AMERICAN COUNCIL OF LIFE INSURERS, MADISON WARD

Proposal and Comment Information

Title: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets, R-1888

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Submitter Information

Organization Name: American Council of Life Insurers

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Please see attached file.

June 18, 2026

Benjamin W. McDonough
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Federal Reserve: Docket No. R-1887, RIN 7100-AH20; Docket No. R-1888, RIN 7100-AH21

Dear Secretary McDonough,

RE: Regulatory Capital Rules: Categories I-IV Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations

The American Council of Life Insurers (ACLI) and its member companies appreciate the opportunity to provide comments to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation ("the agencies") on the revised notice of proposed rulemaking implementing the Basel III Endgame capital framework. ACLI supports a strong and resilient banking system and commends the agencies for their continued commitment to promoting financial stability through a robust and transparent regulatory framework.

We particularly appreciate the agencies' responsiveness to stakeholder feedback and the meaningful changes reflected in the re-proposal. In particular, we welcome the removal of the distinction between publicly traded and non-publicly traded life insurers under the corporate exposures framework, which addresses prior concerns noted in the ACLI's comment letter on the prior Basel III proposal. Additionally, we appreciate the changes made to the GSIB surcharge proposal to more accurately reflect the lower risk of clearing client derivatives trades and to continue to incentivize Futures Commission Merchants ("FCMs") to provide this vital service.

We also appreciate the agencies' efforts to refine aspects of the framework to better align capital requirements with underlying risk and to solicit targeted input on the treatment of exposures to highly regulated nonbank financial institutions, including life insurers. In that spirit, we respectfully recommend that the agencies make three targeted refinements to the proposal to further enhance risk sensitivity and proportionality:

- **(i) Provide flexibility for Category III and IV banks to allow them to apply modified risk weights for investment grade corporate exposures without requiring these banks to fully opt into the full Expanded Risk-Based Approach (ERBA), especially for exposures to general account bank-owned life insurance (BOLI) and corporate-owned life insurance (COLI) products;**
- **(ii) Recalibrate the credit valuation adjustment (CVA) risk framework to distinguish further between regulated financials and unregulated financials; and**
- **(iii) Clarify that a banking organization's direct counterparty exposure to an insurer separate account under a derivatives transaction may be treated as a corporate exposure.**

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

I. Insurers Meet the Definition of "Regulated Financial Institution"

ACLI strongly supports maintaining the definition of "Regulated Financial Institution," to encompass life insurers given they are subject to comprehensive prudential supervision comparable to that imposed on other U.S. financial institutions. Retaining this inclusive definition in the final rule is critical to ensuring that regulatory capital requirements appropriately reflect the risk profile of these entities.

As noted in our comments to the prior bank capital proposals, U.S. life insurers are subject to highly sophisticated, comprehensive, and stringent regulatory oversight led by state regulators and coordinated by the National Association of Insurance Commissioners ("NAIC"). This framework employs a broad set of prudential tools designed to monitor and mitigate risks across the entire balance sheet and, where applicable, across the insurance group. The state-based framework reflects a long-standing, risk-based approach to prudential supervision that has demonstrated its effectiveness across multiple periods of financial stress, including the global financial crisis and subsequent market disruptions. It provides both robust protection for policyholders and a stable foundation for the insurance sector.

Below are some key, relevant components of the state-based regulatory framework applicable to insurers.

a. Comprehensive, Risk-Based Capital and Solvency Oversight

State-based regulation imposes rigorous requirements on insurers to ensure they are able to meet their obligations to policyholders in both the short and long term. These include mandatory minimum capital levels, conservative reserving standards, and restrictions on permissible investments and related activities. Risk-based capital ("RBC") requirements are a central component of this framework, serving both as a minimum capital standard and as an early warning tool designed to prompt regulatory intervention before financial distress materializes. RBC is calibrated to the risk profile of the insurer, requiring higher capital levels as risk increases, and is supported by conservative statutory accounting requirements and reserving methodologies. These capital requirements are complemented by principle-based reserving ("PBR") and regular asset adequacy testing, which ensure that insurers maintain sufficient reserves to meet long-duration liabilities across a range of economic scenarios.

b. Consolidated and Group-Level Supervision

Although insurers are licensed and regulated at the state level, supervision is coordinated across jurisdictions through a system of lead state and group-wide supervision. State regulators exercise consolidated oversight over insurance holding company systems through authorities such as the Insurance Holding Company System Regulatory Act and the Group Capital Calculation ("GCC"). These tools enable regulators to assess risks across the entire insurance group, including non-insurance affiliates, and to monitor interconnectedness and potential channels of contagion. This group-level oversight ensures that risks are identified and addressed on an enterprise-wide basis, rather than solely at the level of individual legal entities, consistent with the objectives of consolidated prudential supervision.

