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Mail Stop 2-3
Washington, D.C. 20219
(RIN: 1557-AD43)

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, D.C. 20551
(RIN: 7100 AD74)

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
Attn: Comments
550 17th Street, NW
Washington, D.C. 20429
(RIN: 3064-AD79)

Alfred M. Pollard, General Counsel
Attn: Comments / RIN 2590-AA45
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, D.C. 20552
(RIN: 3052-AC69)

Gary K. Van Meter
Acting Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
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(RIN: 2590-AA45)

Re: Margin and Capital Requirements for Covered Swap Entities

Nationwide Mutual Insurance Company and its affiliated companies (collectively, ("Nationwide"), appreciate this opportunity to comment on the Agencies' proposed rule on Margin and Capital Requirements for Covered Swap Entities. Nationwide supports the underlying goals of the Dodd Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act"), including the goal of increasing transparency with respect to the use of derivatives. Nationwide also believes that the appropriate and prudent use of derivatives can help protect consumer choice of financial products, and can help companies like Nationwide honor the promises made to their customers.

With regards to the proposed rule, Nationwide believes:

- the Agencies should consider the potential unintended impact of initial margin payments for uncleared swaps;
- new initial margin requirements divert capital from better uses;

- two-way credit support arrangements are preferable to the one-way arrangements of the proposed rule; and
- investment-grade corporate bonds and other highly rated securities should be included as eligible collateral for initial margin.

<u>The impact of an increase in the cost of transacting an unclearable swap</u>

Nationwide is a Fortune 500 mutli-line insurer with a strong focus on protecting and serving its policyholders' interests. Nationwide is committed to honoring the promises made to its policyholders and to providing products to secure the finances and retirement income of Americans. The use of derivatives in a prudent and cost-efficient manner is crucial to keeping these promises and to serving Nationwide's customers.

Nationwide uses a variety of derivative instruments to hedge and manage risks inherent in the company's annuity, insurance, and retirement products, including exchange traded futures, plain vanilla over-the-counter interest rate swaps (which we expect to be one of the first cleared OTC swaps) and highly customized (and therefore unclearable) swaps. All of Nationwide's derivatives activity is subject to a derivatives use plan, approved by Nationwide's boards of directors and filed with, and approved by, the State of New York Insurance Department. Essentially, this plan limits Nationwide's use of derivatives to asset liability management and prohibits Nationwide from speculating with derivatives. Additionally, there are a variety of statutory accounting standards and National Association of Insurance Commissioner reports and practices, including risk-based capital requirements, which regulate Nationwide's use of derivatives.

Nationwide is concerned that the proposed margin requirements for uncleared swaps may significantly increase the cost of swaps transactions and result in adverse effects on the pricing and availability of customized swaps to efficiently manage market risks inherent in Nationwide's products. This could have the unintended consequence of increasing the cost of financial products to consumers, and/or decreasing consumer choice.

The insurance products that Nationwide offers to its policyholders are long-dated promises of financial security available when they most need it. For example, Nationwide sells life insurance policies, which are essentially a promise to pay policyholders upon the death of a specified beneficiary. These promises extend twenty, thirty, or even forty years in the future. The long duration of life insurance policies and other products sold by life insurers make them highly susceptible to market changes, especially changes in interest rates over the years. This interest rate exposure is best managed through customized, risk-specific hedging strategies. Standardized swaps, or exchange-traded futures and options are insufficient instruments to properly hedge this type of risk.

New initial margin requirements divert capital from better uses

Insurers need to use customized hedging strategies to properly manage the risks posed by their long-tail liabilities. Because many of Nationwide's counterparties are covered swap entities, Nationwide will be subject to the proposed margin requirements for uncleared swaps. The initial margin payments for uncleared swaps contemplated under the proposed rules will be onerous and burdensome to proposed low-risk financial end-users like Nationwide, and may affect their ability to provide much needed financial security to U.S. consumers. According to published reports, initial margin to clear interest rate swaps is about three times more expensive than the initial margin required to clear similar type exchange traded futures. In addition, as outlined in the proposal, the rule requires uncleared swaps to have an initial margin in an amount at least as much as a comparable cleared swap.

The use of non-standard, uncleared swaps will be significantly more costly to companies like Nationwide if the rule is finalized as proposed. This may force low-risk financial end-users to increase their use of more standard, cleared swaps, which introduces additional basis risk between the exposure being hedged and the swaps used to hedge the exposure. Either way, a new cost (and increased risk) would be introduced, and would likely be addressed through increases in product pricing, increases in the risk that companies like Nationwide maintain, or even termination of certain products and services offered to policyholders.

