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Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington D.C. 20551

RE: DOCKET NO. OP-1570 "PROPOSED SUPERVISORY GUIDANCE ADDRESSING CORPORATE GOVERNANCE."

Dear Madame:

The Auto Club Group ("ACG") and Auto Club Insurance Association ("ACIA"), each a grandfathered unitary savings and loan holding company ("SLHC"), appreciate the opportunity to submit these comments on the Proposed Supervisory Guidance on Corporate Governance (the "Proposed Guidance") published by the Board of Governors of the Federal Reserve System ("FRB") on August 3, 2017. Our comments are directed to the FRB as the federal regulator of SLHCs.

<u>The Auto Club Group and Auto Club Insurance Association</u>

The Auto Club Group is a member of the federation of automobile clubs doing business under the American Automobile Association ("AAA") banner. Established in the early 1900s, ACG provides roadside emergency, travel, and other automotive services to its members. Auto Club Insurance association and its property and casualty subsidiaries primarily underwrite automobile and homeowners insurance products. ACIA also provides life insurance through one of its subsidiaries. For purposes of regulation by the FRB, ACG is considered the top-tier holding company, although ACIA is the primary operation entity within the consolidated group. By virtue of their ownership and control of Auto Club Trust, FSB, each of ACG and ACIA is a registered savings and loan holding company pursuant to Section 10 of the Home Owners' Loan Act of 1933 ("HOLA"). Each company is qualified as a grandfathered unitary SLHC under Section 10(c)(9)(C) of the HOLA[1]. As of December 31, 2016, ACG (including ACS) had consolidated GAAP assets of $1.2 billion. ACIA had combined assets under statutory accounting principles of $4.5 billion.

Comments on the Proposed Guidance

ACG and ACIA support the fundamental goals of reducing the supervisory burden upon boards of directors. We agree that establishing principles regarding effective boards of directors focused on the performance of a board's core responsibilities would reduce current ambiguity between board and senior management roles noted in the Proposed Guidance and improve safety and soundness. Our board and board committees have significantly increased the time spent providing adequate oversight of our SLHC, both preparing for and participating in meetings reflective of satisfying supervisory expectations that do not directly relate to the board's core responsibilities. Board effectiveness would be better served focusing upon its core responsibilities, which include guiding the development of the firm's strategy and types and levels of risks that it is willing to take (risk tolerance), overseeing senior management and holding them accountable for effective risk management and compliance among other responsibilities, supporting the stature and independence of the firm's independent risk management and internal audit functions, and adopting effective governance practices.

Because ACG and ACIA do not approach or exceed the total consolidated assets of $50 billion or more supervisory threshold for the BE guidance, we have limited our comments to sections II and III of the Proposed Guidance. With this background in mind, we offer the following comments for consideration:

The Federal Reserve is considering applying the proposed BE guidance to U.S. intermediate holding companies of foreign banking organizations. How should the proposed BE guidance and refocusing of existing supervisory guidance be adapted to apply to boards of the U.S. intermediate holding companies of foreign banking organizations and state member banks? This section of the Proposed Guidance would not currently apply to ACG and ACIA, as the BE guidance applies to firms with total consolidated assets of $50 billion or more.

What other attributes of effective boards should the Board assess? Boards should periodically assess and document demonstrated alignment between the sophistication of director skill sets and the need for specific skills sets required of a modern board (i.e.,

[1] Auto Club Services, Inc. ("ACS"), a management corporation wholly owned by ACG, is also a registered, grandfathered SLHC. However, as ACS is a nonoperating company, it is not affected directly by the Proposed Guidance.

finance, risk management, compliance, audit, information technology, etc.). Boards should also assess the quality of documented board deliberations demonstrating active engagement and effective challenge of senior management to mitigate safety and soundness concerns.

Should boards of firms subject to the proposed BE guidance be required to perform a self-assessment of their effectiveness and provide the results of that self-assessment to the Board? If so, what requirements should apply to how the board performs the self-assessment? Should such self-assessments be used as the primary basis for supervisory evaluations of board effectiveness? This section of the Proposed Guidance would not currently apply to ACG and ACIA, as the BE guidance applies to firms with total consolidated assets of $50 billion or more.

Would any parts of this proposal conflict with effective governance of insurance and commercial savings and loan holding companies? If so, what adjustments to the proposal would be warranted? Since our board has effectively governed the non-ISLHC aspects of our business before and since the advent of FRB supervisory oversight, and has continued to comply with the expectations of our state insurance regulators, we do not anticipate any conflict. In the event a state standard exceeds the modified expectations of the FRB, ACG and ACIA will continue to maintain the stricter standard of board governance where warranted.

Is the proposed guidance on the communication of supervisory findings clear with respect to the division of responsibilities between the board and senior management? The Proposed Guidance appropriately aligns the expectation that senior management directly addresses MRIA/MRAs, as has been the case at ACG and ACIA, with appropriate notice to the board. Our board appropriately reviews all supervisory reports and effectively engages in discussion regarding supervisory findings and recommendations. The proposal clearly acknowledges that instances of operationally-inclined boards may have led to confusion and overreach when senior management sought to address MRIA/MRAs at some firms. We agree with the Proposed Guidance that only in instances where board governance failures have directly caused the issuance of the MRIA/MRA would the matter be directed to the board in the examination report.

What Federal Reserve supervisory expectations for boards are not included in Table A, yet interfere with a board's ability to focus on its core responsibilities and should be included in the proposal? Should such expectations be rescinded or revised? If revised, how? We agree with the rationale for considering rescission or revision of the SR Letters identified in Table A. While the board retains oversight of senior management responsibility, the day-to-day methods by which senior management conducts those operations (i.e. training, resources, procedures, etc.) are best reserved to management and could be better reflected in the following SR Letters as well:

SR 15-3 *FFIEC Information Technology Examination Handbook (BCP)* - Revise to differentiate between board oversight of senior management with regard to operational matters (i.e. allocations of personnel, resources; development of training; oversee business processes).

SR 14-10 *Release of the 2014 Federal Financial Institutions Examination Council's Bank Secrecy Act/Anti-Money Laundering Examination Manual* – Revise to remove board responsibility for operational matters (i.e. procedures, processes, and resources).

The Auto Club Group and Auto Club Insurance Association very much appreciate the FRB's consideration of the comments and would be pleased to answer any questions the FRB or the staff might have.

Very truly yours,

John Bruno

John Bruno

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