c. Continuous Stress Testing and Forward-Looking Risk Assessment

The state-based framework incorporates a wide range of forward-looking supervisory tools designed to assess insurer resilience under stressed conditions and evolving market environments. These include liquidity stress testing, asset adequacy testing ("AAT"), and enterprise risk management requirements, including Own Risk and Solvency Assessments ("ORSA"). Together, these tools require insurers to identify, measure, and manage all material risks on an ongoing basis, including credit, market, liquidity, and operational risks. In practice, this framework enables regulators to monitor emerging risks and take supervisory action at an early stage, well before financial concerns rise to a level that could threaten policyholders or broader financial stability.

d. Strong Controls on Derivatives, Leverage, and Interconnectedness

State regulation includes limitations and supervisory controls on derivatives usage, leverage, and transactions with affiliates. Insurers are required to maintain board-approved derivatives risk management programs, comply with counterparty exposure limits, and obtain regulatory approval for certain transactions. Affiliate transactions, including reinsurance and asset transfers, are subject to prior approval and ongoing oversight to limit the transmission of risk within an insurance group. These constraints significantly reduce the potential for excessive leverage, speculative activity, or procyclical risk-taking, and ensure that derivatives are used primarily for risk management purposes.

e. Continuous Modernization and Supervisory Coordination

The state-based regulatory framework is dynamic and continuously evolving to address emerging risks and market developments. The NAIC, in coordination with state regulators, regularly updates capital standards, valuation guidance, and supervisory tools through initiatives such as the Solvency Modernization Initiative and the Macroprudential Initiative. These efforts are supported by coordinated, multi-state supervisory processes and macroprudential monitoring programs. This ongoing modernization ensures that the regulatory framework remains forward-looking, risk-sensitive, and responsive to structural changes in the insurance sector, including developments in investment practices and asset-intensive business models.

II. Treatment of Bank Owned Life Insurance Under Corporate Exposures Framework

a. Question 12 – Revise Risk-Weighting for BOLI Exposures Under ERBA

In response to Question 12, **we support the treatment of "insurance assets" as noted in the proposal, which applies to separate account[1] insurance exposures.**

[1] A "separate account" is a distinct financial account maintained by a life insurer. A separate account is distinct from an insurers' "general account" which holds general corporate assets and liabilities. Separate accounts hold assets and liabilities designed to support investment features of products offered to policyholders of variable annuities or other related life insurance products. These accounts were established as a response to federal securities laws around investment-linked variable annuities, *see* NAIC Separate Accounts (2025), https://content.naic.org/insurance-topics/separate-accounts.

Additionally, **we would support modifications to the risk weights for Corporate Exposures for Category III and IV banks to provide for differentiation between investment grade and non-investment grade exposures, even if the bank does not fully opt into ERBA.**
The proposals provide for a risk weight of 65% for investment grade corporate exposures for Category I and II banks, which would provide for some differentiation between investment grade and non-investment grade exposures. However, if Category III and IV banks don't fully opt into ERBA they would be subject to a 95% risk weight for all corporate exposures, including investment grade exposures. These risk weights are materially higher than what the Basel Banking Committee framework provides for investment grade exposures, what banking organizations outside the U.S. may be subject to, and to which Category I and II banks are subject.

We encourage the agencies to provide more flexibility for Category III and IV banks to differentiate between investment grade and non-investment grade corporate exposures, even if they do not fully opt into ERBA. This flexibility would allow for exposures to investment grade life insurance companies, which are already highly regulated for safety and soundness, to also receive a 65% risk weight. Doing so would take into account the strong, comprehensive prudential supervision of insurers.

This change would also allow for those banks' exposures to insurers (including to general account BOLI/COLI) to be on a more level playing field with those Category I and II banks. There may be further benefits to allow Category III and IV firms to more selectively adopt ERBA, without the burden and cost of fully adopting ERBA, that the agencies should consider as part of the final rulemaking.

b. Question 104- Exclude BOLI Exposures from Market Risk Covered Positions

In response to Question 104, and with respect to overall proportionality, **we strongly recommend excluding BOLI and COLI exposures from market risk covered positions** due to the way the products function and operate. BOLI and COLI products are intended as long-term holdings, and banks do not acquire or manage these products with trading intent. The products are long-term assets held to support employee benefit obligations and other long-term strategic objectives. The products also incorporate surrender charges and other penalties that discourage early exit, reinforcing their intended long-term holding profile. Because the core premise underlying market risk is not present, we encourage the agencies to exclude BOLI and COLI from the market risk framework.

