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**Via: Electronic Transmission**  
**<http://comments.cftc.gov>**

Commodity Futures Trading Commission  
Attn: David A. Stanwick, Secretary  
Three Lafayette Centre  
1155 21<sup>st</sup> St NW  
Washington, D.C. 20581

(RIN 3030-AC97)

**Re: Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants**

Nationwide Mutual Insurance Company and its affiliated companies (collectively, “Nationwide”), appreciate this opportunity to comment on the Commission’s proposed rule on Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants. Nationwide supports the underlying goals of the Dodd Frank Wall Street Reform and Consumer Protection Act (“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 Commission 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 included in the proposed rule; and
- investment-grade corporate bonds and other highly rated securities should be included as eligible collateral for initial margin.

**Potential Unintended Impact of Proposed Margin Requirements**

Nationwide is a Fortune 500 multi-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.

*The impact of an increase in the cost of transacting an unclearable swap*

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. Nationwide uses bespoke 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 in an era when they most need financial stability.

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 promises to pay beneficiaries upon the death of specified individuals. These promises extend twenty, thirty, or even forty years in the future. The long duration of certain 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.

Standardized swaps, or exchange-traded futures and options are insufficient instruments to properly hedge this type of risk. This interest rate exposure is best managed through customized, risk-specific hedging strategies that employ swaps unlikely to be accepted for clearing. Nationwide strongly encourages the Commission to seek the most appropriate policy balance between ensuring financial stability, minimizing disruption to the marketplace, and protecting consumer choice of financial products.

*New initial margin requirements divert capital from better uses*

Nationwide currently does not post initial margin (or independent amounts) in its OTC transactions. This is in large part due to its robust credit-risk management process that covers actual credit exposure and involves the use of well-capitalized counterparties. The initial margin requirements for uncleared swaps contemplated under the proposed rules will be onerous and burdensome to end-users like Nationwide and may affect their ability to provide much-needed financial security to American consumers. Insurers such as Nationwide need the flexibility of customized hedging strategies to properly manage the risks posed by their long-tail liabilities.



Because many of Nationwide's counterparties will be considered covered swap entities, Nationwide will be subject to the proposed margin requirements for uncleared swaps. The proposed rule, in an effort to drive market participants to clear OTC transactions, requires initial margin for uncleared swaps be significantly more expensive than for a cleared swap.

Nationwide understands the Commission's desire to drive OTC trades to clearing houses; however, Nationwide believes the Commission can and should start its rulemaking for uncleared swaps from existing OTC risk-management practices in regards to bespoke hedging transactions for which no reasonable cleared swaps are, or are anticipated to be, available. The concept of initial margin makes sense in an exchange/clearing house model where standardized contracts are essentially fungible and the loss protection structure of the clearing house is mutualized among participants of the clearing house. However, initial margin requirements are not appropriate in the context of a customized, discrete, risk-mitigating transaction used by a company to hedge a specific and unique liability profile.

The use of non-standard, uncleared swaps will be significantly more costly to companies like Nationwide if the rule is finalized as proposed. This is especially unfortunate as it may force a low-risk financial end-user like Nationwide to increase its reliance on standardized, cleared swaps, which do not as effectively hedge the liability under management. In addition, the proposed rule would introduce 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.

### **Margin Posting for Uncleared Swaps**

The Commission also seeks comments regarding whether covered swap entities should be required to post, and not just collect, 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 covered swap entity has to post initial or variation margin to that same financial end-user 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 entity counterparty. Furthermore, without two-way credit support to cover counterparty exposure, financial end-users gain more and more unsecured counterparty credit exposure and eventually could breach thresholds proposed by the Commission and the 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 encourages the Commission to explore alternative approaches to initial and variation margin for uncleared swaps; particularly an approach that does away with initial margin between sell-side covered swap entities and buy-side low risk financial end-users.

### **Forms of Margin**

The Commission seeks comments regarding other eligible collateral for use as margin.

*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 funds 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 Commission 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 Commission 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,

A handwritten signature in black ink, appearing to read 'Mark R. Thresher', with a long horizontal flourish extending to the right.

Mark R. Thresher  
Executive Vice President - CFO