May 13, 2019

The Honorable Randal Quarles
Vice Chairman for Supervision
Board of Governors of the
Federal Reserve System
Constitution Ave. NW & 20th St. NW
Washington, DC 20551

Dear Vice Chairman Quarles:

We write to commend your January 2019 speech regarding insurance supervision and international engagement. In particular, we were pleased to hear that you are working with your foreign counterparts to establish an assurance that the United States regime of state-based insurance regulation is, in your words, "deemed comparable to the [International Capital Standard]" being developed by the International Association of Insurance Supervisors (IAIS). The Federal Reserve's clear understanding of the nuances of our state-based system and your commitment to the domestically-regulated insurance market, as well as your commitment to tailoring regulation to activities and risk and not to arbitrary thresholds, has helped keep our insurance system safe and strong.

Regarding work being done by the IAIS on the International Capital Standard (ICS), it is our view that the FSB should publicly state that a global capital standard for insurers is not required. We understand that the National Association of Insurance Commissioners (NAIC) is developing a group capital assessment tool and the Federal Reserve Board is developing a group capital standard based on an aggregated entities approach, and that the NAIC will begin field testing its approach this Spring. It is also our view that, in advance of the November 2019 IAIS Annual General Meeting, the FSB should publicly state that aggregation approaches to group capital as well as other well-developed and proven jurisdictional capital regimes are acceptable methodologies for assessing group capital adequacy.

We share the concerns you raised regarding the European Solvency II framework and the impact that a similar approach, if taken in the final ICS and applied to U.S.-based groups with operations abroad, could have on the U.S. economy and the ability of the insurance industry to provide critical insurance protection. As you pointed out in your speech earlier this year:

> "...much of ICS's evolution has been in the direction of a valuation method and overall framework that reflect approaches used elsewhere in the world. This may not be optimal for the United States insurance market."

We appreciate your attention to and focus on the need for insurance group capital standards to be "stable in its valuation, conservative in its design, and appropriately reflective of financial soundness." We hope you encourage this approach with your colleagues on the FSB.

We question the need for an ICS, but appreciate you pointing out that "The standards produced through the IAIS are, of course, not binding upon the United States." Our concern is that, even if those standards are nonbinding on the U.S., they may still present real and negative ramifications for U.S. insurers operating in markets abroad. For example, U.S. insurers operating abroad could face various non-tariff forms of regulatory retaliation which would harm U.S. consumers as well as global insurance markets given that the ICS as currently constructed discourages insurance products with long-term guarantees – products that are necessary for providing retirement security for aging populations.

In addition, regarding the proposed ICS, you state:

> "In order for any form of an ICS to be implementable globally, it needs to be suitable for the U.S. insurance market. The current core proposal in the ICS would face implementation challenges in the United States. For instance, such a framework may fail to adequately account for U.S. accounting frameworks, both Generally Accepted Accounting Principles (GAAP) and the NAIC's Statutory Accounting Principles, introduce excessive volatility, and involve excessive reliance on supervised firms' internal models."

We fully agree that an ICS that is not implementable in the United States – the world's largest insurance market – would fail to be a global standard. The IAIS should seek to avoid such an outcome by pursuing an ICS that recognizes aggregation approaches to group capital and other well-developed, proven insurance solvency regulatory systems.

Unfortunately, the IAIS has not committed to recognizing aggregation methods such as those being pursued by the Federal Reserve and the NAIC. Instead, it has agreed to determine whether such approaches are "outcome equivalent" by the end of the five-year monitoring period of the ICS in 2024.

In the meantime, U.S.-based insurers with operations abroad will face significant regulatory uncertainty. We ask that you, as Chair of the FSB, call on the IAIS to alleviate the regulatory uncertainty the ICS project has created at its November 2019 Annual General Meeting. It is our view that to adequately address the regulatory uncertainty the ICS has created, the FSB should urge the IAIS to issue a public statement in November that addresses the following points:

- The ICS is not intended to be a global mandate and that aggregation approaches to capital, such as those being developed by the NAIC and the Federal Reserve, as well as other well developed and proven capital regimes, are acceptable for purposes of the ICS. Additionally, the process for determining "outcome equivalence" of alternative methods and approaches to an ICS, will be expeditiously defined and will consider both qualitative and quantitative aspects of the approaches and supervisory frameworks.
- An expectation that alternative approaches can, and likely will, meet the FSB's goal of ensuring robust and resilient insurance regulatory regimes that take into account the important role that insurance plays in meeting the varying public policy goals of each jurisdiction to protect aging populations and the need for long-term, sustainable investments.
- It should be clearly stated that design and calibration changes will be made to the ICS throughout the Monitoring Period to address ongoing shortcomings of the framework and its predisposition to cause unintended consequences.
- The confidential nature of ICS results and data should be reinforced. Further, external stakeholders (e.g., investors, rating agencies, underwriters, etc.) should be made aware of the lack of value/meaning that should be assigned to ICS results given the developmental nature of the framework and non-binding nature of IAIS standards.
- The IAIS should acknowledge the primacy of jurisdictional group capital regimes and frameworks.

We commend your attention regarding, and command of, the important issues at hand and request that you share your view regarding plans and processes for achieving international recognition of the U.S. aggregation approaches to group capital and other well-developed, proven insurance solvency regulatory systems.

Thank you for your dedication to tackling these complicated and complex multilateral regulatory issues and for standing up for American interests abroad. International dialogue and cooperation among regulators is vital in allowing continued cross-border competition that respects the local jurisdiction's sovereignty and regulatory approach while also allowing consumers to benefit from more competition and choice. We encourage you to work closely with your colleagues to make certain that we reach an optimal outcome for American consumers, markets, and businesses.

Sincerely,

M. Michael Rounds
United States Senator

Tim Scott
United States Senator

Kyrsten Sinema
United States Senator

Patty Murray
United States Senator

Martha McSally
United States Senator

Tom Cotton
United States Senator

Jerry Moran
United States Senator

John Boozman
United States Senator

Susan M. Collins
United States Senator

Mike Crapo
United States Senator

Thom Tillis
United States Senator

Kevin Cramer
United States Senator

Shelley Moore Capito
United States Senator

Cindy Hyde-Smith
United States Senator

David Perdue
United States Senator

Joni K. Ernst
United States Senator

Jeanne Shaheen
United States Senator

Johnny Isakson
United States Senator

John Thune
United States Senator

John Barrasso
United States Senator

John Hoeven
United States Senator

Lisa Murkowski
United States Senator

John Kennedy
United States Senator

Pat Roberts
United States Senator

Margaret Wood Hassan
United States Senator

Marsha Blackburn
United States Senator

James M. Inhofe
United States Senator

Bill Cassidy
United States Senator

Ben Sasse
United States Senator

Debbie Stabenow
United States Senator

Gary C. Peters
United States Senator

Pat Toomey
United States Senator

Joe Manchin III
United States Senator

Roger F. Wicker
United States Senator

Deb Fischer
United States Senator

Mike Braun
United States Senator

Todd Young
United States Senator

Steve Daines
United States Senator

Tammy Baldwin
United States Senator

Angus S. King, Jr.
United States Senator

John Cornyn
United States Senator

Ron Johnson
United States Senator