While charging more initial margin for uncleared swaps is intended to serve the goal of more centrally cleared swaps, there could be several unintended consequences. These unintended consequences include the inefficient use of capital by sophisticated market participants in highly regulated industries, which could create a drag on the financial system, slow economic growth and diminish customer choice. Nationwide believes that the goals of increasing transparency, promoting market integrity and reducing risk can still be obtained without requiring all derivative execution to go through an exchange to a clearing house, or by imposing margin requirements that divert capital from more efficient uses.

Nationwide Comments to Section __.3: Initial Margin and to Section __.4: Variation Margin

The Agencies seek comments regarding whether covered swap entities should be required to post initial and variation margin with its financial end-users. Risk management is a core element of Nationwide's business, and prudent management of counterparty credit risk is no exception. Nationwide's current master netting agreements include two-way credit support arrangements. This system of credit support has served Nationwide well throughout the years, and especially during the recent financial crisis.

Nationwide strongly supports the use of two-way credit support arrangements

The proposed rule requires a covered swap entity to collect initial and variation margin from its financial end-user counterparty, but is silent on whether the financial end user has to post initial or variation margin to that same counterparty. This rule would place financial end-users in an unbalanced position during negotiation of credit support agreements since they would be required to post collateral, but not receive it, from their covered swap counterparty. Furthermore, as low-risk financial end-users gain more and more unsecured counterparty credit exposure, they could breach thresholds proposed by the Commodity Futures Trading Commission ("CFTC") and Securities Exchange Commission ("SEC") in considering Major Swap/Security-based Swap Participant status.

Nationwide recommends that covered swap entities be required to post margin to their financial end-user counterparties. Two-way credit support arrangements are commonplace in the OTC markets and constitute a sound and prudent risk management practice. In addition, Nationwide believes that a covered swap entity and financial end user should each have the ability to establish appropriate exposure thresholds below which initial and variation margin need not be transferred. For the reasons above, Nationwide supports the Agencies' interest in alternative approaches to initial and variation margin.

Nationwide Comments to Section __.6: Eligible Collateral

In question 64(a), the Agencies ask whether eligible collateral for initial margin should include fixed income securities that are: (1) issued by a well-seasoned issuer with a high credit standing, (2) which are unsubordinated, (3) historically display low volatility, (4) are traded in highly liquid markets, and (5) have valuations that are readily calculated.

Nationwide supports the use of high-grade corporate bonds and other highly rated securities as collateral for margin requirements

Under the proposed rules, approximately 2% of Nationwide's life company portfolio consists of securities that would be eligible collateral to use for margin requirements. As a result, Nationwide would need to reallocate a portion of its portfolio into other shorter term securities in order to have sufficient eligible collateral available to satisfy the proposed rule's initial and variation margin requirements. This could result in a decrease to net investment income, which in turn reduces the dollars that Nationwide's life company uses to support its operations, strengthen its capital position, and deliver benefits to policyholders through its products and services.

Conclusion

Nationwide supports the goals and objectives of Title VII of the Dodd Frank Act; namely, promoting better reporting and more transparency in the derivatives marketplace. The achievement of these goals should be welcomed by market participants and regulators alike, and financial firms should be prevented from using derivatives in a manner that could threaten the stability of our financial system. However, while pursuing the important goals of greater transparency and financial stability, Nationwide urges the Agencies to keep in mind that the prudent, well-managed use of derivatives plays a vital role in the hedging and management of risks inherent in insurance and financial products. Without the ability to appropriately manage these risks through the prudent use of derivatives, low-risk financial end-users such as Nationwide will be faced with the choice of taking on more risk or increasing the prices they charge their customers for long-term savings and retirement products. This could occur at a time when it is in the best interest of the American people to have access to just these types of financial guarantees. Therefore, it is critically important that regulators and market participants each understand the consequences, both intended and unintended, of the proposed rules and definitions.

In summary, Nationwide encourages the Agencies to consider revisions to the proposed rule to permit low-risk financial end-users to continue to engage in prudent risk management practices in an effective and cost-efficient manner. We thank you for your consideration and look forward to future opportunities to comment.

Very Truly Yours,

Mark R. Thresher
Executive Vice President – CFO