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November 13, 2008

Ms. Florence E. Harmon
Acting Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File No. 4-573, SEC Study of Mark to Market Accounting

Dear Ms. Harmon:

Nationwide Insurance Group appreciates the opportunity to comment on File No. 4-573, SEC Study of Mark to Market Accounting (MTM Study). Nationwide Insurance Group (Nationwide) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management. Nationwide Financial Services, Inc. is a Securities and Exchange Commission registrant, in which Nationwide has majority equity and voting interests. Nationwide is a large diversified insurance and financial services organizations in the world, with more than $161 billion in assets and annual revenues in excess of $20 billion.

Overall, we agree that a fair value model more accurately reflects the economics of a point-in-time balance sheet. However, the current fair value and related Other-Than-Temporary Impairment (OTTI) guidance under FAS 157, *Fair Value Measurement* (FAS 157) and FAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), respectively, does not effectively address income recognition and long-term capital adequacy issues for a going-concern company. This is particularly true in "inactive" markets and for long duration instruments.

As a result, application and interpretation of fair value measurements and corresponding analysis of asset impairments has inadvertently gravitated towards a liquidation value within a company's financial statements. Asymmetrical accounting between assets and liabilities and significant differences between U.S. GAAP and International Financial Reporting Standards (IFRS) has further highlighted the challenges with application of fair value accounting.

EXECUTIVE SUMMARY:

To help alleviate these disparities, Nationwide respectfully requests that the SEC consider the following recommendations for 2008 financial statements:

- Revise OTTI guidance to apply only for credit related impairments. This is particularly important during dislocated markets, since nonperformance and liquidity risk premiums skew fair value measurements of otherwise credit worthy investments. Unrealized gain/loss due to MTM fluctuations would be recorded in Other Comprehensive Income (OCI).

- Recovery of fair value for previously impaired investments should be recorded in realized gain/loss as opposed to accreted/amortized into net investment income.
- Modify EITF 99-20 security rules to apply only to residual interest investments. All other structured debt securities would follow FAS 115 guidance.
- Establish consistent OTTI assessment guidance with IFRS to create a level playing field for SEC filers.
- Clarify terms including "inactive market", "market participant", and "forced sales".
- Allow effective date of revised guidance beginning 1Q 2008, with prospective application for 4Q 2008 financial statements recorded as a cumulative adjustment.

We believe these recommendations will help address immediate concerns with mark-to-market accounting within the current economic environment. However, we also believe that additional consideration is needed to address inconsistencies within the current fair value accounting literature and related application guidance. Therefore, we respectfully request that the SEC consider including the following items in their long-term standard-setting agenda:

- Revamping Investment related footnote disclosures.
- Revision of FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, allowing an additional adoption opportunity for existing financial instruments.
- Global coordination with the International Accounting Standards Board (IASB).

<u>COMPREHENSIVE 2008 FINANCIAL STATEMENT RECOMMENDATIONS:</u>

*OTTI for Credit Impairments:*
We propose the current OTTI guidance be modified to refocus the determination to expected credit losses as opposed to losses based on market volatility. We believe that realization of losses in earnings should be more aligned with an adverse change in cash flows as opposed to fluctuations caused by market driven events. For example, current interpretation would result in an OTTI for investments with unrealized MTM losses greater than a reasonable duration (auditors are currently applying a 6-9 month standard). This interpretation is even being applied in circumstances where an investment is still receiving cash flows and is expected to fully recover. Certainly "market" pricing is important and useful information in determination of fair value. FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FAS 157-3), attempted to provide clarification on determining fair value by allowing a company to use its own assumptions to value an asset in an illiquid market, but it continues to require the consideration of nonperformance and liquidity risk premiums reflected in the current dislocated market environment to satisfy the FAS 157 requirement for a current exit price. However, point in time market prices should not be determinable in relation to income recognition. We would recommend that fair value fluctuations not related to an adverse change in cash flows be reflected in OCI. Existing disclosures surrounding the amount and duration of unrealized losses for investments provides adequate transparency to financial statement users.

