

October 31, 2011

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Proposed Agency Information Collection Activities for Savings and Loan
Holding Companies (FR Y-6, FR Y-7, FR Y-9 Reports) [ICP-201114]

Dear Ms. Johnson:

We appreciate the opportunity to comment on the Proposed Agency Information Collection Activities for Savings and Loan Holding Companies (“Proposed Collection”)¹ of the Board of Governors of the Federal Reserve System (the “Board”) on behalf of our client, the Wisconsin Physicians Service Insurance Corporation (“WPSIC”), Madison, Wisconsin, a non-profit, non-stock corporation. WPSIC is a savings and loan company (“SLHC”) by virtue of its ownership of WPS Community Bank, FSB, a federal savings bank also headquartered in Madison, Wisconsin. Our primary reason for submitting this comment letter is to address the Board’s request for comment on ways to minimize the burden of information collection on SLHCs, such as WPSIC, which are not presently required to file financial statements according to generally accepted accounting principles (“GAAP”). Like most regulated insurance companies, WPSIC prepares and files financial statements according to statutory accounting principles (“SAP”). However, on an annual basis WPSIC’s outside accountants prepare consolidated financial statements that are consistent with generally accepted accounting principles (“GAAP”) solely for information purposes for WPSIC’s Board of Directors. For the reasons discussed in this letter, WPSIC believes that such voluntary preparation should not disqualify WPSIC and other similarly-situated insurance companies from the exemption from bank holding

¹ 76 Fed. Reg. 53129 (August 25, 2011).

Jennifer J. Johnson

October 31, 2011

Page 2

company (“BHC”) reporting requirements for SLHCs where the top-tier holding company is an insurance company that only prepares SAP-based financial statements.

Background

WPSIC was formed through the authority of Chapter 613 of the Wisconsin Statutes as a service insurance corporation. WPSIC offers hospitalization, surgical, medical, major medical, dental, term life, disability, and life conversion policies to subscribers in 27 states with a concentration in Wisconsin. In addition, WPSIC is an administrator of federal government health benefit programs, providing claims administration, customer service, and other related activities for the United States Department of Defense and also administering Medicare Part A benefits in 49 states and Medicare Part B benefits in eight states. Thus, WPSIC is one of the largest intermediaries for the Centers for Medicare & Medicaid Services in the United States, and an essential contributor to the U.S. healthcare system.

WPSIC is closely regulated by the Wisconsin Office of the Commissioner of Insurance (“WCI”), and subject to the reporting standards of the National Association of Insurance Commissioners (“NAIC”).² For purposes of compliance with the WCI and the NAIC, all supervisory financial information submitted to these regulators is prepared according to SAP as articulated through NAIC’s Accounting Practices and Procedures Manual, and not according to GAAP. In addition, as the parent company of WPS Community Bank, FSB, WPSIC is regulated by the Board as a top-tier SLHC.

In acknowledgement of state insurance regulation procedures, the Board’s regulatory predecessor, the Office of Thrift Supervision (“OTS”) permitted federal financial reporting according to SAP. The OTS required SLHCs to file reports on a quarterly and annual basis through the completion of Form H-(b)11.³ The OTS permitted SLHCs that were insurance companies to file financial statements in accordance with SAP if GAAP-based financial statements were not prepared for any other purpose.⁴ In WPSIC’s experiences with the OTS, the agency interpreted the Form H-(b)11 instructions to permit an SLHC to submit SAP-based financial statements on a quarterly

² See Wis. Admin. Code Ins. § 50.25.

³ See 12 C.F.R. § 584.1.

⁴ See Form H-(b)11 Package Annual/Current Report General Instructions, Item 5 (2010).

Jennifer J. Johnson
October 31, 2011
Page 3

basis as well as on an annual basis. Since the outside accountants prepared the GAAP-based financial statements on an annual basis after the Form H-(b)11 was filed, such financial statements were also permitted to be filed voluntarily with the OTS once complete.

