

POLICYHOLDER PROTECTION ACT OF 2015

NOVEMBER 16, 2015.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. HENSARLING, from the Committee on Financial Services,
submitted the following

R E P O R T

[To accompany H.R. 1478]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 1478) to provide for notice to, and input by, State insurance commissioners when requiring an insurance company to serve as a source of financial strength or when the Federal Deposit Insurance Corporation places a lien against an insurance company's assets, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Policyholder Protection Act of 2015”.

SEC. 2. ENSURING THE PROTECTION OF INSURANCE POLICYHOLDERS.

(a) SOURCE OF STRENGTH.—Section 38A of the Federal Deposit Insurance Act (12 U.S.C. 1831o–1) is amended—

(1) by redesignating subsections (c), (d), and (e) as subsections (d), (e), and (f), respectively; and

(2) by inserting after subsection (b) the following:

“(c) AUTHORITY OF STATE INSURANCE REGULATOR.—

“(1) IN GENERAL.—The provisions of section 5(g) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844(g)) shall apply to a savings and loan holding company that is an insurance company, an affiliate of an insured depository institution that is an insurance company, and to any other company that is an insurance company and that directly or indirectly controls an insured depository institution, to the same extent as the provisions of that section apply to a bank holding company that is an insurance company.

“(2) RULE OF CONSTRUCTION.—Requiring a bank holding company that is an insurance company, a savings and loan holding company that is an insurance company, an affiliate of an insured depository institution that is an insurance company, or any other company that is an insurance company and that directly

or indirectly controls an insured depository institution to serve as a source of financial strength under this section shall be deemed an action of the Board that requires a bank holding company to provide funds or other assets to a subsidiary depository institution for purposes of section 5(g) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844(g)).”

(b) LIQUIDATION AUTHORITY.—The Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5301 et seq.) is amended—

(1) in section 203(e)(3) (12 U.S.C. 5383(e)(3)), by inserting “or rehabilitation” after “orderly liquidation” each place that term appears; and

(2) in section 204(d)(4) (12 U.S.C. 5384(d)(4)), by inserting before the semicolon at the end the following: “, except that, if the covered financial company or covered subsidiary is an insurance company or a subsidiary of an insurance company, the Corporation—

“(A) shall promptly notify the State insurance authority for the insurance company of the intention to take such lien; and

“(B) may only take such lien—

“(i) to secure repayment of funds made available to such covered financial company or covered subsidiary; and

“(ii) if the Corporation determines, after consultation with the State insurance authority, that such lien will not unduly impede or delay the liquidation or rehabilitation of the insurance company, or the recovery by its policyholders”.

PURPOSE AND SUMMARY

Introduced by Representative Posey, H.R. 1478, the “Policyholder Protection Act of 2015,” clarifies that state insurance regulatory tools designed to protect policyholders will be available regardless of insurance company structure or financial circumstance. Accordingly, with respect to an insurance company that is organized as a savings and loan holding company, the bill provides that federal banking regulators are prohibited from moving the insurer’s assets to an affiliated bank if the state insurance regulator determines that the transfer would harm the insurer. H.R. 1478 additionally requires a consultation between the Federal Deposit Insurance Corporation (FDIC) and the state insurance authority regarding whether a lien or seizure would unduly impede or delay the liquidation or rehabilitation of an insurance company. Finally, H.R. 1478 clarifies the FDIC’s “back up” authority to liquidate or rehabilitate an insurance company as permitted by Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The bill also preserves state regulators’ discretion to choose liquidation or rehabilitation as a means to resolve distressed insurance firms.

BACKGROUND AND NEED FOR LEGISLATION

Under the Bank Holding Company Act, when an insurer is organized within a bank holding company structure, state insurance regulators possess the authority to protect insurance company policyholders by preventing the transfer of an insurer’s funds and other assets to a troubled banking subsidiary. H.R. 1478 clarifies the application of such protections to insurance companies organized within a Savings and Loan Holding Company (SLHC) structure.

