CENTER FOR CAPITAL MARKETS COMPETITIVENESS

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Mr. Robert de V. Frierson
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities, RIN 7100-AE 53, Docket No. R-1539

Dear Mr. Frierson:

The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation, representing the interests of more than three million companies of every size, sector, and region. Our members include purely U.S. domestic, as well as international and globally active insurance companies headquartered both in and outside of the United States. Perhaps more importantly, we have both member companies that rely on insurance products and members that rely on the larger role insurers play as investors in our globally interconnected economy. Therefore, we are broadly supportive of the goal of safeguarding against systemic risk.

It should be noted that capital standards are a safeguard against run risk—a situation almost unheard of in the insurance industry. Additionally, the match of assets and liabilities for insurers over a large segment of time is quite different than other financial services industries. Accordingly, capital standards for insurers should be tailored to the industry's specific business model. Moreover, as insurance is one of, if not the largest, investors globally, it is incumbent for the Board of Governors of the Federal Reserve (the "Federal Reserve") to understand the ramifications of the advance notice of proposed rulemaking (the "ANPR") before it is finalized and avoid any unintended consequences.

At the same time, we have raised concerns with the Federal Reserve, the International Association of Insurance Supervisors ("IAIS"), and others on the impact of

onerous and inappropriate capital and other prudential standards on insurers.[1] We have also repeatedly stressed how such standards impact the ability of non-financial businesses to raise the resources needed to grow and operate. In addition, we have consistently urged the Federal Reserve to conduct a comprehensive economic analysis on the impact of similar capital standards for other types of financial institutions, such as banks,[2] on nonfinancial businesses' ability to access finance in order to drive growth, mitigate day-to-day business risk, and manage liquidity. We emphasize that capital standards have significant ramifications in the insurance context, both on insurers and policyholders, and particularly given the fact that insurers are significant investors in the corporate bond markets.

With this in mind, our comments are focused on reaffirming the Federal Reserve's commitment not to "regulate in a monolithic fashion" and, instead, to establish standards that are appropriately tailored to the business of insurance.[3] For future rulemaking on insurance capital standards for savings and loan holding companies significantly engaged in insurance activities ("SLHC insurers") and insurers designated as systemically important insurance companies ("SIICs"), we believe that the Federal Reserve should adhere to the following comments and principles:

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[1] *See* February 13, 2015 letter from the Chamber to the International Association of Insurance Supervisors on risk-based Global Insurance Capital Standards, August 21, 2015 letter from the Chamber to the International Association of Insurance Supervisors on Higher Loss Absorbency Requirements for G-SIIs, January 25, 2016 letter from the Chamber to the International Association of Insurance Supervisors on non-traditional non-insurance activities and products, January 25, 2016 letter from the Chamber to the International Association of Insurance Supervisors on global systemically important insurers and the proposed updated assessment methodology, and August 17, 2016 Letter from the Chamber to the Federal Reserve on enhanced prudential standards for systemically important insurance companies (hereinafter, the "Chamber Enhanced Prudential Standards Letter").

[2] *See* June 14, 2011 letter from the Chamber to Federal Reserve Chairman Ben Bernanke on G-SIFI surcharges, October 22, 2012 comment letter to U.S. banking regulators on proposed Basel III regulations, September 19, 2013 letter to the BCBS on the Revised Basel III leverage ratio framework, September 23, 2013 letter to U.S. banking regulators on enhanced supplementary leverage ratio standards, January 31, 2014 letter to U.S. banking regulators on liquidity coverage ratio rules, January 31, 2014 coalition letter to U.S. banking regulators on liquidity coverage ratio rules, May 28, 2014 letter to NCUA on risk based capital, September 11, 2014 letter to Federal Reserve on Capital Plan and Stress test rules, September 19, 2014 letter to Bank of International Settlements on the Net Stable Funding Ratio, letter of February 11, 2016 on Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations, letter of March 21, 2016 to Federal Reserve on Framework for Countercyclical Capital Buffer; letter of June 3, 2016 to Federal Reserve on single-counterparty credit limits; and letter of August 4, 2016 to Federal Reserve on the Net Stable Funding Ratio.

[3] Governor Daniel K. Tarullo, *Insurance Companies and the Role of the Federal Reserve*, May 20, 2016, *available at* https://www.federalreserve.gov/newsevents/speech/tarullo20160520a.htm.

