Sept. 6, 2017

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

<u>Re: Review of the FSOC's Non-Banks Designation Process</u>

Dear Secretary Mnuchin:

On behalf of the National Association of Insurance Commissioners (NAIC),[1] we write to provide comments relating to
designation and determination authorities under Section 113 of the Dodd-Frank Act pursuant to the Presidential Memorandum dated April 21, 2017. To be clear, insurance regulators are supportive of the role as a systemic risk monitor, and as a forum for coordination and information exchange among financial regulators, more akin to a supervisory college that is utilized by regulators for large multinational insurance groups. Our participation over the years through our representative (currently Director Peter Hartt of the New Jersey Department of Banking and Insurance) has enabled us to further cultivate relationships with the federal financial regulatory community that have been helpful in discussing issues transcending the insurance sector. However, we have serious concerns with the FSOC non-banks designation process. We believe it requires significant reform, if not outright elimination, and the FSOC should employ alternative approaches in lieu of, or prior to, considering a firm-specific designation.

<u>Flaws with Non-Bank Designations</u>

Firm specific designations can have serious consequences. To quote the first state insurance regulator representative to the FSOC, John Huff, former President of the NAIC and former Director of the Missouri Department of Insurance:

We also have concerns with the lack of robust inclusion of state insurance regulators in the non-bank designations process. While in recent years the FSOC has made efforts to formally consult with state insurance regulators throughout the non-bank designations process as required by the Dodd-Frank Act and the -bank Designations Rule and Guidance, the typical one-off nature of such consultations remains troubling. Our FSOC representative and his limited staff were already addressing through improvements to existing regulatory authorities including establishing a captive reinsurance framework and requiring more securities lending disclosures. In addition, the NAIC initiated a macro-prudential project, which will enhance our own macro-prudential toolkit and improve liquidity regulation. U.S. financial stability would be better served if the FSOC and regulators work together to resolve concerns through traditional regulatory authorities.

Second, firm-specific designations, if they are to be used at all, should be temporary measures. In this regard, notwithstanding our concerns with the designations to date, in cases where companies are designated, the

firms. While we acknowledge that the FSOC is statutorily required to review the firms on an annual basis, to date, this annual review process has failed to yield any specific information for