Section 616(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act amended federal banking law to codify what is commonly known as the “Source of Strength” doctrine. This provision mandates that federal banking regulators treat any holding company and its assets as “a source of financial strength for any subsidiary that is . . . a depository institution” in the event of the financial distress of the depository.

Many have expressed concern that the Dodd-Frank Act's Source of Strength provision could place some insurance policyholders at risk when an affiliated insured depository institution fails. While insurance companies organized as Bank Holding Companies are protected by the Bank Holding Company Act from such transfers, many insurance companies with bank affiliates are organized as SLHCs and are not similarly protected.

In addition, Sections 203(3)(3) and 204(d)(4) of the Dodd-Frank Act, which are part of the Act's "orderly liquidation authority," permit the FDIC to place a lien on the assets of businesses that are affiliated with a company that is subject to FDIC liquidation. However, there is concern that this authority allows the bank regulator to seize the insurance company's assets that are intended to protect insurance policyholders.

To address these matters, H.R. 1478 extends the policyholder protections of the Bank Holding Company Act to bank-affiliated insurance companies organized as SLHCs. H.R. 1478, as modified by an amendment reported by the Financial Services Committee, also requires a consultation between the FDIC and the appropriate state insurance authority regarding whether a lien or seizure would unduly impede or delay the liquidation or rehabilitation of an insurance company. In so doing, H.R. 1478 codifies an FDIC regulatory requirement that such consultations occur between the agency and the state authority.

Finally, H.R. 1478 clarifies the FDIC's "back up" authority to liquidate or rehabilitate an insurance company as permitted by Title II of the Dodd-Frank Act. The bill also preserves state regulators' discretion to choose liquidation or rehabilitation as a means to resolve distressed insurance firms.

HEARINGS

The Committee on Financial Services' Subcommittee on Housing and Insurance held a hearing examining matters relating to H.R. 1478 on September 29, 2015.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on November 3, 2015 and November 4, 2015, and ordered H.R. 1478 to be reported favorably to the House with an amendment by a recorded vote of 57 yeas to 0 nays (recorded vote no. FC-67), a quorum being present. Before the motion to report was offered, the Committee adopted an amendment in the nature of a substitute offered by Mr. Posey by voice vote.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. The sole recorded vote was on a motion by Chairman Hensarling to report the bill favorably to the House with an amendment. The motion was agreed to by a recorded vote of 57 yeas to 0 nays (Record vote no. FC-67), a quorum being present.

Record vote no. FC-67

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Hensarling	X			Ms. Waters (CA)	X		
Mr. King (NY)				Mrs. Maloney (NY)	X		
Mr. Royce	X			Ms. Velázquez	X		
Mr. Lucas	X			Mr. Sherman	X		
Mr. Garrett	X			Mr. Meeks			
Mr. Neugebauer	X			Mr. Capuano	X		
Mr. McHenry	X			Mr. Hinojosa	X		
Mr. Pearce	X			Mr. Clay	X		
Mr. Posey	X			Mr. Lynch	X		
Mr. Fitzpatrick	X			Mr. David Scott (GA)	X		
Mr. Westmoreland	X			Mr. Al Green (TX)	X		
Mr. Luetkemeyer	X			Mr. Cleaver	X		
Mr. Huizenga (MI)	X			Ms. Moore	X		
Mr. Duffy	X			Mr. Ellison	X		
Mr. Hurt (VA)	X			Mr. Perlmutter	X		
Mr. Stivers	X			Mr. Himes	X		
Mr. Fincher	X			Mr. Carney	X		
Mr. Stutzman	X			Ms. Sewell (AL)	X		
Mr. Mulvaney	X			Mr. Foster	X		
Mr. Hultgren	X			Mr. Kildee	X		
Mr. Ross	X			Mr. Murphy (FL)			
Mr. Pittenger	X			Mr. Delaney	X		
Mrs. Wagner	X			Ms. Sinema	X		
Mr. Barr	X			Mrs. Beatty	X		
Mr. Rothfus	X			Mr. Heck (WA)	X		
Mr. Messer	X			Mr. Vargas	X		
Mr. Schweikert	X						
Mr. Guinta	X						
Mr. Tipton	X						
Mr. Williams	X						
Mr. Poliquin	X						
Mrs. Love	X						
Mr. Hill	X						
Mr. Emmer	X						

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the findings and recommendations of the Committee based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee states that H.R. 1478 will protect insurance policyholders by providing for the safeguarding of insurance company assets in the event the insurer's bank affiliates experience distress, and by providing for certain reforms to the "orderly liquidation authority" established under Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATES

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, November 16, 2015.

