Meeting Between Vice Chair for Supervision Barr, Staff of the Federal Reserve Board, and Representative of Ameriprise Financial, Inc.
April 21, 2023

Participants: Vice Chair for Supervision Michael S. Barr and Matt Walker (Federal Reserve Board)

Walter S. Berman, Shweta Jhanji, and Elizabeth Varley (Ameriprise)

Summary: Vice Chair for Supervision Barr and staff of the Federal Reserve Board met with representatives of Ameriprise to discuss the Federal Reserve Board's notice of proposed rulemaking on risk-based capital requirements for depository institution holding companies significantly engaged in insurance activities (proposal). Representatives of Ameriprise presented on the proposal's additional minimum risk-based capital requirement calculation to ensure compliance with section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Attachment

Attachment

Meeting with Vice Chair Barr

Overview

We are requesting consideration that Ameriprise (AMP) should not be subject to Section 171 calculation for the following reasons:

- **Section 171 / GAAP calculation is not an appropriate measure of capital adequacy for an insurance holding company with significant variable annuity ("VA") business, as recognized by state regulators and ratings agencies**
  - The new GAAP long-duration targeted improvements ("LDTI") accounting standards that took effect on 1/1/23 and which apply to AMP result in significant volatility in GAAP equity due to the need to adjust equity to reflect LDTI-related liabilities. *(see Confidential Exhibit A)*
    - Volatility in VA guarantee liability due to fair market valuation under LDTI causes volatility in equity as a result of the corresponding balance sheet adjustment.
  - Applying Section 171 would not reflect the underlying liquidity / cash flow risk of VA liability
    - VA guarantee liability is long-term in nature; the fair value measure under new GAAP is not the amount that the policyholder could withdraw today – the policyholder can only receive the future benefits of the contract over time (these are not short-term liabilities and "run on the bank" is not possible)
    - Policyholders are only entitled to a cash surrender value, which we are required by regulation to maintain in separate accounts. The value of this liability is reflected on our balance sheet under statutory accounting, and does not react to a rising rate environment.
  - International framework (Solvency II) utilizes a fair value approach, but VAs with guarantees are not prevalent internationally compared to the US market, making the fair value framework less acute under that framework
  - Options for non-consolidation are overly punitive and negate BBA (by not using appropriate measure of capital adequacy for Insurer which is Statutory)
  - Ameriprise expects to address the disconnect between GAAP equity and capital adequacy during its first quarter earnings call, as we believe our stakeholders find statutory capital to be a more appropriate measure.
- **AMP is the only Life Insurer impacted by negative implications of Section 171 which would place us at a competitive disadvantage**
  - The Section 171 calculation would apply to AMP simply because its top-level holding company is not an insurance underwriter; for mutuals, the calculation is done below the insurers which results in the calculation excluding any effect of LDTI. Additionally, we are complex diversified firm with multiple business lines (Asset Management, Wealth Management, Insurance), resulting in more punitive impact of Section 171
- **The proposed Section 171 calculation would make it very challenging to manage capital**
  - The dual BBA and section 171 calculations are not directly correlated and may move in opposite directions (i.e., GAAP and statutory capital can move in opposite directions).
  - The additional requirement would be inappropriately one-sided by constraining Ameriprise where section 171 calculations are more stringent than the BBA, but providing no benefit where the calculation is less stringent than the BBA.
  - The current section 171 calculation presents significant challenges for us to manage capital and negatively impact our ability to create value for our shareholders
  - Attempt to mitigate this GAAP equity volatility through hedging this liability (that is not tied to real exposure) would create significant liquidity risk due to cleared swap margin requirements