



October 21, 2003

To: SVIA Board of Directors

From: Gina Mitchell

Re: Action Items from the October 14, 2003 Meeting

The following individuals participated in the October 14 meeting. They were: John Axtell, Emily Bates, Peter Chabot, Karen Chong-Wulff, Gwen Collick, Rick Cook, Jill Cuniff, Wendy Cupps, Laura Dagan, Mark Devine, Nat Duffield, Ralph Egizi, Bob Fox, Wayne Gates, Aruna Hobbs, Eric Kirsch, Bob Madore, Marc Magnoli, Kim McCarrel, Jim McDevitt, Jim McKay, Vicki Paradis, Al Turco and Vinnie Walsh. Don Butt was unable to attend the Board meeting.

2003 Board Election. Al Turco reported that the Association's nomination process had narrowed down the candidates for election to four candidates for the four positions. The candidates were Aruna Hobbs, Rick Cook, John Axtell and Mike Norman. Since the nomination process had de facto selected the members, the Board unanimously voted the candidates to the Board.

SVIA Surveys. Marc Magnoli gave an overview of the process and cost to automate the SVIA Annual Investment and Policy Survey and a quarterly manager survey using the Internet. The cost for the two projects was estimated at \$12,000. The technology would ensure confidentiality. Additionally, the project would create a survey module that SVIA could modify to design and use for future surveys. The Board unanimously agreed to go forward and develop the two surveys and accompanying technology.

Stable Value Mutual Funds. Eric Kirsch updated the Board on the SEC's inquiry into stable value mutual funds and the Association's activities. He reported that the SEC had returned its' focus to valuation of wrapper agreements for stable value mutual funds with an October 1 meeting with all stable value mutual funds in registration. At that time the staff expressed their view that, given the information they had received from the fund firms, the SEC did not believe that book value accounting for wrap contracts complies with the accounting

regulations that govern mutual funds (notably Generally Accepted Accounting Principles (GAAP) and the Investment Company Act of 1940).

Of particular concern to the SEC staff is the notion that non-participating contracts cost considerably more than participating contracts, but both types of contracts have the same value on the mutual funds' books. The SEC has given the mutual fund firms 30 days to draft a written response to these concerns.

The SEC staff also stated that they thought this accounting issue was limited to mutual funds only, as 401(k) plans have very clear accounting regulations and were therefore not a concern to the SEC. However, several accounting firms in attendance expressed their view that if the SEC should determine that book value accounting is not appropriate for stable value mutual funds, then in essence the SEC would create a "regulatory GAAP" rule on the subject. This rule could cause accountants to question the use of book value accounting for 529 plans and for commingled funds that include defined benefit plan assets, and possibly even for defined contribution plans.

The possibility that this accounting issue could spill over into non-mutual fund areas is obviously of concern to the SVIA membership. Accordingly, the SVIA task force on this issue met with the SEC staff on October 14 to learn more about their accounting concerns, position the SVIA as a representative of the stable value industry and a source of information on stable value funds, and express concern about how the SEC's eventual ruling may affect non-mutual fund investors in stable value funds. Participants in the October 14 meeting are listed below.

SVIA Participants:

Emily Bates, AEGON Institutional Markets  
Matthew Chambers, Wilmer, Cutler & Pickering  
Wayne Gates, John Hancock Financial Services  
Aruna Hobbs, AEGON Institutional Markets  
Eric Kirsch, Deutsche Asset Management  
Sanford Koeppel, Prudential Financial  
Kim McCarrel, INVESCO Institutional  
James McDevitt, State Street Bank & Trust  
James McKay, American Express  
Gina Mitchell, SVIA  
Victoria Paradis, JPMorgan Fleming Asset Management  
Sai Raman, Bank of America  
Marianne Smythe, Wilmer, Cutler & Pickering  
Alfred Turco, Pepe & Hazard

SEC Participants:

Paul Royce, IM  
Doug Scheidt, IM

Greg Faucette, OCA  
Barry Miller, IM  
Liz Osterman, IM  
John James, OCA  
Rick Sennett, IM  
Evan Geldzahler, IM

The Board agreed to change the last Forum session to provide an update and dialogue with the membership on this important issue. Additionally, the Board agreed to continue to monitor and work with the SEC on this issue.

Competing Funds. Wayne Gates reported that the Mission and Environment Committee had formed a Working Group to begin drafting a white paper that talks broadly about stable value funds and why competing fund restrictions exist. The Working Group would focus on two products: a white paper aimed at educating plan sponsors and consultants and a layman's or participant's educational piece. The drafts should be ready for the Board's review shortly.

Contingency Planning. Wayne Gates reported that the Contingency Planning Working Group was modeling how stable value performs in a rising rate environment under two scenarios: a ladder GIC approach and active management with par wraps. The purpose of the group's work is to identify issues that may arise in different interest rate environments.

Membership. Rick Cook reported that despite economic constraints and consolidation within the industry, SVIA had exceeded its membership targets.

Budget. Jim McDevitt reported that SVIA would be in budget despite the unanticipated use of counsel this year. Additionally, he reported that SVIA would best the Forum net profit projections this year. Jim also outlined the proposed 2004 budget, which the Board unanimously approved.