Hon. JEB HENSARLING,
*Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1478, the Policyholder Protection Act of 2015.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Kathleen Gramp.

Sincerely,

KEITH HALL.

Enclosure.

H.R. 1478—Policyholder Protection Act of 2015

H.R. 1478 would amend existing laws regarding the financial regulation of insurance companies. Under the bill, federal banking regulators would be required to meet certain substantive and procedural requirements before requiring certain insurance companies to provide financial support to a depository institution. The bill also would revise certain procedures governing the orderly liquidation by the Federal Deposit Insurance Corporation (FDIC) of a systemically important financial firm that is an insurance company or a subsidiary of an insurance company.

CBO estimates that enacting H.R. 1478 could affect net direct spending if the FDIC needed to resolve failed financial institutions affiliated with insurance companies; however, any such costs probably would be insignificant over the 2016–2025 period. Because H.R. 1478 would affect direct spending, pay-as-you-go procedures apply. Enacting the bill would not affect revenues. CBO estimates that enacting H.R. 1478 would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2026.

Based on information from the FDIC, CBO estimates that the insurance companies affected by this bill account for less than 1 percent of the domestic deposits of insured institutions. Although the FDIC currently has the legal authority to use the financial resources of those insurance companies if their insured depository institution failed, CBO expects that the agency would be unlikely to use that authority in a manner that would have a materially adverse effect on the company's insurance activities. Thus, CBO estimates that the expected value of any change in resolution costs to the federal government as a result of this bill would be small and would be offset in subsequent years by additional income from deposit insurance premiums.

Finally, CBO estimates that provisions related to resolving potential failures of systemically important institutions would have no significant budgetary effects over the 2016–2025 period. CBO expects that the FDIC would use the alternative resolution methods authorized by the bill only if doing so would reduce costs and that the bill's limit on imposing liens on insurance resources would be implemented in a manner similar to existing regulatory policies.

H.R. 1478 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

On July 29, 2015, CBO transmitted a cost estimate for S. 1484, the Financial Regulatory Improvement Act of 2015, as ordered reported by the Senate Committee on Banking, Housing and Urban Affairs on June 2, 2015. Title IV of S. 1484 contained provisions similar to those in H.R. 1478 and CBO's estimates of the budgetary effects of those provisions are the same.

The CBO staff contact for this estimate is Kathleen Gramp. The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of the section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

H.R. 1478 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to section 3(g) of H. Res. 5, 114th Cong. (2015), the Committee states that no provision of H.R. 1478 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

DISCLOSURE OF DIRECTED RULEMAKING

Pursuant to section 3(k) of H. Res. 5, 114th Cong. (2015), the Committee states that H.R. 1478 contains no directed rulemaking.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This Section cites H.R. 1478 as the “Policyholder Protection Act of 2015”

Section 2. Ensuring the protection of insurance policyholders

This section extends “Source of Strength” protections applicable under the Bank Holding Company Act to a savings and loan holding company that is an insurance company, to an affiliate of an insured deposit institution that is an insurance company, and to any other company that is an insurance company and that directly or indirectly controls an insured depository institution. This section additionally requires that the FDIC consult with the appropriate State insurance authority before taking a lien with respect to an insurance company. Finally, this section preserves state regulators’ discretion to choose liquidation or rehabilitation as a means to resolve distressed insurance firms.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

FEDERAL DEPOSIT INSURANCE ACT

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SEC. 38A. SOURCE OF STRENGTH.