Upon the OTS's transfer of supervisory powers to the Board through Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Board has sought to apply appropriate reporting requirements for SLHCs. Initially, the Board expressed its intent to require SLHCs to submit the same forms and reports as BHCs.⁵ This requirement would have forced SLHCs to submit reports in accordance with GAAP. The Board received numerous comments from insurance companies expressing concern regarding the implementation costs and burdens associated with the new reporting requirements. In response, the Board acknowledged the concern of insurance companies that the requirement to file BHC reports based on GAAP "would cause the creation of duplicative accounting systems due to state mandated requirements to compile financial statements using [SAP], especially for insurance companies that use SAP exclusively or use GAAP on a limited basis."⁶

Through the Proposed Collection, the Board has carved out an exemption from BHC reporting requirements for SLHCs where the top-tier holding company is an insurance company that only prepares SAP financial statements.⁷ The Board has recognized that certain SLHCs where the top-tier holding company is an insurance company are not required to produce consolidated financial information according to GAAP. The Board notes that "requiring these companies to quickly build a duplicate accounting system that is GAAP-based in order to produce reports in the required manner for the [Board] is not justifiable at this time."⁸ The Board also recognizes that some SLHCs "could not develop reporting systems to comply with the [Board's] existing reporting requirements within a reasonable period of time or without incurring inordinate

⁵ 76 Fed. Reg. 7091 (Feb. 6, 2011).

⁶ 76 Fed. Reg. at 53132 - 33.

⁷ *Id.* at 53129.

⁸ *Id.* at 53133.

Jennifer J. Johnson
October 31, 2011
Page 4

expense.”⁹ For exempt SLHCs, the Board will rely on submissions of supervisory information that these companies provide to state insurance regulators and the NAIC.¹⁰

For the reasons set forth below, we believe that this exemption of the Proposed Collection should apply to SLHCs such as WPSIC that are not presently required to file financial statements according to GAAP, but obtain GAAP-based financial statements from their outside accountant after the end of the year on a limited basis for informational purposes only and not because of any reporting or other mandatory regulatory requirement.

1. The Language of the Proposed Collection Exempts SLHCs that are not Required to Report GAAP-Based Financial Statements

We interpret the language of the Proposed Collection to exempt SLHCs, such as WPSIC, which are not required to report financial statements in accordance with GAAP. The Proposed Collection indicates that an exemption from BHC reporting requirements is proposed to apply where a top-tier holding company is an insurance company that is not a reporting company with the SEC.¹¹ The significance of this SEC designation is that an insurance company that is not a reporting company with the SEC is not required to produce consolidated financial information according to GAAP.¹² The Board further clarified the scope of the exemption by stating that not all insurance companies are subject to exemption, and that many such companies should be able to develop systems to comply with BHC reporting requirements.¹³ The Board considered insurance companies that are outside of the scope of the exemption to be those companies that are required to prepare GAAP-based financial statements in accordance with their obligations to the SEC.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² See SEC Division of Corporation Finance Financial Reporting Manual 48 (2011) (requiring use of GAAP in all SEC financial reporting and noting that “[f]inancial statements not prepared in accordance with U.S. GAAP are presumed to be inaccurate or misleading.”).

¹³ 76 Fed. Reg. at 53134.

Jennifer J. Johnson
October 31, 2011
Page 5

As a non-stock, non-mutual service insurance corporation, WPSIC is not a reporting company with the SEC. WPSIC therefore is not required to prepare GAAP-based financial statements, and it does not prepare such statements. WPSIC arranges for its outside auditors to prepare the consolidated GAAP-based financial statements after the end of its fiscal year solely for informational purposes for its board of directors, but this is not in accordance with any state or federal reporting obligations. Thus, we believe WPSIC and all similarly-situated SLHCs fit within the language of the Proposed Collection's exemption.