1. **The Existing State-Based Insurance System Should be Given Deference in Future Rulemaking:** The Federal Reserve should continue to recognize and utilize the preexisting state-based system of regulating insurance capital, consistent with the McCarran-Ferguson Act[4]. By doing so, the Federal Reserve will continue to recognize inherent differences among insurers while recognizing that the U.S. insurance industry should continue to be regulated according to state standards.

   Moreover, the Federal Reserve should not seek to impose or influence future capital requirements on insurers that are not SLHC insurers or SIICs on the basis of any final rulemaking that develops from the ANPR.

   Additionally, consistent with the Insurance Capital Standards Clarification Act of 2014, the Federal Reserve must continue to recognize that the business of insurance is fundamentally different from the business of banking when setting capital standards for SLHC insurers and SIICs. It has already done so by releasing an ANPR with a building block approach ("BBA") option, but it must continue to do so by recognizing inherent differences between banking and insurance. Failing to do so may set an erroneous precedent in the future of insurance capital regulation and impact the health of our capital markets.

2. **The BBA, with Adjustments, is Appropriate for Both SLHC Insurers and SIICs:** The building block approach ("BBA") and the consolidated approach ("CA") discussed in the ANPR are novel and potentially complex methods of calculating capital for SLHC insurers and SIICs. Moreover, the Federal Reserve has noted that one of the CA's significant disadvantages is that it is relatively crude and has limited risk sensitivity.[5] It may take several years of adjustments for the CA to develop into a robust capital framework, meaning that impacted insurers, investors, and the markets will contend with years of uncertainty as these changes are made. This concern alone warrants a considerable amount of additional study and economic analysis before the CA is finalized. As such, we believe that the BBA, with certain adjustments, should be utilized in setting capital requirements for both SLHC insurers and

[4] 15 U.S.C. §§ 1011-1015.
[5] 81 Fed. Reg. 38631, 38636 (Jun. 14, 2016).

SIICs.

3. **The CA is Flawed and Unnecessary:** The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires the Federal Reserve to apply enhanced prudential standards to SIICs, which will require SIICs to adhere to hold additional capital, and adhere to new liquidity standards and stress-testing requirements, as well as comply with several other requirements applicable to systemically important financial institutions ("SIFIs"). As we have previously noted, those standards may significantly increase the amount of cash and liquid assets held by SIICs. [6] As a result, applying an entirely separate capital regime, such as the CA, to SIICs is unnecessary at this time and may prove to be inappropriate, particularly since SIICs will already be required to comply with enhanced prudential standards.

4. **Interplay with International Capital Standards:** We are also cognizant of the fact that the IAIS continues to develop capital standards for internationally active insurance groups ("IAIGs") and global systemically important insurers ("G-SIIs"). The Federal Reserve should continue to advance standards at the international level that are consistent with the proposals in the ANPR and not support capital standards that would unfairly disadvantage U.S. insurers or their operations abroad. Moreover, we continue to believe that it is critical for state and federal representatives to have a united voice in international insurance regulatory discussions to improve mutual recognition and avoid outcomes that would undermine our domestic insurance marketplace.[7]

5. **Thorough Economic Analysis Required Throughout Rulemaking Process.** As we have noted in previous submissions, the Federal Reserve should conduct a comprehensive study analyzing the impact of any proposed rulemaking on insurance capital standards alongside other capital and liquidity reforms that impact capital formation for American businesses. This is particularly true with respect to the ANPR, given the novel nature of the BBA

[6] *See* Pg. 5, Chamber Enhanced Prudential Standards Letter.
[7] In this regard, the Chamber supports the Transparent Insurance Standards Act of 2016 (H.R. 5143), which would encourage a more unified U.S. voice in international discussions while ensuring that our domestic regulators will support our current state-based insurance regulatory system.

and CA and the important role that SLHC insurers and SIICs play as investors in the corporate bond markets and in capital formation.

Our comments and concerns are discussed in greater detail below.

Discussion

At the outset, we wish to commend the Board of Governors of the Federal Reserve (the "Federal Reserve") for issuing an advance notice of proposed rulemaking (the "ANPR") with more than one approach to determining how to measure and set an appropriate level of capital for SLHC insurers and SIICs. In addition, we applaud the Federal Reserve's decision to hire additional staff with insurance expertise in order to develop the ANPR. The proposals in the ANPR have also been benefited by the Federal Reserve's decision to work directly with insurers and state regulators. Finally, by issuing an ANPR, as opposed to a notice of proposed rulemaking, the Federal Reserve is appropriately proceeding with multiple opportunities for the public to provide comment on proposed insurance capital standards, their impact on insurers and policyholders, and the effect of those standards on the economy.

