January 10, 2007

To: SVIA Board of Directors

From: Gina Mitchell, SVIA

Re: Action Items from January 9th Meeting

The Board of Directors met on January 9th at the Fairmont Hotel in Washington, D.C. The following individuals attended the meeting. They were Ed Adams, Ben Allison, Don Butt, Tony Camp, Karen Chong-Wulff, Rick Cook, Mark Devine, Ralph Egizi, Bret Estep, Bob Fox, Doris Fritz, Bob Madore, Marc Magnoli, Brian Murphy, Vicky Paradis, Laura Powers, Ken Quann, Richard Taube, and Dylan Tyson.

Welcome New Board Members. The Board welcomed the new members. They were: IBM's Ed Adams, DuPont's Karen Chong-Wulff, AEGON's Brian Murphy, Blackrock's Laura Powers and Pacific Life's Richard Taube. These members were elected in October of 2006 for three-year terms that began with the January meeting.

Roster & Meetings. Please review your listing in the Board of Directors to make sure it is accurate and reflects the most recent information. Additionally, please review the proposed schedule for 2008. As you know, all but the October dates are proposed. If there are problems with the other three proposed dates, please let me know at your earliest convenience so that we can try to find a date that works for all Board members. We would like to finalize the meeting dates by the end of January.

Next SVIA Chairman. To prepare for a smooth transition at the end of his term, Rick Cook asked Board members to nominate candidates to run for the Chairman of the Board. He reminded members that the Chairman serves for two-years and his term would be over in 2008. The bylaws require the Chairman to be a current member of the Board. He asked that nominations be made directly to him or to Gina Mitchell before February 1 so that candidates could be announced to the Board prior to the April meeting and an election could be held at the April meeting.

FSP Update. Laura Powers gave an update on stable value accounting issues. She reported that the FSP Working Group had briefed the two AICPA Expert Panels that had oversight on stable value funds. They were the Employee Benefit Plans on November 21 through a conference call and Investment Companies on October 31 at a meeting in New York City. The Working Group presented SVIA's findings on wrap valuation and the sensitivity analyses. Both groups thanked the SVIA for its work and agreed to use the SVIA as a resource as they addressed implementation issues.

After these discussions, it appears that the audit community represented on the two panels had new questions in three areas:

- Interpretation issues regarding paragraph 11's reconciliation statement, yield and crediting rate calculations;
- Valuation of wraps where individual audit firms preferred different approaches to valuation;
- Effective date where at least one panel, the Employee Benefit Plans was requesting a delay in order to resolve interpretation issues.

The AICPA Employee Benefits Plans is requesting two things from FASB: guidance on interpretation and delaying the implementation date of the new standard. The AICPA requires that such requests come from the AICPA's Executive Committee, which meets sometime this week. FASB participates in these meetings as an observer.

SVIA's Working Group held a conference call with the FASB to request guidance on wrap valuation and interpretation questions in light of these developments and the fact that we are in the 2006 audit season. The group in consultation with SVIA's Executive Committee did not ask for a delay in the implementation day since it would diminish SVIA's work on these issues, possibly our credibility and could delay resolution on interpretation issues.

We learned that FASB would not give guidance on wrap valuation since they were starting a separate initiative to address valuation questions sometime this year. Additionally, FASB had been approached by the Employee Benefit Plans Panel on interpretation issues. However, FASB had not yet met with the Panel to hear their concerns. FASB suggested that we convene a call within the next two weeks once they had an opportunity to learn the Panel's concerns and hear the AICPA Executive Committee discussions. Finally, the Working Group is continuing to dialogue with the Big Four auditors to help get a consensus on the issues.

<u>GASB Update.</u> The GASB Board agreed to provide guidance that supported contract value for synthetic GICs in November. The Board will receive a status report on the stable value component that is incorporated in their derivatives guidance project on January 10th. The GASB Board is targeting the release of the derivative standard for June with application beginning in 2008.

<u>Eleventh Annual Survey.</u> Marc Magnoli, the Chairman of the Data and Research Committee reported that the 11th Annual survey would be distributed in two waves. The first wave would be sent to the plan sponsors, external managers and commingled fund managers at the end of January. The second wave would be sent to full service managers at the end of March.

This year, the SVIA would have quicker and closer follow up on the survey to get more accurate and timely data. Additionally, members of the Board may be asked to make calls to get survey data completed in a more timely manner.