(a) **HOLDING COMPANIES.**—The appropriate Federal banking agency for a bank holding company or savings and loan holding company shall require the bank holding company or savings and loan holding company to serve as a source of financial strength for any subsidiary of the bank holding company or savings and loan holding company that is a depository institution.

(b) **OTHER COMPANIES.**—If an insured depository institution is not the subsidiary of a bank holding company or savings and loan holding company, the appropriate Federal banking agency for the insured depository institution shall require any company that directly or indirectly controls the insured depository institution to serve as a source of financial strength for such institution.

(c) **AUTHORITY OF STATE INSURANCE REGULATOR.**—

(1) **IN GENERAL.**—*The provisions of section 5(g) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844(g)) shall apply to a savings and loan holding company that is an insurance company, an affiliate of an insured depository institution that is an insurance company, and to any other company that is an insurance company and that directly or indirectly controls an insured depository institution, to the same extent as the provisions of that section apply to a bank holding company that is an insurance company.*

(2) **RULE OF CONSTRUCTION.**—*Requiring a bank holding company that is an insurance company, a savings and loan holding company that is an insurance company, an affiliate of an insured depository institution that is an insurance company, or any other company that is an insurance company and that directly or indirectly controls an insured depository institution to serve as a source of financial strength under this section shall be deemed an action of the Board that requires a bank holding company to provide funds or other assets to a subsidiary depository institution for purposes of section 5(g) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844(g)).*

[(c)] (d) **REPORTS.**—The appropriate Federal banking agency for an insured depository institution described in subsection (b) may, from time to time, require the company, or a company that directly or indirectly controls the insured depository institution, to submit a report, under oath, for the purposes of—

(1) assessing the ability of such company to comply with the requirement under subsection (b); and

(2) enforcing the compliance of such company with the requirement under subsection (b).

[(d)] (e) RULES.—Not later than 1 year after the transfer date, as defined in section 311 of the Enhancing Financial Institution Safety and Soundness Act of 2010, the appropriate Federal banking agencies shall jointly issue final rules to carry out this section.

[(e)] (f) DEFINITION.—In this section, the term “source of financial strength” means the ability of a company that directly or indirectly owns or controls an insured depository institution to provide financial assistance to such insured depository institution in the event of the financial distress of the insured depository institution.

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DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

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TITLE II—ORDERLY LIQUIDATION AUTHORITY

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SEC. 203. SYSTEMIC RISK DETERMINATION.

(a) WRITTEN RECOMMENDATION AND DETERMINATION.—

(1) VOTE REQUIRED.—

(A) IN GENERAL.—On their own initiative, or at the request of the Secretary, the Corporation and the Board of Governors shall consider whether to make a written recommendation described in paragraph (2) with respect to whether the Secretary should appoint the Corporation as receiver for a financial company. Such recommendation shall be made upon a vote of not fewer than $\frac{2}{3}$ of the members of the Board of Governors then serving and $\frac{2}{3}$ of the members of the board of directors of the Corporation then serving.

(B) CASES INVOLVING BROKERS OR DEALERS.—In the case of a broker or dealer, or in which the largest United States subsidiary (as measured by total assets as of the end of the previous calendar quarter) of a financial company is a broker or dealer, the Commission and the Board of Governors, at the request of the Secretary, or on their own initiative, shall consider whether to make the written recommendation described in paragraph (2) with respect to the financial company. Subject to the requirements in paragraph (2), such recommendation shall be made upon a vote of not fewer than $\frac{2}{3}$ of the members of the Board of Governors then serving and $\frac{2}{3}$ of the members of the Commission then serving, and in consultation with the Corporation.

(C) CASES INVOLVING INSURANCE COMPANIES.—In the case of an insurance company, or in which the largest United States subsidiary (as measured by total assets as of the end of the previous calendar quarter) of a financial company is an insurance company, the Director of the Federal Insurance Office and the Board of Governors, at the

request of the Secretary or on their own initiative, shall consider whether to make the written recommendation described in paragraph (2) with respect to the financial company. Subject to the requirements in paragraph (2), such recommendation shall be made upon a vote of not fewer than $\frac{2}{3}$ of the Board of Governors then serving and the affirmative approval of the Director of the Federal Insurance Office, and in consultation with the Corporation.