I. The Existing State-Based Insurance System Should be Given Deference in Future Rulemaking

We continue to support the Federal Reserve's recognition of the state-based system of regulating insurance in developing the ANPR. Since the passage of the McCarran-Ferguson Act, the Federal government has recognized that the business of insurance is properly regulated at the state level, and is generally exempt from federal regulation.[8] Since then, our state-based insurance capital regime has developed into a vibrant and effective system that permits a diversity of insurers to provide coverage in fields as diverse as property and casualty and life insurance.

Our state-based system of regulating insurance has also allowed insurers to become significant investors in the U.S. corporate bond markets, which are critical to businesses of all sizes in raising capital, providing a stable form of financing, benefiting businesses and investors alike. As insurers are significant investors in the bond markets, the implementation of poorly designed capital standards could reduce funds available for investment in the corporate bond markets. We fear that, combined with the impact of

[8] 15 U.S.C. § 1011.

other global financial regulatory initiatives, such as the enhanced prudential standards that will be applicable to SIICs, poorly designed capital standards may have a significant impact on the ability of many businesses to raise capital.

Consequently, the Federal Reserve must recognize that there is a need to preserve the vitality of our capital markets in designing capital standards for SLHC insurers and SIICs. This requires establishing a "level playing field" among similarly situated insurers while ensuring that different business lines of insurance, such as property and casualty or life insurance, are not treated similarly for the purpose of setting capital requirements. This is best achieved by adhering to Congress' intent under the McCarran-Ferguson Act that the states should regulate the business of insurance, which allows for the application of capital standards that are well understood and used by the industry. As explained below, this is best achieved by utilizing the BBA for both SLHC insurers and SIICs.

The Federal Reserve has stated that it will evaluate proposed capital standards in order to determine whether a regulated insurance group can (1) absorb losses and continue operations during times of economic, financial, and insurance-related stress; (2) serve as a source of strength to any subsidiary depository institutions; and (3) substantially mitigate any threats to financial stability that the regulated institution may pose.[9] Requiring insurance holding companies to be a "source of strength" for their subsidiaries does not at all fit with the typical business models of insurance groups nor with the historical and existing approach to the regulation of insurers. These goals could also encourage the Federal Reserve to set standards on the transfer and fungibility of capital between legal entities in a holding company structure, which could run afoul of the Consolidated Appropriations Act of 2016.[10]

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[9] 81 Fed. Reg. 38631(Jun. 14, 2016). We also note that the Federal Reserve's objectives concerning financial stability have been prescribed primarily by Congress's through the FSOC process. Although the Home Owners' Loan Act provides that the Federal Reserve may conduct examinations to inform the Federal Reserve of potential threats to financial stability (*See* 12 U.S.C. 1467a(b)(4)(A)) that examination authority should not be used to bootstrap an entirely new set of financial stability rules upon SLHC capital meant for SIFIs. Indeed, the Federal Reserve's cease and desist order authority for SLHCs (*See* 1467a(g)(5)) is specifically concerned with the stability of the organization, and not financial systems as a whole.

[10] *See* Section 706, Division O, of the Consolidated Appropriations Act, 2016, Public Law 114–113, 129 Stat. 2242 (2015), which permits a state insurance regulator to disagree in writing with the Federal Reserve when the agency determines that additional funds or assets should be provided by a holding company to a subsidiary depository institution.

Finally, it is important for the Federal Reserve to continue following Congress' clear intent that insurance capital standards should not be based on bank capital standards. Congress took the extraordinary step of amending Dodd-Frank through the Insurance Capital Standards Clarification Act of 2014 to affirm the Federal Reserve's authority to develop capital standards for SLHC insurers and SIICs that are closely tailored to the business of insurance rather than being based on bank capital standards.[11] As such, the Federal Reserve has the authority and responsibility to ensure that such standards are appropriately tailored to the business of insurance. Unfortunately, the CA method could potentially result in bank-centric standards, which strongly counsels against its application. For example, unlike the BBA, a CA would need to be appropriately developed and tailored to the business of insurance to, among other things, reflect: the long-term nature of insurance liabilities, prudent risk mitigation measures that are built into insurance contracts, and the inapplicability for insurance holding companies of the "source of strength" model.