2. The Purpose and Principle of the Proposed Collection's Exemptions Apply to SLHCs that are not Required to Report GAAP-Based Financial Statements

Not only do we believe that WPSIC is covered by the language of the exemption but also WPSIC fits within the purpose and principle of the exemption. Specifically, WPSIC cannot develop an internal GAAP reporting system within a reasonable timeframe. Nor can it do so without incurring inordinate expense. In addition, the financial statements WPSIC submits to the WCI and NAIC, which Board plans to use for exempt SLHCs, will achieve the Board's reporting goals without the excessive burdens that duplicative GAAP-based BHC reports would require. Thus, the Board should clarify that the Proposed Collection's exemption applies to SLHCs that are not required to report GAAP-based financial statements, but may obtain statements on a very limited basis.

Compliance with BHC reporting requirements would require a wholesale reorganization of WPSIC's accounting systems, which are not currently equipped to handle the internal preparation of GAAP-based statements in a quarterly and nonconsolidated manner. First, WPSIC has only the necessary compliance staff to fulfill its current SAP-based reporting requirements. The company would have to hire and train no fewer than two additional full-time staff members dedicated to preparing FR Y-9LP and FR Y-9SP statements on a quarterly basis (and potentially FR Y-9C on a semi-annual basis, as the Board's notice suggests might happen). Second, since WPSIC does not internally create GAAP-based financial statements, the company would need to purchase software capable of producing GAAP-based statements, integrate that software into its current systems, and maintain and update the software over time. WPSIC will be unable to purchase the necessary software, integrate it with current systems, hire and train necessary staff, and develop internal controls within the March 2012 timeframe for standardized regulatory reporting contemplated by the Board.

Jennifer J. Johnson

October 31, 2011

Page 6

WPSIC also believes the per response time burden will be far greater than the 5.25 to 5.4 hours the Board estimates. Currently, WPSIC spends an estimated 2,000 hours complying with its SAP-based reporting requirements. Given that SAP-based reports would be more beneficial to the Board's assessment of WPSIC than GAAP-based statements, the time required to implement a duplicative GAAP reporting system would be an unreasonable burden on WPSIC. The WCI and the NAIC require SAP-based reporting because it is more reflective of the nature of the insurance industry as an accounting methodology based upon liquidation as opposed to a going concern. SAP measures the ability of an insurance company to pay future claims and the value of the company should it cease operations. It is more conservative than GAAP, which assumes the perpetual existence of a company, while matching revenues with expenses for measures of present and future profitability. For the Board's purposes of assessing the ability of WPSIC to be a source of strength for its wholly-owned federal savings bank, WPSIC's existing SAP-based reports already achieve this purpose. The negligible benefits of forcing WPSIC to additionally create GAAP-based statements do not justify the burdens that would be imposed on the company.

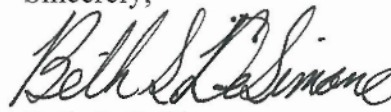
Burdening WPSIC with duplicative filing costs could have severe consequences to WPSIC, the State of Wisconsin, and the healthcare industry. WPSIC has less than \$500 million in consolidated assets and is a relatively small SLHC. The expense of developing duplicative reporting systems would have a disproportionate effect on WPSIC in relation to its SLHC counterparts. Also, due to WPSIC's unique status as a non-stock, non-mutual company that is still required to pay taxes, that additional and disproportionate expense will fall not on a group of shareholders but on the State of Wisconsin in the form of lower tax revenues. During a time of widespread fiscal uncertainty, there should be no additional obstacles placed upon an entity's ability to fulfill its tax obligations. Finally, WPSIC's primary responsibility is to reduce expenses within the health care industry. Unnecessary regulatory burdens will ultimately impede this goal as WPSIC would be forced to pass on administrative cost increases to its customers and policyholders. The Board can avoid placing this excessive time burden and expense on WPSIC, taxpayers, and health care users by relying on supervisory data and the reports WPSIC currently submits to WCI and the NAIC, as the Board contemplates doing for other similarly-situated SLHCs.

Jennifer J. Johnson
October 31, 2011
Page 7

Conclusion

In light of the foregoing, we ask the Board confirm and clarify that SLHCs that do not prepare GAAP-based statements as part of their current regulatory reporting requirements will not be required to do so under the Board's new requirements. We thank the Board for the opportunity to share our thoughts on the Proposed Collection.

Sincerely,


Beth S. DeSimone /B.L.