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VIA ELECTRONIC TRANSMISSION
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February 9, 2018

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., N.W.
Washington, D.C. 20551

Re: Proposed Guidance on Supervisory Expectation for Boards of Directors (FRB Docket No. OP-1570)

Dear Ms. Misback:

On behalf of Nationwide Mutual Insurance Company ("Nationwide Mutual") and its affiliated companies, we appreciate the opportunity to provide comments to the Board of Governors of the Federal Reserve System ("FRB") on its proposal addressing supervisory expectations for boards of directors of large bank holding companies, savings and loan holding companies, state member banks, U.S. branches and agencies of foreign banking organizations, and systemically important nonbank financial companies (the "Proposal").[1]

Nationwide Mutual is a mutual insurance company organized under the laws of the State of Ohio in 1925. Nationwide Mutual is the lead entity and ultimate controlling parent of all entities in the Nationwide group of companies (collectively, "Nationwide"). Nationwide is a diversified financial services organization offering a wide range of insurance, annuity, investment and banking products and services.

Nationwide Mutual and its property and casualty insurance subsidiaries primarily underwrite personal automobile, homeowners and commercial insurance products. Nationwide Financial Services, Inc. ("Nationwide Financial"), an indirect subsidiary of Nationwide Mutual, develops and sells a diverse range of products, including individual annuities, private and public sector retirement plans and other investment products sold to institutions, life insurance and advisory services. In addition, Nationwide Financial provides mutual funds through Nationwide Funds Group and banking products and services through Nationwide Bank.

[1] Proposed Guidance on Supervisory Expectations for Boards of Directors, 82 Fed. Reg. 37219 (August 9, 2017).

By virtue of their ownership of Nationwide Bank, a federal savings bank and member FDIC, Nationwide Mutual and Nationwide Financial are registered as savings and loan holding companies ("SLHCs") pursuant to Section 10 of the Home Owners' Loan Act of 1933 ("HOLA") and subject to this Proposal.

Nationwide Support for the Proposal

Nationwide commends the FRB for recognizing the need to refocus its supervisory expectations on boards of directors and in offering firms the ability to comment on this Proposal. Broadly, we support the FRB in its decision to pursue the three stated purposes of this proposed guidance:

- Establishing principles regarding effective boards of directors focused on the performance of a board's core responsibilities;

- Better distinguishing between the roles and responsibilities of a firm's board of directors and its senior management; and

- Eliminating or revising supervisory expectations contained in existing Federal Reserve Supervision and Regulation (SR) letters.

We agree with the FRB's observation that its supervisory expectations for boards of directors and senior management have become conflated, and we support the FRB's goal of clearly distinguishing those responsibilities. To that end, we support the FRB's identification of "core responsibilities" for boards of directors. In addition, we welcome the FRB's view that boards should redirect their attention away from non-core tasks.

We also agree with the FRB's observation that it would be possible for boards to become overwhelmed by the quantity and complexity of information provided to them if they do not take an active role in managing information flows and setting agendas. Boards of insurance SLHCs like Nationwide, in particular, face a multitude of regulatory expectations from both the FRB and the state insurance departments, among other regulators. To ensure boards are not overwhelmed by the information provided to them, FRB regulations and supervisory expectations must support providing boards with appropriate levels of information and detail and should not burden them with formalistic reviews of policies and processes outside of their core responsibilities. Further, FRB regulations and supervisory expectations should seek to avoid duplication with other regulatory and supervisory expectations to the greatest extent possible.

Moreover, we support the FRB's use of an attribute-based approach to evaluating the effectiveness of boards rather than using prescriptive, process-oriented supervisory expectations that fail to take into account the unique activities and risk profiles of the various institutions that the FRB supervises, including insurance SLHCs. In addition, we are generally supportive of the five attributes of effective boards identified by the FRB to evaluate their effectiveness and the safety and soundness of the institution.

Further, we support the FRB's stated goal of revising or eliminating existing supervisory expectations in SR letters, interagency guidance and regulations in an effort to align them with the Proposal.

Finally, we agree with the FRB's recognition of the need to direct most supervisory findings (i.e., matters requiring immediate attention ("MRIAs") and matters requiring attention ("MRAs")) to senior management. We understand how the FRB's current practice of addressing supervisory findings to the board may lead directors to believe they need to be directly involved in resolving an MRIA or MRA – actions that are more appropriately carried out by management. We concur that it would be appropriate for the FRB to address MRIAs and MRAs to boards only in those limited circumstances when the board needs to take specific action to address their corporate governance responsibilities or when senior management fails to take appropriate remedial action.

