Supporting Statement for the
Consolidated Financial Statements for Insurance Nonbank Financial Companies
(FR 2085; OMB No. 7100-to be assigned)

Summary

The Board of Governors of the Federal Reserve System (Board or Federal Reserve), under delegated authority from the Office of Management and Budget (OMB), proposes to implement the Consolidated Financial Statements for Insurance Nonbank Financial Companies (OMB No. 7100-to be assigned). The respondent panel would include nonbank financial companies (i) that the Financial Stability Oversight Council (FSOC) has determined pursuant to section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") [1] should be supervised by the Board and subject to enhanced prudential standards and (ii) with at least 40 percent of total consolidated assets related to insurance activities as of the end of either of the two most recently completed fiscal years (insurance nonbank financial companies), or as otherwise ordered by the Board. Currently, there are two Insurance Nonbank Financial Companies – American International Group, Inc., and Prudential Financial, Inc. – both of which would be required to submit the FR 2085, if adopted.

The proposed FR 2085 would collect financial data from Insurance Nonbank Financial Companies on a consolidated U.S. GAAP basis in the form of balance sheet, income statement, statement of changes in equity, and detailed supporting schedules. The proposed schedules and instructions are provided in the attachments. If adopted, the FR 2085 would be effective with the June 30, 2017, reporting period.

The total annual burden for FR 2085 is estimated to be 7,800 hours, which includes an initial implementation burden estimated to be 7,200 hours.

Background and Justification

In the recent financial crisis, financial distress at certain nonbank financial companies contributed to a broad seizing up of financial markets and stress at other financial firms. Section 113 of the Dodd-Frank Act authorizes the Council to determine that a nonbank financial company shall be supervised by the Federal Reserve and subject to enhanced prudential standards.

Pursuant to section 161 of the Dodd-Frank Act, the Board may require the insurance nonbank financial companies to submit reports to keep the Board informed as to the financial condition of the companies or their subsidiaries; systems of the companies or their subsidiaries for monitoring and controlling financial, operating, and other risks; the extent to which their activities and operations pose a threat to the financial stability of the United States; and their compliance with the requirements of Title I of the Dodd-Frank Act.[2] Currently, the insurance nonbank financial companies are not subject to formal reporting requirements with the Board.

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[1] 12 U.S.C. 5323.
[2] 12 U.S.C. 5361(a).

The data collected would be used to support the supervisory assessment and monitoring of the top-tier entity and the consolidated enterprise. These initial data would serve as the foundation to be followed by the roll out of future phases of reporting schedules (to collect additional risk and performance data, certain legal entity and parent-only reporting data, geographic or jurisdictional level information, and refinements in support of future regulatory capital requirements currently under development). The data collected on the FR 2085 would provide the Federal Reserve with the information and perspective needed to help assess the nuance of each company's risk profile.

Description of Information Collection

The proposed FR 2085 leverages the existing framework of the Board's Consolidated Financial Statements for Holding Companies (FR Y-9C) (OMB No. 7100-0128), which collects similar information from bank holding companies, savings and loan holding companies, and securities holding companies (collectively, holding companies). However, the proposed FR 2085 is tailored to reduce the burden on, and reflect the business and risks of, insurance nonbank financial companies. Data items that are specific or unique to holding companies were not included in the FR 2085. Data items that are either more significant or unique to insurance were added. Where insurance nonbank financial companies and holding companies hold similar assets and liabilities, existing FR Y-9C data definitions and presentation were included in the proposed FR 2085 to facilitate horizontal comparisons.

The FR 2085 would include a balance sheet, an income statement, a statement of changes in equity, and detailed supporting schedules. The data requested in the proposed FR 2085 is additional information that is not publicly reported (*e.g.*, insurance reserves roll-forward by line of business) or is not reported in a standardized way or with the level of detail necessary for Board supervision (*e.g.*, detail concerning fixed maturity securities and other invested assets).

The FR 2085's supporting schedules would provide additional information needed to analyze certain financial statement line items and can be broadly grouped as those related to (1) investments, (2) insurance, and (3) other financial data. A summary of the proposed information to be collected in the supporting schedules is set forth below.

Investments-related supporting schedules

Proposed supporting schedules related to investments include: IRC-B Securities and Other Invested Assets; IRC-C Loans and Lease Financing Receivables; IRI-B Charge-Offs, Recoveries and Changes in Allowance for Loan and Lease Losses; IRC-D Trading Assets and Liabilities; and IRC-L Derivatives and Off-Balance-Sheet Items.

Schedule IRC-B Securities and Other Invested Assets

This schedule collects consolidated information about fixed maturity securities, equity securities and other "invested assets" grouped by classification as held-to-maturity, available-forsale, or fair value option. Fixed maturity and equity securities classified as trading in accordance with ASC 320, *Investments - debt and equity securities,* are reported in Schedule IRC-D Trading Assets and Liabilities.

