

November 1, 2011

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
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Washington, DC 20551
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Facsimile: 202-395-6974

Re: Proposed Agency Information Collection Activities; Comment Request; FR Y-6, and FR Y—9 reports

Dear Ms. Johnson:

United Sendees Automobile Association (USAA) is pleased to provide our comments with respect to the Board of Governors of the Federal Reserve System (the Federal Reserve) Comment Request¹ (the Comment Request) related to bank holding company (BHC) reporting requirements applicable to savings and loan holding companies (SLHCs).

USAA is a membership-based association, which, together with its family of companies, serves present and former commissioned and noncommissioned U.S. military officers, enlisted personnel, retired military, and their families. Since USAA's inception in 1922 by a group of U.S. Army officers, we have pursued a mission of facilitating the financial security of our members and their families by providing a full range of highly competitive financial products and services, including personal lines of insurance, retail banking, and investment products. Our core values of service, honesty, loyalty, and integrity have enabled us to perform consistently and be a source of stability for our members, even in the midst of the unprecedented financial crisis of recent years.

USAA Federal Savings Bank (FSB), an indirect wholly owned subsidiary of USAA, is a federally chartered savings association organized to offer personal retail banking services. FSB was chartered in 1983, and is USAA's only savings association. USAA is, therefore, a grandfathered unitary savings and loan holding company.

¹ Proposed Agency Information Collection Activities; Comment Request, 76 Fed. Reg. 53129 (August 25, 2011).

The Comment Request proposes to exclude certain SLHCs from BHC reporting. As an insurer SLHC with regulatory reporting requirements primarily based on statutory accounting principles (SAP), USAA believes that *all* insurer SLHCs should be included within the proposed exemption from the requirement that SLHCs transition to BHC regulatory reports. Further, the Comment Request allows for phased-in reporting for most SLHCs. USAA respectfully requests that the Federal Reserve clarify the deadlines proposed in this phase-in.

A. Revise the second part of the exemption.

1. Exclude all insurer SLHCs.

As proposed, a SLHC will be exempt from BHC reporting if it meets either prong of a two-part test. The second part of the test exempts SLHCs "where the top-tier holding company is an insurance company that only prepares SAP financial statements."² The Federal Reserve's justification for this exemption is the inordinate expense and time required for insurer SLHCs to develop a reporting system to comply with the Federal Reserve reporting requirements. And, the Federal Reserve believes that requiring SAP-based insurer SLHCs to "quickly build a duplicate accounting system that is GAAP based in order to produce the reports in the required manner for the Federal Reserve is not justifiable at this time."³

We agree. However, we believe that the exemption inadvertently is too narrow, and the Federal Reserve should exempt all insurer SLHCs based on this same justification. By using the phrase "that only prepares SAP financial statements" the Federal Reserve fails to exempt SAP-based insurer SLHCs that may have developed some level of limited GAAP capabilities for purposes not related to federal regulation (such as for rating agencies).

SAP-based insurer SLHCs are already obligated and required to maintain and support the strict SAP reporting, processes, personnel, internal controls, and systems as dictated by functional insurance regulators. In order to comply with GAAP-based BHC reporting requirements, each SAP-based insurer will have to build, maintain, and support a second edifice for GAAP reporting, processes, personnel, internal controls, and systems. Whether or not they have some limited GAAP capabilities, SAP-based insurers cannot develop the robust GAAP accounting systems and processes required to produce the granular and specific information needed for BHC regulatory reporting purposes without extensive time and inordinate expense.

We, like the Federal Reserve, recognize that the burden would be large for an insurer that uses SAP exclusively to quickly build a duplicative accounting system that is GAAP based.⁴ We urge the Federal Reserve to recognize that the burden is essentially the same for an insurer SLHC like USAA (which uses GAAP on a limited basis) to produce BHC reports in the required manner and format for the Federal Reserve as it would be for an insurer SLHC that produces no GAAP reports at all. For example, the Y-9C requires a level of specificity and detail that goes well beyond any reporting USAA has done in the past. The Y-9C is more than just preparing the form itself; it necessitates establishing a duplicate, parallel, fully functioning reporting process that involves

² *Id.* at 53133.

³*Id.*

⁴*Id.*

- Training current accounting staff regarding the requirements specific to BHC reporting;
- Hiring new, experienced full-time employees with a background in Federal Reserve reporting (a talent pool that is currently in high demand);
- Creating an additional system of internal controls suited to the information in the Y-9C.
- Building a vigorous BHC reporting practices and procedures manual;
- Updating systems and automating certain processes to avoid manual manipulation of information; and
- Training internal audit staff to review the new BHC reporting processes.