(2) RECOMMENDATION REQUIRED.—Any written recommendation pursuant to paragraph (1) shall contain—

(A) an evaluation of whether the financial company is in default or in danger of default;

(B) a description of the effect that the default of the financial company would have on financial stability in the United States;

(C) a description of the effect that the default of the financial company would have on economic conditions or financial stability for low income, minority, or underserved communities;

(D) a recommendation regarding the nature and the extent of actions to be taken under this title regarding the financial company;

(E) an evaluation of the likelihood of a private sector alternative to prevent the default of the financial company;

(F) an evaluation of why a case under the Bankruptcy Code is not appropriate for the financial company;

(G) an evaluation of the effects on creditors, counterparties, and shareholders of the financial company and other market participants; and

(H) an evaluation of whether the company satisfies the definition of a financial company under section 201.

(b) DETERMINATION BY THE SECRETARY.—Notwithstanding any other provision of Federal or State law, the Secretary shall take action in accordance with section 202(a)(1)(A), if, upon the written recommendation under subsection (a), the Secretary (in consultation with the President) determines that—

(1) the financial company is in default or in danger of default;

(2) the failure of the financial company and its resolution under otherwise applicable Federal or State law would have serious adverse effects on financial stability in the United States;

(3) no viable private sector alternative is available to prevent the default of the financial company;

(4) any effect on the claims or interests of creditors, counterparties, and shareholders of the financial company and other market participants as a result of actions to be taken under this title is appropriate, given the impact that any action taken under this title would have on financial stability in the United States;

(5) any action under section 204 would avoid or mitigate such adverse effects, taking into consideration the effectiveness of the action in mitigating potential adverse effects on the financial system, the cost to the general fund of the Treasury, and the potential to increase excessive risk taking on the part

of creditors, counterparties, and shareholders in the financial company;

(6) a Federal regulatory agency has ordered the financial company to convert all of its convertible debt instruments that are subject to the regulatory order; and

(7) the company satisfies the definition of a financial company under section 201.

(c) DOCUMENTATION AND REVIEW.—

(1) IN GENERAL.—The Secretary shall—

(A) document any determination under subsection (b);

(B) retain the documentation for review under paragraph (2); and

(C) notify the covered financial company and the Corporation of such determination.

(2) REPORT TO CONGRESS.—Not later than 24 hours after the date of appointment of the Corporation as receiver for a covered financial company, the Secretary shall provide written notice of the recommendations and determinations reached in accordance with subsections (a) and (b) to the Majority Leader and the Minority Leader of the Senate and the Speaker and the Minority Leader of the House of Representatives, the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Financial Services of the House of Representatives, which shall consist of a summary of the basis for the determination, including, to the extent available at the time of the determination—

(A) the size and financial condition of the covered financial company;

(B) the sources of capital and credit support that were available to the covered financial company;

(C) the operations of the covered financial company that could have had a significant impact on financial stability, markets, or both;

(D) identification of the banks and financial companies which may be able to provide the services offered by the covered financial company;

(E) any potential international ramifications of resolution of the covered financial company under other applicable insolvency law;

(F) an estimate of the potential effect of the resolution of the covered financial company under other applicable insolvency law on the financial stability of the United States;

(G) the potential effect of the appointment of a receiver by the Secretary on consumers;

(H) the potential effect of the appointment of a receiver by the Secretary on the financial system, financial markets, and banks and other financial companies; and

(I) whether resolution of the covered financial company under other applicable insolvency law would cause banks or other financial companies to experience severe liquidity distress.