Once a credit related impairment is determined as noted above, the criteria in Staff Accounting Bulletin Topic 5M (formerly SAB 59) should be applied regardless of intent. The current guidance under FAS 115 also requires demonstration, for impaired investments (defined as any investment with a fair value less than carrying value), of a firm's ability and intent to hold until full recovery. Given the current market conditions, severity and duration of unrealized losses have made asserting intent to hold a non-factor in assessing impairments. The practical implications has resulted in firms being forced to utilize "brightlines" based on severity and duration of unrealized losses regardless of fundamental economic considerations. We request that this criterion be revised to instead focus on a firm's intent to sell.

*Subsequent Recovery of Impairments:*
Currently, the OTTI model under FSP FAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP FAS 115-1/124-1), paragraph 16 allows for a debt security to be accounted for as if it had been purchased on the date of the OTTI with the resulting discount or premium amortized over the remaining life of the instrument based on future estimated cash flows. This results in a current period OTTI being absorbed in realized gain/loss with the subsequent recovery taken through net investment income. Due to this fact, users of financial statements may have difficulty determining which components of future operating earnings are due to economic events and which are due to a "reclassification" of realized losses into net investment income.

Therefore, we recommend that any future recoveries for OTTI investments be recorded in the same manner as the original realized loss. This would include both classification in realized gain/loss as well as recognition of the entire expected recovery amount within the applicable reporting period. This would alleviate the current mismatch inherent in the current accounting model.

*EITF 99-20 Revisions:*
EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets* (EITF 99-20), should be modified to apply only to "residual interest" securities rather than a larger population of structured securities. Under the current guidance, similar structured debt securities with similar expected cash flows and subordination levels may fall under different OTTI assessment models based solely upon an external credit rating. External credit ratings are often lagging indicators of an investment's credit worthiness. In dislocated markets, widening credit spreads cannot be distinguished among structured debt securities at any rating, especially highly rated securities. This has led to accounting firms using an "implied market yield" calculation based on inaccurate spreads for OTTI assessments. As a result, companies may have inappropriately recorded OTTI during 2008. We believe that EITF 99-20 guidance is more appropriate for residual interests in investments. All other structured securities should follow FAS 115 guidance thus improving consistency in OTTI assessments. For instance, instruments which provide for periodic cash flows, are rated similar to debt securities, and priced like other long term bonds should not be assessed under EITF 99-20 guidelines.

*Level Playing Field:*
Implementation of FAS 157 was intended to better align fair value methodology and OTTI assessment between U.S. GAAP and IFRS. It is well understood that differences continue to exist and the SEC has begun to establish a roadmap to converge U.S. GAAP with IFRS. However, the IASB has been quick to respond to the current market environment by adjusting guidance applicable to foreign filers, without corresponding relief granted for U.S. filers. Specifically, IASB has allowed retroactive changes to reclassify securities to held-to-maturity alleviating the "rare" circumstance requirement resulting in realization of impairment losses only due to credit deterioration. We believe this has resulted in an un-level playing field between U.S. and non-U.S. companies. These differences are amplified by the fact that foreign private issuers in the US do not need to complete reconciliation between U.S. GAAP and IFRS.

Therefore, we request that the SEC adopt similar relief measures to U.S. filers until such time IFRS and U.S. GAAP guidance differences can be formally exposed.

*Clarification of terms:*
We ask that the SEC provide clarification on the following terms:

*Inactive Market*
We suggest utilizing the following criteria to determine an inactive market: 1) a significant widening of the bid-ask spreads, 2) significant decreases in the volume of trades relative to historical levels, 3) no observable transactions that are not forced/distressed sales, and 4) pricing that has varied substantially over time. Also, if the trading volume is a certain amount in an active market, a decrease by a certain percentage should result in the market being considered inactive.