The FR 2085 leverages many of the data definitions from the FR Y-9C because the types of investments of insurance nonbank financial companies and holding companies are similar. Maintaining this consistency would allow for aggregation of data across institutions.

The schedule was, however, tailored to gather additional detailed balances for certain investment categories that are more significant or unique to insurance companies. These categories include fixed maturity securities issued by foreign governments, municipalities, and corporations, as well as equity securities and other invested assets. These data would be used to monitor exposures to these types of investments over time at each insurance nonbank financial company as well as across companies.

Given the significance of an insurance company's fixed maturity portfolio in its investment program and ability to hold sub-investment grade securities, it is important for the Board to understand the underlying credit quality of insurance nonbank financial companies' fixed maturity investments. Because section 939A of the Dodd-Frank Act requires the Federal Reserve to remove references to credit ratings from its regulations, fixed maturity securities are separately listed as investment grade or sub-investment grade based on the firm's internal credit rating system.

Schedule IRC-C Loans and Lease Financing Receivables

Because insurance nonbank financial companies participate and provide credit to the financial system, it is important to collect information on their lending activities. The Federal Reserve believes it is important to collect standardized loan information to allow for the monitoring of exposures across the financial industry, at least with respect to entities supervised by the Federal Reserve, to detect trends in lending activities that may pose a threat to financial stability. Specifically, these data would allow the Federal Reserve to analyze (i) credit risk as it relates to real estate exposures, (ii) interconnectedness of insurance nonbank financial companies and depository institutions, (iii) credit availability to specific sectors (e.g., agricultural, commercial, and industrial), (iv) unsecured exposure to consumers, and (v) exposure to the sovereign risk of certain countries.

In addition to the loans an insurance company has extended, high-level indicators of credit quality are also necessary to understand the content of insurance companies' loan portfolios. Specifically, data concerning past due and nonaccrual loans are indicative of the rate of improvement or deterioration of an insurance nonbank financial company's loan portfolio; troubled debt restructurings data give a more complete picture of the credit health of the loan portfolio; and loan-to-value ratios provide a snapshot of underwriting decisions and the riskiness of an insurance company's real estate loan portfolio compared to peers and over time.

Schedule IRI-B Charge-Offs, Recoveries, and Changes in Allowance for Loan and Lease Losses

This schedule collects charge-offs and recoveries by loan type as well as a roll forward of the allowance for loan and lease losses. Charge-offs and recoveries are a key input to credit and performance metrics of the loan portfolio. Additionally, aggregation of these data across the loan portfolios of all entities supervised by the Board can provide information about credit performance of certain loan classes. The allowance for loan and lease loss roll forward provides a basic explanation of the movements of the allowance as well as data items used to evaluate its adequacy.

Schedule IRC-D Trading Assets and Liabilities

This schedule collects total balances of an insurance company's trading assets and liabilities consisting of long and short fixed maturity securities and equities, derivatives, and other assets. Unlike the corresponding schedules in the FR Y-9C, this schedule only captures those instruments that are classified as trading and that are also held with the intent to trade. It does not include securities that are elected to be measured at fair value under the fair value option, which are to be reported in Schedule IRC-B Securities and Other Invested Assets.

For insurance companies, most instruments measured under the fair value option are not held with the intent to trade. Therefore, reporting these instruments separately from derivatives and other instruments classified as trading provides better insight into the business purpose for holding such instruments.

Schedule IRC-L Derivatives and Off-Balance-Sheet Items

This schedule collects data related to derivatives types and exposures. This schedule is generally consistent with the corresponding FR Y-9C schedule. The first section includes the gross notional and fair value amounts for product types of free standing derivatives (*e.g.*, forwards, futures, options, swaps) by risk type (*e.g.*, interest rate contracts, foreign exchange contracts). In addition, the fair value of collateral held by counterparty and contract type is requested to provide additional detail supporting the ultimate risk exposure. The schedule also includes a section to collect data related to credit derivatives.

An embedded derivatives section is included to capture additional detail on derivatives that represent liabilities for certain insurance guarantees and contract options.

Together, these data would be used to monitor exposures at the individual firm level over time as well as across firms.

Although information about instruments designated as accounting or economic hedges would be pertinent, the collection of data on hedges may be better served through specific supervisory requests or a more detailed schedule that would be considered for a future revision to this report.

Insurance-related schedules

Balancing regulatory cost and burden with the needs of the supervisory teams for these data has been a fundamental consideration in the development of the proposed insurance-related schedules. This balance is important, as the proposed schedules may be expanded in the future to support any regulatory capital requirements that the Federal Reserve may propose for insurance nonbank financial companies. For example, more granular data may be needed for insurance-related liabilities.