(3) REPORTS TO CONGRESS AND THE PUBLIC.—

(A) IN GENERAL.—Not later than 60 days after the date of appointment of the Corporation as receiver for a covered financial company, the Corporation shall file a report with

the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives—

(i) setting forth information on the financial condition of the covered financial company as of the date of the appointment, including a description of its assets and liabilities;

(ii) describing the plan of, and actions taken by, the Corporation to wind down the covered financial company;

(iii) explaining each instance in which the Corporation waived any applicable requirements of part 366 of title 12, Code of Federal Regulations (or any successor thereto) with respect to conflicts of interest by any person in the private sector who was retained to provide services to the Corporation in connection with such receivership;

(iv) describing the reasons for the provision of any funding to the receivership out of the Fund;

(v) setting forth the expected costs of the orderly liquidation of the covered financial company;

(vi) setting forth the identity of any claimant that is treated in a manner different from other similarly situated claimants under subsection (b)(4), (d)(4), or (h)(5)(E), the amount of any additional payment to such claimant under subsection (d)(4), and the reason for any such action; and

(vii) which report the Corporation shall publish on an online website maintained by the Corporation, subject to maintaining appropriate confidentiality.

(B) AMENDMENTS.—The Corporation shall, on a timely basis, not less frequently than quarterly, amend or revise and resubmit the reports prepared under this paragraph, as necessary.

(C) CONGRESSIONAL TESTIMONY.—The Corporation and the primary financial regulatory agency, if any, of the financial company for which the Corporation was appointed receiver under this title shall appear before Congress, if requested, not later than 30 days after the date on which the Corporation first files the reports required under subparagraph (A).

(4) DEFAULT OR IN DANGER OF DEFAULT.—For purposes of this title, a financial company shall be considered to be in default or in danger of default if, as determined in accordance with subsection (b)—

(A) a case has been, or likely will promptly be, commenced with respect to the financial company under the Bankruptcy Code;

(B) the financial company has incurred, or is likely to incur, losses that will deplete all or substantially all of its capital, and there is no reasonable prospect for the company to avoid such depletion;

(C) the assets of the financial company are, or are likely to be, less than its obligations to creditors and others; or

(D) the financial company is, or is likely to be, unable to pay its obligations (other than those subject to a bona fide dispute) in the normal course of business.

(5) GAO REVIEW.—The Comptroller General of the United States shall review and report to Congress on any determination under subsection (b), that results in the appointment of the Corporation as receiver, including—

(A) the basis for the determination;

(B) the purpose for which any action was taken pursuant thereto;

(C) the likely effect of the determination and such action on the incentives and conduct of financial companies and their creditors, counterparties, and shareholders; and

(D) the likely disruptive effect of the determination and such action on the reasonable expectations of creditors, counterparties, and shareholders, taking into account the impact any action under this title would have on financial stability in the United States, including whether the rights of such parties will be disrupted.

(d) CORPORATION POLICIES AND PROCEDURES.—As soon as is practicable after the date of enactment of this Act, the Corporation shall establish policies and procedures that are acceptable to the Secretary governing the use of funds available to the Corporation to carry out this title, including the terms and conditions for the provision and use of funds under sections 204(d), 210(h)(2)(G)(iv), and 210(h)(9).

(e) TREATMENT OF INSURANCE COMPANIES AND INSURANCE COMPANY SUBSIDIARIES.—

(1) IN GENERAL.—Notwithstanding subsection (b), if an insurance company is a covered financial company or a subsidiary or affiliate of a covered financial company, the liquidation or rehabilitation of such insurance company, and any subsidiary or affiliate of such company that is not excepted under paragraph (2), shall be conducted as provided under applicable State law.

(2) EXCEPTION FOR SUBSIDIARIES AND AFFILIATES.—The requirement of paragraph (1) shall not apply with respect to any subsidiary or affiliate of an insurance company that is not itself an insurance company.

(3) BACKUP AUTHORITY.—Notwithstanding paragraph (1), with respect to a covered financial company described in paragraph (1), if, after the end of the 60-day period beginning on the date on which a determination is made under section 202(a) with respect to such company, the appropriate regulatory agency has not filed the appropriate judicial action in the appropriate State court to place such company into orderly liquidation or rehabilitation under the laws and requirements of the State, the Corporation shall have the authority to stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation or rehabilitation under the laws and requirements of the State.