II. The BBA, with Adjustments, is Appropriate for Both SLHC Insurers and SIICs

The Chamber supports the proposed BBA, with adjustments, for both SHLC Insurers and SIICs, as it provides the Federal Reserve with the ability to leverage the existing expertise of state insurance regulators in setting capital standards for a wide variety of insurers. Moreover, applying the BBA to all Federal Reserve-supervised insurers would establish a well-understood and level playing field, which will promote healthy competition and continued investment into the economy. Finally, any potential weaknesses with the BBA approach are solvable through appropriate adjustments to the calculation required and available capital and through the application of scalars designed to achieve comparability across various regulatory capital regimes with different bases of accounting and reserve conservatism.

However, we do have some concerns with the BBA that the Federal Reserve can address in a notice of proposed rulemaking. First, with respect to an insurer meeting its required capital requirements, we believe that summing local available capital is preferable to calculating a consolidated figure based on a standardized available capital definition. While we appreciate concerns regarding the elimination of double leverage, we believe that the CA cannot ignore local jurisdictional capital requirements and definitions of capital and that the Federal Reserve's concerns can be better addressed through

[11] 12 U.S.C. § 5371.

adjustments and further analysis of intragroup transactions. Along these lines, the Federal Reserve should propose scaling both available capital and required capital where necessary to accurately reflect balance sheet differences between different jurisdictions.

Additionally, we note that the BBA should be developed to work for all insurers regardless of their form of organization (e.g., stock, mutual, etc.). For example, there should not be a competitive advantage for either the use of subordinated debt or surplus notes when applying the BBA.

Third, while scalars will be helpful in comparing capital levels among insurers, the Federal Reserve should provide more clarity on how such scalars will be determined in conjunction with base capital requirements for insurers. It is also important to recognize that scalars will not necessarily provide comparability for all insurers, especially given the different business lines in which insurers specialize. For example, property and casualty insurers have a business structure that can vary widely between short-tail and long-tail risks (e.g., auto insurance liability versus long-tail environmental risk). Consequently, it is important that the Federal Reserve recognize that scalars cannot be onerously adjusted in order to achieve comparability when some insurers are simply not comparable. In these instances, the Federal Reserve should rely on its supervisory authority over SLHC insurers and SIICs rather than establish inappropriate scalars for all SLHC insurers and SIICs.

III. The CA is Flawed and Unnecessary

Conversely, the CA has significant flaws and should not be applied in order to determine SIIC capital levels at this time, especially in light of the fact that SIICS will already need to comply with the Federal Reserve's enhanced prudential standards. While the Board has stated the goal of implementing a capital framework in the short-to-medium term, it does not appear that the CA would be sufficiently risk-sensitive enough to serve as meaningful in the near term. As a result, we strongly support using the BBA for SIICs on a permanent basis, or at the very least, as an interim step until the CA is further calibrated and developed.

In particular, we note that SIICs will be required to implement new liquidity risk management programs, which will include cash flow projections, liquidity stress tests, liquidity buffers, and new corporate governance requirements that, if adopted as proposed, will dramatically increase the ability of the Federal Reserve to supervise these

aspects of the SIIC's operations. As we have previously noted, there has been no comprehensive economic analysis of the costs associated with implementing these enhanced prudential standards,[12] either on insurers themselves or on the broader economy. Additional requirements, applicable to bank SIFIs, such as the net stable funding ratio and credit limits on exposures to counterparties, may also apply to SIICs in the future.

The Chamber is concerned that the combination of these enhanced prudential standards and the CA could lead to an underperforming insurance sector and create barriers to capital formation. The inability of non-financial businesses to engage in normal capital formation activities will raise costs and create inefficiencies, adversely impacting economic growth and financial stability. Consequently, the Federal Reserve should conduct a comprehensive study analyzing the impact of the CA alongside other capital and liquidity reforms that impact capital formation for American businesses.

If the Federal Reserve declines the opportunity to conduct such an analysis, we still believe that several improvements must be made to the CA, particularly given that the Federal Reserve has already identified it as a relatively blunt approach. In general we believe that there is a significant lack of risk sensitivity with the CA as proposed, meaning that there would need to be an exceedingly granular risk classification for SIIC exposures with associated and individualized risk factors. Such an approach is quite similar to the risk weightings currently applied to banking institutions under the Basel III capital standards, which raises the concern that bank capital standards are being developed for insurers.