*Forced Sale*
We suggest defining a transaction executed in an inactive market (as defined above) at an uneconomically acceptable price as a "forced sale". We believe that the IASB's definition of a forced transaction, which includes: a legal requirement to transact, a necessity to dispose of an asset immediately and insufficient time to market the asset to be sold, and the existence of a single potential buyer as a result of the legal or time restrictions imposed, is too narrowly defined.

*Market Participant*
We suggest that clarification be made that current views of a market participant would adjust as orderly transactions become inactive or distressed. Views of a market participant should evolve when a market is inactive to include the intent of the company regarding the security as well as the credit performance of the security.

We also suggest that the use of an internal valuation model, without any reliance on a broker quote, be allowable depending on facts and circumstances for instruments in an inactive market.

*Retroactive Effective Date:*
We believe that given the ongoing adverse market environment, it should be appropriate depending on facts and circumstances for practitioners to apply the changes in current guidance issued by the SEC retrospectively for fiscal year 2008. This will ensure the income statement accurately reflects consistent guidance for a full year. In many cases, this may have a material impact on previously issued financial statements. Our recommendation is a cumulative catch-up to allow firms to retrospectively adjust financial statements as applicable. Further, the cumulative adjustment will align with the guidance in FAS 154, *Accounting Changes and Error Corrections* (FAS 154), regarding a change in accounting principle.

COMPREHENSIVE LONG-TERM STANDARD SETTING RECOMMENDATIONS:

*Footnote Disclosures:*
While Nationwide agrees with increased transparency and disclosure for financial statements, we would caution that increased volume of disclosures can lead to confusion for financial statement users as well as burden preparers. Currently, numerous investment disclosures are required under various Statements of Financial Accounting Standards issued by the FASB (i.e. FAS 157, FAS 115, FAS 140, FIN 46(R), FAS 133, FAS 107, FAS 161). We believe that disclosures should be quality versus volume based. We would recommend creating a comprehensive disclosure framework to ensure the right disclosures are being provided.

*FAS 159:*
We believe that companies should be given an additional opportunity to adopt FAS 159. Allowing a reasonable implementation period will likely facilitate a more widespread utilization. One of the purposes on FAS 159 was to provide an opportunity for companies to accelerate migration to a fair value valuation model for financial instruments. However, the implementation time-frame allotted between the issuance and effective dates did not allow companies adequate time to fully assess the implications of utilizing the "irrevocable" fair value option. This was especially problematic for insurance companies in which most every customer relationship represents a contract and therefore the utilization of FAS 159 for new contracts only would require the segregation of the insurance portfolio which is not practical. The implementation time-frame was also exacerbated by the considerable time and effort needed for companies to adopt FAS 157 within the same tight deadline. We believe, if given a reasonable implementation time-frame, more companies would utilize the FAS 159 option to reduce the documentation burden for OTTI assessment and FAS 133 hedge accounting as well as improve the counter intuitive asymmetrical accounting between corresponding financial assets and liabilities.

*Global Coordination with the IASB:*
Given the U.S. has accepted financial statements prepared using IFRS, we believe coordination is needed between the FASB and IASB to provide greater global consistency in financial reporting. The joint advisory group announced by the FASB and IASB to commit to a global approach to enhance market confidence is an important first step in coordinating global reporting issues. We believe this group needs to synchronize all responses going forward to ensure solutions are applied to U.S. GAAP and IFRS filers. In conjunction with these convergence activities, we believe that guidance should be fully exposed with a reasonable time allowance for robust discussion. This is especially important in relation to fair value applications to mitigate any unintentional implementation and application issues as has occurred with FAS 157.

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We appreciate the opportunity to comment on these important issues. If you would like to discuss any of the points, please feel free to contact me at 614.249.7732.

Respectfully,

Martha L. Frye
Senior Vice President and Chief Accounting Officer
Nationwide Insurance