



October 16, 2006

To: SVIA Board of Directors

From: Gina Mitchell, SVIA

Re: October 10, 2006 Board of Directors' Meeting

SVIA's Board of Directors met on October 10 in Washington, D.C. as part of the SVIA Annual Membership Meeting and Forum. The following individuals attended the meeting. They were: Ben Allison, Don Butt, Tony Camp, Rick Cook, Mark Devine, Nat Duffield, Ralph Egizi, Bret Estep, Bob Fox, Aruna Hobbs, Bob Madore, Marc Magnoli, Mike Norman, Vicky Paradis and Dylan Tyson. John Axtell, Doris Fritz, and Ken Quann were unable to attend. Bob Cahill from Deutsche, Jeff Clark from Dwight, Andy Cohen from New York Life, and Laura Powers from BlackRock also attended the meeting. The action items from the meeting are summarized below.

Wrap Valuation. BlackRock's Laura Powers updated the Board on the Wrap Valuation Working Group's findings. She noted that the Working Group had evaluated the following methodologies and presented what the Work Group believed to be their positives and negatives:

- Income Approach
 - Converts expected future cash flows to a discounted present value.
 - Option pricing models.
- Market Approach
 - Use observable market prices.
 - Comparable assets or liabilities.
 - Matrix pricing.
- Cost approach uses a replacement cost.

She emphasized that in some cases, multiple valuation techniques may be appropriate and that the Working Group had found the cost approach coupled with the income approach most effective. The Working Group used the cost approach to determine the current value of the contract based on mark or bid from wrapper. The Group used the income approach to determine the present value of the fee payments related to the contract. That required determining the cost of replacing contract as of statement date; the fee payments over duration or expected life of contract; and discounting using the appropriate bank-finance yield curve.

The Working Group has been working with the Big Four accounting firms to get their input on this FSP implementation issue. The dialogue has been positive. The Working Group has also been asked to discuss wrap valuation with the AICPA's Investment Companies Expert Panel. That discussion should occur sometime in late October or early November.

GASB Update. Aruna Hobbs, who chairs the Accounting Committee, reported that SVIA made its request for guidance on synthetic GICs in July before GASB in an educational session, which was much like presenting testimony. GASB has tentatively agreed to provide guidance on synthetic GICs as part of their derivatives project. They appear to be following SOP 94-4's template, which means that contract value will prevail. Like FASB, GASB has been focusing on credit quality. GASB tends to take a more prescriptive approach than FASB on issues like this. Much the Committee's effort has been on education and encouraging an approach similar to FASB.

Proposed Safe Harbor on Qualified Default Investment Alternatives. The Department of Labor proposed safe harbor default regulations on September 26th and requested all comments by November 13th. The Pension Protection Act mandates that the regulations be finalized by February 2007. SVIA's Government Relations Committee has identified three concerns with the proposed regulations. The Committee's Chairman Ralph Egizi reported that the concerns are:

- Stable value's exclusion as a stand alone qualified default investment alternative;
- Questions as to how the regulation will influence the use of stable value as a default;
- Questions as to how the regulation will impact the transfer requirements on investment restrictions, specifically equity washes.

The Government Relations Committee is using Don Myers and Michael Richman from Reed Smith as counsel on this project. The Committee's goal is to have stable value included as a fourth qualified default investment alternative.

Circle Trust. Circle Trust was the first stable value fund to go into bankruptcy. It was a "Katrina-like" event for all involved: defined contribution plan sponsors and investors, regulators and the Association, even though Circle Trust was never a member. Additionally, the bankrupt fund has been a concern in the FASB and GASB policy discussions. However, the Department of Labor, Circle Trust's independent fiduciary, Fiduciary Counselors, SVIA, and Circle Trust's investors have worked hard to contain the situation and to keep a bad situation from becoming worse. In a little over a year, a reorganization plan was approved that permitted payouts to investors of 95% of book value as of September 30, 2005—the date of the bankruptcy. Additionally, the DOL negotiated a settlement that is almost \$10 million. Fiduciary Counselors estimates that once this settlement is obtained, investors will receive 102% of book value.

Stable Value Practices. Ben Allison reported that he received two sets of direction regarding stable value fund practices. One camp wanted a detailed summary of major stable value investment practices while the other camp wanted a broad set of principles.

Ben asked the Board to work with him in deciding on one appropriate approach and its details. Once the approach is settled, the draft practices will be sent out to the manager membership segment for their input with the goal of getting a cohesive statement ready for Board approval at the April meeting.

Advice Providers. Marc Magnoli, Chairman of the Data and Research Committee reported that the Asset Allocation/Advice Working Group had renewed its discussions with the advice providers. To date, the Group has had conference calls with Morningstar and Financial Engines. He noted that not much had changed in regards to how stable value was modeled. He also reported that Guided Choice had declined to meet with us at this time. They believed such a meeting would reveal proprietary information.

Surveys. Marc also reported that the Data and Research Committee was reviewing past surveys to determine if there is a way to refine the questions and get quicker and better results without overburdening survey participants. The Committee is looking at the annual survey with the goal of having a revised survey by the end of December.

SVIA Board of Directors Responsibilities. Board responsibilities were reviewed in preparation for SVIA's Board elections. Board Members:

- Are or must become the voting member for their firm.
- Represent the Association and industry interests.
- Adhere to SVIA's Code of Conduct. In today's climate of Sarbanes-Oxley, members were reminded that SVIA's Code of Conduct asks that in case of potential conflict of interest that a member disclose the potential conflict with SVIA's Chairman or President to determine if any action is necessary.
- Serve three-year terms and cannot serve more than two terms in a row.
- Attend at least three out of four meetings.
- Participate and lead Association initiatives.