Specific Considerations on Finalization of the Proposal

As stated above, Nationwide commends the FRB for recognizing the need to refocus its supervisory expectations on the core responsibilities of boards of directors and is supportive of the underlying themes promoted by the Proposal including an attribute/principles-based approach to evaluating board effectiveness.

We agree that refocusing boards of directors' attention on their core responsibilities will allow the boards and the firms they serve to improve overall corporate governance, increase efficiency, support greater accountability, and promote compliance with laws and regulations. In keeping with Nationwide's shared appreciation for the FRB's stated goals, we address some of the questions posed by the FRB and highlight a few concerns that we believe the FRB should address before finalizing this guidance.

1. The FRB should avoid prescribing a "one-size-fits-all" approach to effective governance and independent risk management

We urge the FRB to resist mandating a singular approach to effective governance and risk management. In a number of instances, the Proposal appears to prescribe required elements of an effective board, including committee structure, reporting relationships and "significant" policies requiring board approval. We believe the FRB should focus on the outcomes of an effective board and recognize that there may be multiple viable structures for achieving effective governance and risk oversight.

Risk Committee of the Board

Footnote 24 of the Proposal indicates that "SLHCs subject to this guidance should maintain a risk committee which meets the supervisory expectations discussed herein in order to enhance its safety and soundness."[2] We agree that it is necessary for supervised firms to establish clear and effective risk oversight responsibilities at the board level. However, clear and effective risk oversight does not necessitate a single risk committee oversight structure. While a single risk committee of the board may be the most effective risk governance approach for certain firms, experience has shown that effective board oversight of risk can be accomplished in ways other

[2] Id. at 37225.

than through a separate risk committee with prescribed Chief Risk Officer ("CRO") and Chief Compliance Office ("CCO") reporting lines. For example, Nationwide successfully utilizes a distributed risk governance model, where multiple committees (e.g., Audit, Finance, Governance) are assigned clearly delineated, but complementary, risk oversight responsibilities that are designed to work in concert.

We believe that the FRB's goal of effective board-level risk oversight is laudable, but we urge the FRB to not create a one-size-fits-all approach to effective risk oversight by requiring SLHCs to have a risk committee of the board under its general safety and soundness authority. We note that Congress in Section 165 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* did not extend the risk committee requirements to SLHCs. Thus, we have concerns with the FRB bypassing the will of Congress and relying on its general safety and soundness authority to impose a risk committee requirement.

Instead of prescribing what an effective approach to board-level risk oversight is, we believe the FRB should establish the principle that supervised firms must be able to demonstrate adherence to sound risk management principles and practices and demonstrate that their selected approach results in effective board oversight of risk.

Reporting Structure of the CRO and Independent Risk Management

The proposed guidance notes that "an effective risk committee supports the stature and independence of the independent risk management function, including compliance" through the following means:

- By communicating directly with the CRO on material risk management issues;
- By reviewing independent risk management's budget, staffing and systems;
- By providing independent risk management with unrestricted access to the risk committee;
- By directing the appropriate inclusion of representatives of the independent risk management function on senior management-level committees; and
- By effecting changes that align with the firm's strategy and risk tolerance after reviewing the risk management framework relative to the firm's structure, risk profile, complexity, activities and size.[3]

While we agree that the CRO should have appropriate stature and independence from the first-line business units and an open and transparent relationship with the board of directors and its committees, we urge the FRB to avoid creating any expectation that the CRO have a direct reporting relationship to the board or any specific committee of the board.

Nationwide, like many other firms, follows a three lines of defense approach to risk governance (i.e., first-line business units, second-line objective risk functions (including compliance), and third-line independent internal audit function). Under this approach, only the third line of defense (i.e., the Chief Audt Executive as head of the internal audit function) has a direct reporting relationship to the Audit Committee of the Board. The second line of defense propgrams (i.e., the CRO and CCO as the respective heads of independent risk management

[3] Id. at 37226.

and compliance) maintain open and transparent dialogue with the board and its committees, but do not have a direct reporting relationship to the board. We believe this approach achieves objectivity and independence, while allowing the risk management and compliance functions to be viewed as strategic risk partners to the first-line business units.

In recognition of risk governance structures where the independent risk management function and compliance function serve as second lines of defense, we caution the FRB against creating an expectation that their budget, staffing and systems are reviewed by a risk committee or any other board-level committee. By assigning these responsibilities to the board or a board-level committee, it could create the view that these functions are an instrumentality of board as opposed to strategic risk partners to the first-line business units.