III. Credit Valuation Adjustment (CVA) Risk and Regulated Financials

a. Questions 184 and 189- Tailored Calibration of CVA

We support the proposed differentiation in the risk weights applicable to investment grade corporate exposures versus non-investment grade corporate exposures. In addition to the 65% risk weighting for investment grade insurers' corporate exposures, exposures to insurers would also face another added layer of risk weighting with CVA risk. Unlike credit default risk, the current calibration of CVA risk does not differentiate between regulated and non-regulated financials within the relevant risk buckets.

Life insurers differ fundamentally from generic corporate obligors and many other nonbank financial institutions. They operate under conservative liability structures, long-term asset-liability matching, and stringent reserving and solvency requirements designed to ensure claims-paying ability under stress. As addressed above and in our prior comment letter, U.S. life insurers are subject to a comprehensive state-based prudential regime that includes risk-based capital standards, investment limitations, reserve

requirements, detailed financial reporting, and regular supervisory examinations. This framework has demonstrated resilience across financial cycles and provides a level of regulatory discipline comparable to other highly regulated financial institutions.

Given these characteristics, applying undifferentiated CVA risk weights to all financial counterparties does not appropriately capture the lower observed credit risk and strong regulatory oversight of life insurers. This approach risks overstating capital requirements by adding gold plating to banks' exposures to insurers. Added risk weighting may have unintended consequences for important risk mitigation activities for end-users, including derivatives transactions for hedging long-term liabilities.

In response to Questions 184 and 189, **ACLI encourages the agencies to develop a more tailored calibration to CVA risk and incorporate the Regulated Financial Institution definition in the existing capital adequacy standards to differentiate between regulated and unregulated financials, which would better align capital requirements with observed risk and enhance proportionality while continuing to support the resilience of the banking system.**

IV. Treatment of Separate Accounts as Counterparties in Derivatives Transactions

The proposed definition of "credit exposure" excludes separate accounts. While the proposal addresses the applicable risk weight treatment in circumstances in which (i) a bank offers separate account products[2] and (ii) a bank invests in a separate account,[3] it does not explicitly address how banking organizations should treat exposures to separate accounts as transactional counterparties.

Absent clear direction, banks may conclude that these exposures to separate accounts as counterparties are not eligible for corporate exposure treatment. In that case, banks would determine these exposures are not eligible to receive a lower risk weight even when the counterparty is investment grade because the definition of corporate exposure excludes separate accounts. As a result, banks may be precluded from applying the more risk-sensitive treatment that would otherwise be available for comparable corporate counterparties, despite the similarity in the risk profile of the exposure.

The agencies should **clarify that a banking organization's direct counterparty exposure to an insurer separate account under a derivatives transaction may be treated as a corporate exposure, or otherwise receive treatment equivalent to that available for an investment-grade corporate counterparty**, where the banking organization has determined that the exposure presents comparable credit risk.

V. Conclusion

ACLI and its member companies appreciate the agencies' thoughtful engagement throughout this rulemaking process and their continued efforts to enhance the resilience and transparency of the U.S. banking system. The revisions reflected in the re-proposal represent meaningful progress toward a more risk-sensitive and proportionate capital framework.

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[2] Section 111 (k) of the NPR p. 15163.
[3] Section 140 (a)(2) of the NPR p. 15186.

As outlined in this letter, we respectfully recommend three targeted refinements to better align the proposal with underlying risk and to promote consistency across the capital framework:

(i) Provide flexibility for Category III and IV banks to allow them to apply modified risk weights for investment grade corporate exposures without requiring these banks to fully opt into the full Expanded Risk-Based Approach ("ERBA") especially for exposures to general account bank-owned life insurance (BOLI) and corporate-owned life insurance (COLI) products;
(ii) Recalibrate the credit valuation adjustment (CVA) risk framework to distinguish further between regulated financials and unregulated financials, and
(iii) Clarify that a banking organization's direct counterparty exposure to an insurer separate account under a derivatives transaction may be treated as a corporate exposure.

These targeted adjustments would improve consistency in the treatment of exposures to regulated financial institutions and help avoid unintended impacts to the life insurance industry and their related risk mitigation tools that rely on a proportionate and properly calibrated banking capital system.

We appreciate the opportunity to provide these comments and welcome continued engagement with the agencies as they consider these issues. ACLI and its member companies stand ready to work with the agencies to develop practical, risk-sensitive solutions that support both financial stability and efficient markets.

Sincerely,

Madison Ward
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