The current narrow exemption places this greater burden only on some insurer SLHCs to build this duplicate, parallel system, exempting others. Yet, all insurer SLHCs rely primarily on SAP for regulatory reporting purposes. Insurance is a highly competitive industry and insurers compete on price. Insurance companies strive to keep the cost of insurance low for customers by, among other things, controlling expenses. Imposing costly regulation on some insurer SLHCs that would not apply to other insurer SLHCs would create a competitive imbalance. An insurance company with lower expenses and therefore lower premiums can more likely maintain insurance customers, which benefits and strengthens the SLHC. Strong insurance operations have a positive impact on the insurer SLHC as well as the depository institution it supports. We therefore urge the Federal Reserve to put all insurer SLHCs on equal footing.

2. *Exclude nonSEC Reporting insurer SLHCs.*

In the alternative, if the Federal Reserve does not exclude all SLHCs, we urge the Federal Reserve to at least revise this second part of the exemption to read: "SLHCs where the top-tier holding company is an insurance company that is not a reporting company with the SEC"

In the commentary, the Federal Reserve recognizes that SEC filers are unique in that they are *required to produce* consolidated financial statements.⁵ We appreciate that the Federal Reserve recognizes that unless an insurer SLHC is an SEC filer, it generally does not produce audited GAAP consolidated financial statements. SEC filers are not only required to produce consolidated financial information to a federal regulatory agency but also have accounting systems in place that are fully functioning reporting systems with systematic underlying internal controls for preparing complex federal filings. This is unlike a non-SEC reporting insurer SLHC that may generate some limited GAAP financial information for non-regulatory disclosure purposes (*e.g.*, for customers or rating agencies). While USA A currently has a comprehensive and robust system of internal controls over SAP financial reporting, the level of detail required by a report such as the Y-9C goes well beyond the traditional function of either SAP or limited GAAP systems preparing information for non-regulatory purposes. It would require new, specialized internal processes and documentation, together with all the attendant new systems and the personnel necessary to oversee them. Such an implementation is a Herculean undertaking that would require an inordinate amount of resources, particularly if implementation is required to occur in 2012.

⁵ *Id* ("Currently, certain SLHCs where the top-tier holding company is an insurance company that is not a reporting company with the SEC are not required to produce consolidated financial statements.")

B. Perform a case-by-case analysis of USAA.

If the Federal Reserve finds that USAA does not meet the exemption criteria, USAA respectfully requests that the Federal Reserve review USAA as part of its case-by-case analysis, so it has an opportunity to demonstrate the costs and challenges of implementing the standardized regulatory reporting particularly if implementation is required in 2012. USAA is confident that the Federal Reserve would find that the burden is extraordinary for USAA to submit the Y-9C. USAA has to build a new "shop" to meet the BHC reporting requirements to the required level of robust documentation, all the while continuing to prepare SAP financials and responding to the reporting requirements of other regulators, which have not changed or reduced.

C. Allow for flexibility in filing BHC reports.

If the Federal Reserve does not exempt all insurer SLHCs, we respectfully request that the Federal Reserve allow insurer SLHCs the flexibility to have 2012 and 2013 to build their accounting and reporting systems and processes and submit the first Y-9 report as of December 31, 2013.

D. Clarify the phase-in terminology.

While USAA would like to see the dates extended to 2013, the phase-in language, as drafted, is ambiguous. As proposed, the phase-in approach suggests that non-exempt insurer-SLHCs must "submit" the Y-9 series of reports "during 2012" but says the phase-in approach would begin no sooner than the March 31, 2012, reporting period. From this commentary, it is unclear whether "submit during 2012" means that an SLHC would initially be required to *file* the Y-9 series in 2012 with data *as of* December 31, 2011 (which would be a reporting period sooner than March 31, 2012), or *file* the Y-9 series in 2013 with data *as of* December 31, 2012.

E. Expressly state that non-exempt insurer SLHCs will not be subject to other BHC requirements.

Finally, we request that the Federal Reserve explicitly state that an insurer SLHC which is required to file BHC reports will not be subject to other BHC regulation, such as capital requirements and capital plans, earlier than other insurer SLHCs. The fact that an insurer SLHC may have some limited GAAP accounting capabilities does not at all relate to the SLHCs capital requirements or its ability to produce capital plans.

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USAA appreciates the important role the Federal Reserve will play in providing for the safe and sound operation of the banking system in the United States. We appreciate the Federal Reserve's consideration of our comments and look forward to working with the Federal Reserve in the future. Should you have any questions or wish further clarification or discussion of our points, please contact Kristine Thomas at 210-498-0686.

Secretary,


Steven Alan Bennett

Executive Vice President

General Counsel & Corporate Secretary