Proposed supporting schedules related to insurance include: IRC-I Section I Property and Casualty, IRI-C Property and Casualty Underwriting, IRC-I Section II Life and Health, and IRC-I Section III Reinsurance Assets.

Schedule IRC-I Section I Property and Casualty

This schedule collects property and casualty reserves in a standardized way that allows for key risk exposures to be monitored over time and potentially across other property and casualty insurance companies. Three items related to property and casualty reserves are reported by line of business: gross reserves, reported gross reserves (may be different due to discounted reserves), and reported net reserves. These three items together provide an understanding of the types of insurance exposure on an insurance nonbank financial company's balance sheet. Both gross and net reserves are required to allow for a high-level view of the impact of reinsurance and insight into the volatility of reinsurance recoverables. In addition, data for discounted and undiscounted reserves facilitates comparability of insurance companies' reserve balances, as U.S. GAAP discounting practices can vary.

This schedule also contains a roll forward of the total property and casualty insurance reserves balance from the prior year, which is necessary to understand the movement in the overall reserves balance.

The proposed lines of business are representative of the major categories of property and casualty products written in the United States and internationally. The lines of business defined by the National Association of Insurance Commissioners (NAIC) were leveraged where possible, but in some cases lines of business were combined to reduce regulatory burden. In addition, NAIC lines of business do not capture international business to the extent necessary for the Federal Reserve's supervision of the insurance nonbank financial companies. Therefore, proposed lines of business on this schedule differ from the NAIC's lines of business.

Schedule IRI-C Section I Property and Casualty Underwriting

This schedule collects financial data to calculate the loss ratio, expense ratio, and combined ratio. These ratios, of incurred losses, underwriting expenses, and their sum relative to earned premium, are the most widely used metrics for analyzing property and casualty underwriting profitability.

Schedule IRI-C breaks out catastrophe losses to enable comparative and trend analysis of loss ratios with and without volatile catastrophe losses. Existing definitions of catastrophe losses can vary from firm to firm or even year to year within the same firm. Thus, to facilitate meaningful analysis, a consistent definition is needed. After considering several alternate definitions, a definition based on estimated industry losses of one billion dollars is proposed. This proposed threshold would reduce distortive annual loss volatility from low frequency/high severity events without having a large number of events declared catastrophes, which could increase the burden of reporting. Although events with industry losses approximately at the cutoff are unlikely, insurance nonbank financial companies would have the discretion to identify them in the Notes section of the report.

This schedule also separately covers current accident year losses and prior year development to better understand how changing estimates affect profitability.

The ratios are reported both gross and net of reinsurance. The gross ratio is indicative of the overall book of business underwritten by the firm while the net ratio reflects profits from its insurance operations. Comparison of gross and net ratios measure the financial and risk mitigating effect of the reporter's use of reinsurance.

In addition to the information needed to calculate the key ratios, this schedule also collects written premium information. This information would provide one indication of an insurance nonbank financial company's growth. Significant growth or declines in business can be important indicators of overall financial health and potential threats to safety and soundness.

Schedule IRC-I Section II Life and Health

The proposed schedules capture data for insurance-related liabilities and relevant balance sheet line items – such as Deferred Acquisition Cost (DAC), Value of Business Acquired (VOBA) and balances of Closed Block businesses[3] – to allow supervisory teams to monitor financial activity at each firm in a standardized way over time and, where relevant, across the insurance nonbank financial company portfolio.

The proposed lines of business are representative of the major categories of life insurance, annuity, and accident and health products written in the United States and internationally. The existing NAIC lines of business were not used because it was determined that they do not align well with current product offerings or provide enough granularity with respect to product risks. Instead, lines of business were defined at a level to group products that share similar risk characteristics.

[3] A group of participating or dividend-paying insurance policies and contracts issued prior to the demutualization of an insurance company. These insurance policies and annuities are generally segregated from other assets and obligations of the insurance company.

Parts A and B – Roll Forwards of Future Policyholder Benefits and Policyholder Account Balances

These schedules roll forward the insurance-related liability balances of future policyholder benefits as well as policyholder account balances by line of business. The schedules would provide supervisors with the detail required to understand the drivers of changes in liability balances and at a high level to gauge how business lines are performing and how management estimates are evolving.

Part C – Variable Annuities

This schedule captures a breakdown of contract and guarantee rider liability balances by guarantee type as well as a net amount at risk, which is a basic measure of exposure for this type of liability. Obtaining this information is important because the level, variability, and drivers of risk differ significantly by guarantee type.

Part D – Closed Block

This schedule collects information related to policies and contracts issued prior to the demutualization of an insurance company. Collecting standardized data in the FR 2085 allows the Federal Reserve to monitor closed blocks of business and their impact on the financial flexibility and liquidity of insurance nonbank financial companies, where applicable.

