USAA®

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January 15, 2018

Ms. Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Proposed Guidance on Supervisory Expectations for Boards of Directors, Docket No. OP-1570

Ladies and Gentlemen:

United Services Automobile Association (USAA) is pleased to provide our comments with respect to the Board of Governors of the Federal Reserve System (the Federal Reserve) Comment Request[1] (the Comment Request) related to supervisory expectations for boards of directors.

USAA is a membership-based association, which, together with its family of companies, serves present and former commissioned and noncommissioned U.S. military officers, enlisted personnel, retired military, and their families. Since USAA's inception in 1922 by a group of U.S. Army officers, we have pursued a mission of facilitating the financial security of our members and their families by providing a full range of highly competitive financial products and services, including personal lines of insurance, retail banking, and investment products. Our core values of service, honesty, loyalty, and integrity have enabled us to perform consistently and be a source of stability for our members, even in the midst of the unprecedented financial crisis of recent years.

In response to the proposed guidance, we are aware that the Federal Reserve received comment letters supporting the proposed supervisory focus on the "core responsibilities" of boards of directors, recalibrating the roles of boards and senior management, and generally shifting to a principles-based approach to governance. We concur with these assessments and encourage the Federal Reserve to consider the recommended changes espoused by these comment letters. We also strongly concur with the suggestions that the Federal Reserve coordinate with other Federal prudential regulators in harmonizing proposed regulatory changes to ensure clarity and consistency across the supervisory landscape.

As the preamble to the guidance states:

> [B]oards often devote a significant amount of time satisfying supervisory expectations that do not directly relate to the board's core responsibilities, which

[1] Federal Reserve System, Proposed Guidance on Supervisory Expectations for Boards of Directors, 82 Fed. Reg. 37,219 (August 9, 2017).

> include guiding the development of the firm's strategy and the types and levels of risk it is willing to take (also referred to as 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. Boards completing such non-core tasks may do so at the expense of sufficiently focusing on their core responsibilities, which when exercised effectively promote the safety and soundness of the firm. Finally, the results of the review suggest that boards of large financial institutions face significant information flow challenges, especially in preparing for and participating in board meetings. Absent actively managing its information flow, boards can be overwhelmed by the quantity and complexity of information they receive.

The above statement accurately captures our view that the Federal Reserve's supervisory focus should be calibrated to permit directors to focus on their core responsibilities. Additionally, we agree that information flows must be actively managed so as to avoid overwhelming board members with the quantity and complexity of information they receive. As a result, USAA supports the Federal Reserve's proposed refocusing of supervisory expectations on director's core responsibilities and the proposed key attributes of board of directors.

Notwithstanding our support of these governance principles, we would also urge the Federal Reserve to maintain flexibility when applying them in supervisory practice, so that these principles are not applied prescriptively, but instead are tailored to an institution's risk profile, size, complexity, and other appropriate factors. We agree with other commenters that the guidance should not impose binding requirements on boards of directors and should give directors appropriate deference to exercise their business judgment as deemed appropriate.

USAA also supports the Federal Reserve's effort to review those portions of SR letters and regulations that define board of director expectations to provide additional clarity over the role of senior management versus the boards of directors. In addition to welcomed clarity, we believe that the proposed refocusing will assist boards of directors in prioritizing the most important issues, allowing for critical time to be spent on their core responsibilities. We agree, however, that a full alignment of SR letters and regulations cannot be realized until the Federal Reserve and the other Federal banking agencies harmonize their supervisory expectations for boards and identify a set of core principles that can be applied consistently throughout an organization.

Finally, we view the proposed communication protocol whereby MRAs and MRIAs would be generally directed to senior management as a positive development which would clarify expectations and free up time for the board to devote to its core responsibilities, while still maintaining ultimate responsibility for holding senior management accountable for remediating supervisory findings. We also agree with other commenters that the exception for those MRAs or MRIAs that may be directed to the board of directors relating to "board governance structure and practices" should be narrowly applied so that boards are not hampered in their ability to focus on their core responsibilities.

USAA appreciates the Federal Reserve's attention to the importance of effective governance in providing for the safe and sound operation of the banking system in the United States. We appreciate the Federal Reserve's consideration of our comments and look forward to working with the Federal Reserve in the future. Should you have any questions or wish further discussion, please contact Amy Cook at 210-498-0451.

Sincerely,

Deneen Donnley
Executive Vice President
General Counsel & Corporate Secretary