Relationship between Independent Risk Management and Compliance

Similar to our comments above, we urge the FRB to resist creating an expectation that a firm's compliance function report up through the CRO and ultimately to a single risk committee. While we agree that the compliance function needs to be objective and have appropriate stature and independence from the first-line business units, multiple approaches exist to achieve these goals. We believe this can be achieved by alternative reporting relationships for the CCO and the compliance function (e.g., reporting to the Chief Legal Officer).

As a result, we support the principle that the compliance function should be closely connected with the independent risk management function to ensure that compliance risk is identified, measured, monitored, and reported in a comprehensive manner, consistent with the firm's independent risk management framework. However, we urge the FRB to avoid prescribing a one-size-fits-all expectation that the compliance function report up through the CRO and ultimately to a single risk committee of the board.

Board of Director Approval of "Significant" Policies

We urge the FRB to resist specifying in this Proposal those policies, plans and processes that should be deemed "significant" and, as a result, require board approval. Rather, the FRB's proposal should start and stop with the principle that "an effective board assesses whether the firm's significant policies, programs and plans are consistent with the firm's strategy, risk tolerance, and risk management capacity prior to approving them." This will provide firms with the needed flexibility to determine those policies, programs and plans that are significant to it and require board approval in consideration of their activities, scope of operations and risk profile.

2. The FRB should avoid requiring production of director self-assessments

Self-assessments are an effective tool for directors to candidly evaluate their performance, the performance of other directors and the performance of the board and its committees more generally. Many institutions conduct these self-assessments through the use of outside counsel and under attorney-client privilege in order to obtain advice on their corporate governance processes and structure. We are concerned that requiring firms to disclose director self-assessments to the FRB, which have historically been performed confidentially under privilege, could have a chilling effect on the board's willingness to provided candid responses, thereby limiting the utility of these self-assessments.

Therefore, we urge the FRB to avoid requiring the production of self-assessments as part of this Proposal. To the extent the FRB would expect disclosure of self-assessments, the FRB should not prescribe the manner in which these self-assessments are performed or provided to the FRB. For example, firms may wish to provide aggregated results of these self-assessments, as opposed to individual director responses, to ensure that there is no chilling effect on director responses and, as a result, a loss of utility for the self-assessment process.

3. *The FRB should subject all revisions/rescissions of SR letters, interagency guidance and regulations to a notice and public comment period to ensure consistency with the Proposal, including whether they are appropriately applicable to insurance SLHCs*

As stated above, we support the FRB's stated goal of revising or eliminating existing supervisory expectations in SR letters, interagency guidance and regulations in an effort to align them with the Proposal.

While changes to regulations require a notice and public comment period, we would urge the FRB to expose for public comment in a subsequent release all actions it intends to take to revise or rescind SR letters and interagency guidance to align with this Proposal. This approach will ensure that the FRB has the benefit of the industry's views on each revision or rescission the FRB intends to make to align with this Proposal, including where it may have gone too far or where it needs to go further.

As part of the public comment exposure, the FRB should also consider and seek input on whether each SR letter, regulation or interagency guidance is appropriate to apply to insurance SLHCs. As the FRB is aware, insurance SLHCs are already subject to an extensive system of group-wide supervision by the state insurance departments. In addition, the business of insurance has a very different risk profile as compared to the business of banking. Therefore, in order to avoid detracting from a board's ability to focus on its core responsibilities, we believe it would be critical for the FRB, as part of a subsequent comment period, to solicit input on whether each SR letter, interagency guidance and regulation imposes duplicative expectations on the boards of insurance SLHCs, or whether the letter imposes inappropriate expectations on insurance SLHCs and their boards in light of their risk profile.

Conclusion

Nationwide supports the FRB's efforts to revise its supervisory expectations for boards of directors in order to allow boards to focus on their core responsibilities and to better manage their time and the flow of information received from management. We agree with the FRB that evaluating boards can best be achieved through an attribute/principles-based, as opposed to a prescriptive, "one-size-fits-all," approach to board effectiveness.

In finalizing this Proposal, we urge the FRB to avoid prescribing elements of an effective board and, instead, focus on establishing principles and outcomes of effectiveness. In addition, we urge the FRB to refrain from requiring the production of director self-assessments as part of this Proposal as this could result in a chilling effect on directors' willingness to provide candid responses and, as a result, a loss of utility of the self-assessment process. Finally, we ask the FRB to engage in an additional public comment period on the revisions/rescissions it intends to make to all SR letters, interagency guidance and regulations, including soliciting input on whether they are appropriately applicable to insurance SLHCs.

As always, we appreciate the dialogue and look forward to further opportunities to comment.

Very truly yours,

NATIONWIDE MUTUAL

Mark R. Thresher
Executive Vice President and Chief Financial Officer