggest that the statutory annual statement filings made with an insurer’s domestic regulator and the NAIC provide sufficient information to meet the Federal Reserve’s supervisory objectives.

We suggest several approaches below to exempt an insurers’ real estate investments from separate reporting in the FR Y-6, FR Y-10, FR Y-11, and FR 2314 reports.

#### FR Y-6

The instructions for the Organization Chart required by Item 2a of the FR Y-6 contain a provision that appears to exempt from reporting the real estate investments described above, as well as other investments held by insurance underwriters, if they are organized under U.S. federal or state law and meet certain other conditions. The provision exempts from reporting:

*Companies Controlled Through an Insurance Underwriter: Any nonbanking company organized under U.S. federal or state law, if controlled directly or indirectly by an insurance underwriter. This exception does not apply to any of the following: (a) a Nonbanking Company that is the underwriter’s highest-tier provider in the U.S. of any primary line of insurance, (b) a Nonbanking Company required to file a financial report with the Federal Reserve System, or (c) any interest that is a reportable merchant banking or insurance company investment.*<sup>31</sup>

Confirmation in the final version of the Proposal that the above provision exempts from reporting the real estate and other passive investments described above would support the Federal Reserve’s goal of reducing regulatory burden, and, with such confirmation, no further change to the FR Y-6 instructions would be required for investments in companies organized under U.S. federal and state law. If the above exemption is deemed to be inapplicable in this circumstance, and in any event to cover non-U.S. companies, the following provision or something substantially similar could be added to the FR Y-6 instructions:

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<sup>31</sup> Board of Governors of the Federal Reserve System, *Instructions for Preparation of Annual Report of Holding Companies*, General and Report Item Instructions at GEN-7 (“**FR Y-6 instructions**”).

*Companies Controlled Through an Insurance Underwriter and Reported to an Insurance Regulator:* Any nonbanking company organized under U.S. or foreign law if controlled directly or indirectly by an insurance underwriter and reported to an insurance regulator (or for which there is a specific disclosure) in the consolidated statutory annual statement or similar reporting form. This exception does not apply to either of the following: an interest in (a) a Nonbanking Company that is the underwriter's highest-tier provider in the United States of any primary line of insurance, (b) a Nonbanking Company required to file a financial report with the Federal Reserve System, or (c) or any interest that is a reportable merchant banking or insurance company investment.<sup>32</sup>

As an alternative to exempting this category of investments from FR Y-6 reporting, the Federal Reserve could expressly allow insurers to provide the Schedule Y in lieu of the Organization Chart called for by Item 2a.

#### FR Y-10

Similar to the FR Y-6, the instructions to the FR Y-10 Nonbanking Schedule contain a provision that appears to exempt from reporting the real estate investments described above, as well as other investments held by insurance underwriters (if they are organized under U.S. federal or state law and meet certain other conditions). The provision excludes from reporting:

*Companies Controlled Through an Insurance Underwriter:* An interest in a Nonbanking Company organized under U.S. federal or state law, if controlled directly or indirectly by an insurance underwriter. This exception does not apply to either of the following: an interest in a Nonbanking Company that is the underwriter's highest-tier provider in the United States of any primary line of insurance, or any interest that is a reportable merchant banking or insurance company investment as described in the 4(k) Schedule instructions.<sup>33</sup>

Confirmation in the final version of the Proposal that the above provision exempts from reporting the real estate and other passive investments described above would support the Federal Reserve's goal of reducing regulatory burden, and no further change to the FR Y-10 instructions would be required for companies organized under U.S. federal and state law.

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<sup>32</sup> The provision could be added to the list of companies not reportable on the FR Y-6 Organization Chart on page GEN-7 of the FR Y-6 instructions.

<sup>33</sup> Board of Governors of the Federal Reserve System, *Instructions for Preparation of Report of Changes in Organizational Structure*, Specific Instructions for the Nonbanking Schedule FR Y-10 at NBK-2 ("**FR Y-10 instructions**").

If the above exemption is inapplicable in this circumstance, and, in any event to cover non-U.S. companies, the following provision or something substantially similar could be added to the FR Y-10 instructions:

*Companies Controlled Through an Insurance Underwriter and Reported to an Insurance Regulator:* An interest in a Nonbanking Company organized under U.S. or foreign law if controlled directly or indirectly by an insurance underwriter and reported to an insurance regulator (or for which there is a specific disclosure) in the consolidated statutory annual statement or similar reporting form. This exception does not apply to either of the following: an interest in a Nonbanking Company that is the underwriter's highest-tier provider in the United States of any primary line of insurance, or any interest that is a reportable merchant banking or insurance company investment as described in the 4(k) Schedule instructions.<sup>34</sup>

FR Y-11 and FR 2314

To exempt the USAA insurers' investments described above from reporting on the FR Y-11 and FR 2314 forms, we suggest adding the same or substantially similar provision as that we suggested above for the FR Y-6 and FR Y-10:

*Companies Controlled Through an Insurance Underwriter and Reported to an Insurance Regulator:* An interest in a Nonbanking Company organized under U.S. or foreign law if controlled directly or indirectly by an insurance underwriter and reported to an insurance regulator (or for which there is a specific disclosure) in the consolidated statutory annual statement or similar reporting form. This exception does not apply to either of the following: an interest in a Nonbanking Company that is the underwriter's highest-tier provider in the United States of any primary line of insurance, or any interest that is a reportable merchant banking or insurance company investment as described in the 4(k) Schedule instructions.<sup>35</sup>

We do not believe that exempting certain investments from several Federal Reserve reports, as suggested above, would compromise any of the Federal Reserve's supervisory objectives related to SIOs.

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<sup>34</sup> This provision could be added to the list of Exclusions from reporting on page NBK-2 of the FR Y-10 instructions.

<sup>35</sup> This provision could be added to the list of Exemptions from Reporting Nonbank Subsidiary Financial Statements in pages GEN-2 to GEN-3 of the instructions for the FR Y-11, and to the similar list of Exemptions in pages GEN-3 to GEN-4 of the instructions for the FR 2314.

Board of Governors of the Federal Reserve System

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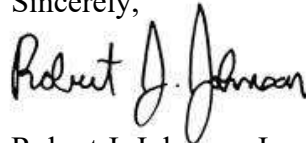
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USAA appreciates the Federal Reserve's consideration of these comments. If you have any questions, please do not hesitate to contact Tate Wilson, Vice President, Corporate Regulatory Counsel, at 210-722-2312, or me.

Sincerely,

A handwritten signature in black ink that reads "Robert J. Johnson, Jr." The signature is written in a cursive style with a large, prominent initial "R".

Robert J. Johnson, Jr.  
Executive Vice President,  
Chief Legal Officer & General Counsel