SEC. 204. ORDERLY LIQUIDATION OF COVERED FINANCIAL COMPANIES.

(a) **PURPOSE OF ORDERLY LIQUIDATION AUTHORITY.**—It is the purpose of this title to provide the necessary authority to liquidate failing financial companies that pose a significant risk to the financial stability of the United States in a manner that mitigates such risk and minimizes moral hazard. The authority provided in this title shall be exercised in the manner that best fulfills such purpose, so that—

(1) creditors and shareholders will bear the losses of the financial company;

(2) management responsible for the condition of the financial company will not be retained; and

(3) the Corporation and other appropriate agencies will take all steps necessary and appropriate to assure that all parties, including management, directors, and third parties, having responsibility for the condition of the financial company bear losses consistent with their responsibility, including actions for damages, restitution, and recoupment of compensation and other gains not compatible with such responsibility.

(b) **CORPORATION AS RECEIVER.**—Upon the appointment of the Corporation under section 202, the Corporation shall act as the receiver for the covered financial company, with all of the rights and obligations set forth in this title.

(c) **CONSULTATION.**—The Corporation, as receiver—

(1) shall consult with the primary financial regulatory agency or agencies of the covered financial company and its covered subsidiaries for purposes of ensuring an orderly liquidation of the covered financial company;

(2) may consult with, or under subsection (a)(1)(B)(v) or (a)(1)(L) of section 210, acquire the services of, any outside experts, as appropriate to inform and aid the Corporation in the orderly liquidation process;

(3) shall consult with the primary financial regulatory agency or agencies of any subsidiaries of the covered financial company that are not covered subsidiaries, and coordinate with such regulators regarding the treatment of such solvent subsidiaries and the separate resolution of any such insolvent subsidiaries under other governmental authority, as appropriate; and

(4) shall consult with the Commission and the Securities Investor Protection Corporation in the case of any covered financial company for which the Corporation has been appointed as receiver that is a broker or dealer registered with the Commission under section 15(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78o(b)) and is a member of the Securities Investor Protection Corporation, for the purpose of determining whether to transfer to a bridge financial company organized by the Corporation as receiver, without consent of any customer, customer accounts of the covered financial company.

(d) **FUNDING FOR ORDERLY LIQUIDATION.**—Upon its appointment as receiver for a covered financial company, and thereafter as the Corporation may, in its discretion, determine to be necessary or appropriate, the Corporation may make available to the receivership, subject to the conditions set forth in section 206 and subject to the

plan described in section 210(n)(9), funds for the orderly liquidation of the covered financial company. All funds provided by the Corporation under this subsection shall have a priority of claims under subparagraph (A) or (B) of section 210(b)(1), as applicable, including funds used for—

(1) making loans to, or purchasing any debt obligation of, the covered financial company or any covered subsidiary;

(2) purchasing or guaranteeing against loss the assets of the covered financial company or any covered subsidiary, directly or through an entity established by the Corporation for such purpose;

(3) assuming or guaranteeing the obligations of the covered financial company or any covered subsidiary to 1 or more third parties;

(4) taking a lien on any or all assets of the covered financial company or any covered subsidiary, including a first priority lien on all unencumbered assets of the covered financial company or any covered subsidiary to secure repayment of any transactions conducted under this subsection, *except that, if the covered financial company or covered subsidiary is an insurance company or a subsidiary of an insurance company, the Corporation—*

(A) shall promptly notify the State insurance authority for the insurance company of the intention to take such lien; and

(B) may only take such lien—

(i) to secure repayment of funds made available to such covered financial company or covered subsidiary; and

(ii) if the Corporation determines, after consultation with the State insurance authority, that such lien will not unduly impede or delay the liquidation or rehabilitation of the insurance company, or the recovery by its policyholders;

(5) selling or transferring all, or any part, of such acquired assets, liabilities, or obligations of the covered financial company or any covered subsidiary; and

(6) making payments pursuant to subsections (b)(4), (d)(4), and (h)(5)(E) of section 210.

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