The Federal Reserve indicates that the CA would determine capital requirements using a blunt approach of risk factors and segments. The segments to which the factors are applied should be aligned to drivers of risk borne by the SIIC and should not be prone to overstating or understating risk. For example, when examining assets held by an insurer, credit risk may be an appropriate factor to consider, but interest rate risk may not. These questions should not be answered by using Basel III risk-weightings and risk factors as a template, given the considerable differences between the businesses of insurance and banking. Ensuring that the factors and segments are appropriate will require extensive effort, including in-depth development and testing. This is especially important considering the wide range of insurance products and associated risks that the Federal Reserve must ensure are appropriately captured in the framework.

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[12] *See* Pgs. 10-12, Chamber Enhanced Prudential Standards Letter.

In addition, risk segmentation in the CA should not create significant differences between existing GAAP standards and statutory accounting classifications. Doing so would create additional operational burdens with respect to product classification and its treatment under relevant accounting standards. These problems could be solved by engaging in a dialogue with the National Association of Insurance Commissioners to reconcile differences between GAAP and statutory accounting principles. However, we note with particularity that GAAP reporting does not have the granular level of segmentation used by statutory accounting, and that much more work would be needed to reconcile differences between the two.

Finally, we stress that the CA is a completely novel method of calculating required capital for SIICs and will require significant operational changes, including the development of a new balance sheet for activities conducted across the globe. It would be short sighted to apply the CA to SIICs without a more thorough understanding of how these standards will need to be calibrated on the basis of a SIIC's global operations. This will necessarily require a thorough understanding of differences in the treatment of different insurance products in many different countries, with different regulatory regimes applying to each. Consequently, the Federal Reserve must take the necessary time to refine the CA before proceeding with this an option for SIICs.

IV. Interplay with International Capital Standards

Finally, in future rulemaking, the Federal Reserve must continue to pursue capital standards that work for the American insurance industry and not standards for other industries or jurisdictions. We commend the Federal Reserve for considering whether other capital frameworks would be appropriate for the ANPR, such as a risk-based capital rule based on requirements for banking organizations, complete exclusion of insurance subsidiaries in developing capital standards for an SLHC insurer or SIIC, Solvency II, and a stress testing approach, and ultimately deciding that they are inappropriate for the purposes of establishing capital standards for SLHC insurers and SIICs.[13]

At the same time, the Federal Reserve is an important voice at the IAIS and is continuing to provide input on capital standards being developed there, including higher-loss absorbency capital for G-SIIs, basic capital requirements, and a new insurance capital

[13] 81 Fed. Reg. 38631, 38637 (Jun. 14, 2016).

standard. In these negotiations, we believe that it is critically important for the Federal Reserve not to support international capital standards that would unfairly disadvantage U.S. insurers or their operations abroad. Doing so would establish a dichotomy between international and domestic standards that may be irreconcilable and potentially force the Federal Reserve to accept standards that are inappropriate for American insurers.

Consequently, the Federal Reserve should continue to support the ANPR, which "reflects the ways in which traditional insurance activities differ from those of commercial banks, broker-dealers, and other forms of financial intermediaries,"[14] while also supporting standards that do not disadvantage American insurers operating in the U.S. or abroad. The Federal Reserve must also continue working with state and other federal representatives to have a united voice in international insurance regulatory matters, which will help improve mutual recognition and avoid outcomes that would undermine our domestic insurance marketplace.[15]

V. Thorough Economic Analysis Required Throughout Rulemaking Process.

In previous comment letters, we have called for a comprehensive study of various regulatory initiatives as well as the cumulative impacts of those initiatives on the broader global economy and the capital formation system that is the linchpin for growth, a necessary component to financial stability. We believe that such studies are critical to understanding the impact of these proposals on capital formation and urge the Federal Reserve to conduct a similar, comprehensive analysis. The same concern also applies to the ANPR, which may have the real effect of sidelining the capital that would be reinvested in the economy but is instead redirected towards fulfilling the requirements of the capital proposal.[16]

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[14] Governor Daniel K. Tarullo, Opening Statement on Insurance Capital Advance Notice of Proposed Rulemaking and Enhanced Prudential Standards Proposed Rule for Systemically Important Insurance Companies, Jun. 3, 2016, *available at* https://www.federalreserve.gov/newsevents/press/bcreg/tarullo-opening-statement-20160603.htm.

