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House of Representatives  
Washington, DC 20515-3005

2232 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515  
(202) 225-4465

266 HARRISTOWN ROAD  
GLEN ROCK, NJ 07452  
(201) 444-5454

83 SPRING STREET  
NEWTON, NJ 07860  
(973) 300-2000

[www.house.gov/Garrett](http://www.house.gov/Garrett)

September 2, 2014

The Honorable Jacob J. Lew  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Ave., NW  
Washington, D.C. 20220

Dear Secretary Lew:

We write to you in your capacity as Chairman of the Financial Stability Oversight Council (the Council) to raise concerns regarding the disparate treatment of nonbank companies being examined for potential designation as Systemically Important Financial Institutions (SIFIs) and ask for further explanation of the rationale behind these approaches.

Specifically, we are concerned that the Council has devoted far less effort to empirical analysis, stakeholder outreach, and transparency in its consideration of insurance companies for designation than it has for asset management firms. This disparate treatment has led to uncertainty in the insurance industry and raised concerns that the Council's approach to insurance company designations is to "designate first, ask questions later."

The Council's treatment of the asset management industry, while itself problematic, stands in stark contrast to its treatment of the insurance industry. In September 2013, the Office of Financial Research (OFR) published a report on the asset management industry. While the report was widely and rightfully criticized for its faulty information and dubious conclusions, it was at least an attempt at conducting a thoughtful analysis of an industry and its practices before rushing to designate specific firms as SIFIs. Unfortunately, rather than learning from its mistakes and conducting a more rigorous analysis next time, the Council has apparently decided not to publish an analysis of the insurance industry at all.

We are specifically disappointed that the OFR has not yet acted on the February 25, 2014 recommendation adopted by its Financial Research Advisory Committee-Research Subcommittee to "conduct a detailed study to determine whether and where systemic risk issues may arise in the insurance industry and how such risks are currently handled in the regulatory framework."<sup>1</sup> It should be noted that in its recommendation, the OFR Advisory

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<sup>1</sup> "OFR Study on the Insurance Sector Recommendation," Financial Research Advisory Committee-Research Subcommittee, Office of Financial Research, Feb. 25, 2014, <http://www.treasury.gov/initiatives/ofr/about/Documents/FRAC%20Research%20OFR%20Study%20on%20the%20Insurance%20Sector%20Recommendation.pdf>

Committee recognized that the “call for a study does not pre-suppose an answer to whether this sector poses any threats to financial stability.”<sup>2</sup>

Next, on May 19, 2014, the Council held a public conference on asset management. The stated goal of this conference was to provide an “opportunity to hear directly from the industry and other stakeholders, including academics and public interest groups, on this issue [of asset management designation]” and allow for a public “examination and discussion of targeted issues associated with asset management in order to further inform the work of the Council.” We commend the Council’s efforts to reach out to the asset management industry but question why a similar exercise in due diligence was not conducted prior to designating insurance companies.

Most recently, the Council met on July 31, 2014, to discuss a number of topics including “its ongoing assessment of potential industry-wide and firm-specific risks to U.S. financial stability arising from the asset management industry and its activities.”<sup>3</sup> The Readout, publicly released after the meeting, states: “The Council directed staff to undertake a more focused analysis of industry-wide products and activities to assess potential risks associated with the asset management industry.”<sup>4</sup> While we applaud the Council for altering its misguided path of designating specific asset managers as SIFIs, we are concerned about why a similar approach has not been applied to insurance or other nonbank financial industries.

Given the unknown competitive impact and potential distortions that SIFI designations will create for specific companies and markets, it is incumbent on the Council to conduct a thorough public examination of each nonbank financial sector where companies are under consideration before moving forward with additional designations.

Based on recent media reports, it appears the Council is possibly moving forward with a designation of another insurance company.<sup>5</sup> There is clearly not public consensus that additional insurance companies pose systemic risks to the U.S. financial system.<sup>6</sup> Given that, it seems appropriate that the Council, at a minimum, should apply the same level of analysis and due diligence for the insurance industry as it has for the asset management industry before formally considering whether to designate another insurance company.

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<sup>2</sup> *Id.*

<sup>3</sup> U.S. Dept. of Treasury Office of Public Affairs, Financial Stability Oversight Council Meeting July 31, 2014, <http://www.treasury.gov/initiatives/fsoc/council-meetings/Documents/July%2031%202014.pdf> (“Readout”).

<sup>4</sup> *Id.*

<sup>5</sup> See Victoria McGrane and Leslie Scism, MetLife Is Closer to Possible 'Systemically Important' Designation, Wall Street J., August 20, 2014, <http://online.wsj.com/articles/metlife-is-closer-to-possible-systemically-important-designation-1408559511>.

<sup>6</sup> See letter from Benjamin M. Lawsky, to Hon. Jacob Lew, July 30, 2014, <http://www.dfs.ny.gov/about/press2014/pr140730-MetLife-FSOC-letter.pdf>. See also oral testimony of Barney Frank before Committee on Financial Services of the U.S. House of Representatives, July 23, 2014, <http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=388239>.



We respectfully request that you provide answers to the following questions regarding the disparate treatment of the insurance and asset management industries:

1. Will you direct the OFR to act on the February 25, 2014 recommendation adopted by its Financial Research Advisory Committee-Research Subcommittee to "conduct a detailed study to determine whether and where systemic risk issues may arise in the insurance industry and how such risks are currently handled in the regulatory framework" before designating any additional insurance companies as SIFIs?
2. Will you hold a public conference on the insurance industry similar to the asset management conference held on May 19, 2014, to better understand the unique risks, challenges, and business models of insurance companies before designating any additional insurance companies as SIFIs?
3. Will you direct the Council staff to undertake a more focused analysis of industry-wide products and activities to assess potential risks associated with the insurance industry – as the Council has with the asset management industry – before designating any additional insurance companies as SIFIs?

It would be best for the credibility of the SIFI designation process and potential designees if the Council would formalize a process, for all nonbank financial industries, that entails transparency, public outreach, and sound research backed by empirical data. Thank you for your consideration of these concerns, and we look forward to your response.

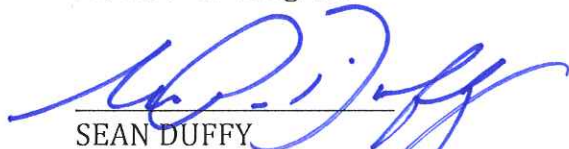
Sincerely,



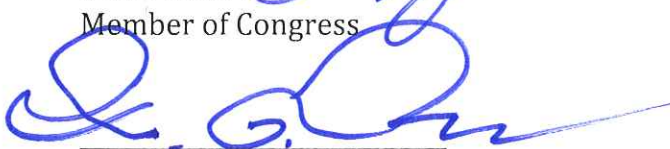
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The Honorable Janet Yellen