SVIA Election. SVIA members made nominations to run for the five open Board seats in 2007. 63 voting members nominated 39 potential candidates during August. The 39 candidates included 10 plan sponsors for two seats. However, the plan sponsor candidates became self selecting when two chose to run. The two plan sponsors are Karen Chong-Wulff from DuPont and Ed Adams from IBM.

Service firm candidates must receive at least three or 10% of total voting members making nominations—six nominations this year to be a candidate. This requirement narrowed the field from 29 to eight. All eight service firm members decided to run for the three provider seats. The eight candidates were: John Axtell, Mike Norman, Laura Powers, Daryl Dennis, Jeff Clark, Richard Taube, Adam Silver, and Brian Murphy.

The Board election would start after the Forum. Members will be asked to vote electronically using Zoomerang. Each organization has one member that they designate as the voting member. The election will close on November 3.

Each year, roughly a third of the board is up for election. This year the two plan sponsor open seats came from Jackie Bell's resignation and Nat Duffield's completion of two-three year terms. The three service provider open seats were due to Aruna Hobbs completion of two-three year terms, Mike Norman's seat and John Axtell's seat. Both are running for a second term.

Plan Sponsor Definition. Rick Cook reported that some members had questioned SVIA's definition of a plan sponsor as it related to firms who had expanded from a plan sponsor also into asset management. Those members thought that the foray into asset management moved the entity into a service provider. He announced that the Executive Committee was reviewing this issue and would make a recommendation for the Board's consideration in January.

SVIA Board Members Retiring. Two of SVIA's Board will be retiring this year having served on the Board for a total of six years. They are Aruna Hobbs and Nat Duffield. The Board thanked Aruna and Nat for their leadership and participation these past six years. Their contributions and Board retirement were also recognized at the SVIA Annual Membership Meeting and Forum.

Forum Report. The membership's response to this year's Forum has been roughly equal to last year's attendance even with the addition of the Spring Seminar. The positive response is attributable to the strong and solid agenda with speakers such as Lee Eisenberg, whose book, *The Number*, was nominated for the Quill Award, political pollster Charlie Cook, tax expert Randy Hardock and Lisa Alexander, a principal architect of the new proposed default regulations.

However, SVIA response patterns are substantially different this year. They were overwhelming slow in terms of hotel reservations and conference registrations. Typically, SVIA's hotel block is filled by August 1. This year, the block was filled by the end of August with considerable effort. Unlike past years, a third of the membership had registered by the end of August. In past years, two-thirds of the membership usually has registered by the end of August.

Even with this year's efforts, registration revenue may be closer to \$165,000 than the \$175,000. However, SVIA was able to get AM Best to cosponsor the Forum for a fee that should bring SVIA near to the revenue target.

SVIA events are important not only because they provide a membership service and significant source of revenue but they represent a significant financial risk. Rick Cook, SVIA's Chairman tasked the Executive Committee with evaluating if the Spring Seminar should be a yearly event in 2008 and to develop an approach to address members who appear to be coming to the Forum and do not also register for the event.

2006 Budget Update. Ben Allison, Chairman of the Membership and Budget Committee reported that SVIA was on target. On the revenue side SVIA has raised \$841,850 or 98% of its target. The revenue does not include most of the Forum

registrations. SVIA has met or exceeded most of the revenue targets. SVIA is well within the \$834,000 expense budget. To date, SVIA has spent 60% of that budget. There are three major expense outlays anticipated: Forum, accounting consultant, and legal counsel for the safe harbor initiative. While we have control over the Forum expenses, the consultant and legal counsel expenses are issue-responsive. Because these expenses are responsive to the issues' need, SVIA may spend more than the total annual \$220,000 budgeted for professional services.

2007 Budget Proposal. Ben overviewed the 2007 proposed budget, which projected revenues of \$896,400 and expenses of \$843,100, with a \$53,537 net. He explained the SVIA needed to make a profit to rebuild reserves, which have been used on important industry issues like accounting guidance. He reported that SVIA had two vulnerabilities: potential liability with hotels should a SVIA event be received poorly and the use of legal and accounting consultants which are dependent upon achieving major Association initiatives. The Board unanimously approved the 2007 budget.

2006 Audit. SVIA's auditor has been Capron & Associates since 1998. It was acquired last year by Aaronson & Associates and early this year our practice partner left. SVIA took this year as an opportunity to test the market and do some diligence. Eight firms that were recommended by the American Society of Association Executives' Center for Leadership were solicited. A total of four proposals were submitted including Aaronson. The Board unanimously approved and accepted Stokes & Associates' three-year proposal.

First Spring Seminar. The board discussed and concluded that SVIA's First Spring Seminar was successful. The seminar had received a very positive response from the membership. The majority of the members preferred the half day format of content with the remainder of the day for networking. The seminar came in on budget and netted roughly \$80,000.

Second Seminar on April 15-17, 2007. SVIA's second seminar will be held on April 15-17, 2007 at Charleston Place Hotel in Charleston, SC. The seminar theme is, "Evaluating 401(k) s: How Demographics, Savings, Plan Design and Investment Choice Are Shaping Retirement Security." In addition to content, the seminar will also offer walking tours and a second SVIA golf tournament.

Action Items Approved. The Board unanimously approved the June action items.

Upcoming Meeting Dates. The Board is scheduled to meet:

January 8-9, 2007	Fairmont Hotel in Washington, D.C.
April 15-17, 2007	Charleston Place Hotel in Charleston, SC
June 4-5, 2007	JPMorgan Asset Management at 245 Park Avenue in New York, NY
October 9-11, 2007	Fairmont Hotel in Washington, D.C.