[15] In this regard, the Chamber supports the Transparent Insurance Standards Act of 2016 (H.R. 5143), which would encourage a more unified U.S. voice in international discussions while ensuring that our domestic regulators will support our current state-based insurance regulatory system.

[16] For example, we believe that the Federal Reserve should examine the impact of liquidity requirements on other supervised institutions, such as the liquidity coverage ratio and the net stable funding ratio, alongside the liquidity buffer requirements of the Proposal and determine what the potential impact of those proposals would be on market liquidity and the functioning of the American capital markets.

Moreover, we note that, although the Federal Reserve is an independent agency, it has also avowed that it will seek to abide by Executive Order 13563. The Federal Reserve recently stated that it "continues to believe that [its] regulatory efforts should be designed to minimize regulatory burden consistent with the effective implementation of [its] statutory responsibilities."[17] As recently as October 24, 2011, the Federal Reserve wrote a letter to the Government Accountability Office acknowledging the need to engage in a cost-benefit analysis and asserting that the Federal Reserve's use of such an analysis, since 1979,[18] has mirrored the provisions of regulatory reform as articulated in Executive Order 13563.[19]

The Chamber strongly recommends that the Federal Reserve establish a baseline for cost-benefit and economic analysis using the blueprint established by Executive Orders 13563 and 13579, in addition to other requirements they must follow.[20] Doing so would allow meaningful, cumulative analysis that would result in a more coherent final rule with fewer harmful, unintended consequences for the American economy.

Executive Order 13563 places upon agencies the requirement, when promulgating rules to:

1) Propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to justify);

2) Tailor regulations to impose the least burden on society, consistent with obtaining regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations;

3) Select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety and other advantages; distributive impacts; and equity);

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[17] November 8, 2011, letter from Chairman Ben Bernanke to OIRA Administrator Cass Sunstein.
[18] Board of Governors of the Federal Reserve System, Statement of Policy Regarding Expanded Rulemaking procedures, 44 Fed. Reg. 3957 (1979)
[19] *See* letter from Scott Alvarez, General Counsel of the Federal Reserve, to Nicole Clowers, Director of Financial Markets and Community Investment of the General Accountability Office.
[20] Executive Order 13579 requests that independent agencies follow the requirements of Executive Order 13563.

4) To the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt; and

5) Identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior, such as user fees or marketable permits, or providing information upon which choices can be made to the public.[21]

Additionally, Executive Order 13563 states that "[i]n applying these principles, each agency is directed to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible."

Conducting the rulemaking and its economic analysis under this unifying set of principles will facilitate a better understanding of the rulemaking and its impact and give stakeholders a better opportunity to provide regulators with informed comments and information.

Conclusion

We appreciate the opportunity to comment on the ANPR and commend the Federal Reserve in developing a thoughtful set of proposals for setting insurance capital standards for SLHC insurers and SIICs. Through its ANPR, the Federal Reserve has demonstrated a willingness to work with state insurance regulators and respect the state-based system of regulating insurance capital. The Federal Reserve has also collaborated with representatives of the industry to develop approaches that are workable and are appropriately tailored to the business of insurance. However, we reemphasize the importance of the Federal Reserve to closely study the feedback received on the ANPR and develop multiple opportunities for notice and comment on future insurance capital rulemaking, given the novelty of these approaches and the significant impact the BBA or CA will have on SLHC insurers and SIICs and the American economy as a whole.

We firmly believe that the BBA is superior to the CA and should be used for both SLHC insurers and SIICs, especially given the amount of time and adjustment the CA will need to be workable and given that enhanced prudential standards will also apply to SIICs. The BBA can provide the Federal Reserve with the tools it needs to fulfill its supervisory mandate for SLHC insurers and SIICs and accomplish the objectives it

[21] Executive Order 13563, Improving Regulation and Regulatory Review, 76 Fed. Reg. 3821 (Jan. 18, 2011)

outlines in the ANPR for setting capital standards. We underscore the importance of developing this rulemaking in a way that does not impact the health of our corporate bond markets or capital formation.

We thank you for your consideration of these comments and would be happy to discuss these issues further with you or your staff.

Sincerely,

Tom Quaadman