Part E – Roll Forward of Deferred Acquisition Costs and Value of Business Acquired

This schedule is complementary to Parts A and B above and is necessary to assess the activity and performance of lines of business, including as an indicator of when and where negative experience may be emerging and when a firm's expectation of future profitability has changed. The lines of business proposed for the deferred acquisition cost roll forward are consistent with the insurance-related liability roll forwards.

Schedule IRC-I Section III Reinsurance Assets

This schedule captures material reinsurance counterparty credit risk by individual exposure. This information is necessary to monitor exposures to individual reinsurers.

Additional financial statement-related schedules

The proposed form would require a limited set of information to support the financial statements outside of the areas of investments and insurance. These supporting schedules are IRC-M Memoranda and IRC-V Variable Interest Entities.

Schedule IRC-M Memoranda

This schedule provides additional breakdowns of certain balance sheet items and general information that are not captured in other proposed schedules, such as deferred taxes and borrowings. The additional breakdowns allow for historical tracking to support trend analysis as well as comparisons across firms.

Schedule IRC-V Variable Interest Entities

This schedule provides information concerning consolidated variable interest entities. It is important to collect data on assets and liabilities associated with variable interest entities because variable interest entities can have different legal and risk characteristics than other assets and liabilities of a firm.

Respondent Panel

The proposed FR 2085 respondent panel would include any nonbank financial company that (i) that the Financial Stability Oversight Council has determined pursuant to section 113 of the Dodd-Frank Act[4] should be supervised by the Board and subject to enhanced prudential standards and (ii) with at least 40 percent of total consolidated assets related to insurance activities as of the end of either of the two most recently completed fiscal years, or as otherwise ordered by the Board.

Time Schedule for Information Collection and Publication

The proposed new report would be submitted quarterly as of the end of March, June, September, and December. The filing deadline would be 45 calendar days after the March 31, June 30, September 30, and December 31 as-of date. The first submission would begin with the June 30, 2017, reporting date. Compliance with the information collection would be mandatory.

The Federal Reserve proposes the FR 2085 data would be made available to the public on the National Information Center website www.ffiec.gov/nicpubweb/nicweb/nichome.aspx.

Legal Status

The Federal Reserve's Legal Division determined the information collection is authorized under section 161 of the Dodd-Frank Act, which allows the Federal Reserve to require nonbank financial companies to submit reports regarding their financial condition. 12 U.S.C. § 5361. Information proposed to be collected on the FR 2085 is generally not considered to be confidential. Nonetheless, respondents may request that certain business information be kept confidential under exemption 4 of the Freedom of Information Act, 5 U.S.C. § 552(b)(4). Any such request must be accompanied by a detailed justification demonstrating that substantial harm would result from public release of the information.

Consultation Outside the Agency

The Federal Reserve sought and received informal feedback from the insurance nonbank financial companies and two actuarial trade and professional organizations (American Academy of Actuaries and Society of Actuaries) in developing this proposed report. Several outreach

[4] 12 U.S.C. 5323.

meetings to discuss the draft FR 2085 form and instructions took place in October and November 2015 in an effort to help staff refine the data items in the proposed schedules and provide clear accompanying instructions.

On April 25, 2016, the Federal Reserve published a notice in the *Federal Register* (81 FR 24097) requesting public comment for 60 days on the implementation of the FR 2085. The comment period for this notice expires on June 24, 2016.

Estimate of Respondent Burden

The annual burden for the reporting requirements of this information collection is estimated to be 75 hours per respondent, for a total of 600 hours annually. In an effort to more accurately reflect the burden imposed on the companies for reporting the FR 2085, the Federal Reserve has included estimates for annual one-time implementation burden. The Federal Reserve estimates the automation burden for each new respondent would vary, but on average it is estimated to take approximately 3,600 hours (one-time implementation) per respondent to prepare their systems for submitting the data, for a total of 7,200 hours. The proposed annual burden for the FR 2085 would represent less than 1 percent of total Federal Reserve System paperwork burden.

	Number of respondents[5]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
FR 2085				
Insurance Nonbank Financial Companies	2	4	75	600
One-Time Implementation	2	1	3,600	7,200
Total				7,800

The total annual cost to the public for this information collection is estimated to be $414,570.[6]

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

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[5] Of these respondents, none are small entities as defined by the Small Business Administration (i.e., entities with less than $550 million in total assets) www.sba.gov/content/table-small-business-size-standards.

[6] Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at $17, 45% Financial Managers at $65, 15% Lawyers at $66, and 10% Chief Executives at $89). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages May 2015, published March 30, 2016 http://www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/

Estimate of Cost to the Federal Reserve System

The cost estimates for the Federal Reserve System will be obtained.