SVIA Manager Survey. The Board also recognized the need to build a stable value returns and assets survey within the Association to promote stable value. The Board agreed with this initiative and the approach to ask for three numbers: assets under management, net return and net credit rating (net of management and wrap fees). This may mean that some members would need to gross up return and crediting rates by recordkeeping and/or trustee fees and, possibly brokerage and agent fees for full service members. Dylan Tyson and Tony Camp agreed to work with Marc and Gina to develop appropriate instructions for the full service segment to ensure that return and credit rating was analogous to the other manager segments. Additionally, this work would also be incorporated in SVIA's fee template to more fully represent the full breath of stable value investment management.

Proposed Safe Harbor QDIAs. Ralph Egizi, Chairman of the Government Relations Committee reported that the Committee had developed and filed comments on behalf of the SVIA. Additionally, Bob Fox, Marc Magnoli, Kim McCarrel and Bill Gardner met with Robert Doyle and key staff to follow-up our comments.

The meeting revealed that the Department saw stable value as fungible and gaining representation in the three proposed options. The Department had chosen only one criteria for simplicity and objectivity: age to guide a fiduciary's default choice. The Department had made no distinction between stable value and money market funds. They were most concerned about a young plan participant that would be defaulted into an investment and remain there for the entirety of his or her working career.

SVIA emphasized the following points.

- Stable value and money market funds were distinct and different assets.
- Stable value should be a QDIA under the proposed regulations.
- For some employee populations, stable value is an appropriate QDIA.
- Pushing participants into defaults with equity could drive these participants out of the plan or lower their contributions should they have a negative investment experience.
- The law requires a capital preservation choice as a QDIA.
- It was not possible to distinguish defaulted contributions from actively invested contributions since record keepers do not track investments in this manner.
- Lastly, because of the inability to distinguish between defaulted and actively invested money, a change in a default would require global re-enrollment and that would be a plan event, which would negatively affect those who had actively selected stable value as an investment.

Since that meeting, the SVIA was successful along with other groups in getting a letter from members of the House of Representatives calling on the Department to add a capital preservation vehicle as a QDIA. Additionally, the SVIA sent in a follow-up letter on January 7th calling on the department to add stable value as a QDIA and to build on the age-based criteria by restating DOL's prudence guidance. The prudence guidance would permit the DOL to have a more robust criteria for default investments. This would help the Department incorporate stable value and expand the use of managed accounts as one of the proposed defaults.

The Government Relations Committee will continue to met and elevate this issue within the Department of Labor, the Administration and Congress.

Stable Value Practices. Ben Allison reviewed the latest draft of the stable value practices paper. He noted that the paper had put forward key principles with four statements that defined duration, diversification, credit quality and leverage. The Board suggested three changes to the draft and tentatively approved the draft. The Board requested that the revisions be made and circulated to the entire membership for their consideration. Any comments must be filed by the end of February so that input from the general membership could be considered and any necessary changes made in time for the April meeting. It was the Board's goal to formally adopt the practices statement by the April meeting.

Fees. The Board discussed the GAO report on 401(k) Fees and the new House Education and the Workforce Committee Chairman George Miller (D-CA)'s interest in legislating more transparcy and disclosure on fees. Mark Devine reminded the Board that SVIA was ahead of the curve on this issue with its fee disclosure template for the stable value asset class. The group agreed to use this template in policy discussions. Additionally, Dylan Tyson and Ken Quann agreed to work to see how the full service segment could use the template. Tony Camp agreed to share ING's disclosure information that they were developing and releasing this quarter.

Communications. Vicky Paradis, Chair of the Communications and Education Committee asked the Board to use the interest in fees and the focus on the full service segment in the press as an opportunity to educate plan sponsors, consultants, policymakers and the press about stable value. Several initiatives can serve as the building blocks for this outreach: stable value practices, fee template and returns survey.

The Board unanimously approved this effort. Additionally, the Board asked that members provide contact information for consultants who are critical gatekeepers and opinion leaders for an Association outreach to this important constituency.

Additionally, Vicky asked for individuals interested in working on this initiative to please join the Communications Committee and help out.

Membership and Budget. Ben Allison, the Chairman of the Membership and Budget Committee reported that despite two major expenses, that of the accounting consultant and counsel on the safe harbor, SVIA should close out the year above our net target of $50,000.

A question was raised as to SVIA's operating reserves and target. At year end, SVIA's operating reserve is $550,000 which is almost equal to the reserve in 2005. However, 2006 differs from previous years in two ways. First, SVIA has three on-going initiatives.

They are: accounting, which incorporates GASB guidance and FASB implementation issues; incorporating stable value as a QDIA; and meetings, which includes the addition of the Spring Seminar to the Fall Forum. In the previous year, SVIA's major focus was limited to FASB.

The second difference is for the past several years, SVIA has significantly tapped retained earnings. Even with this the increase in workload from one to three initiatives, SVIA's hit to retained earnings could be considered modest. In 2005, SVIA withdrew almost $126,000 to fund the FASB initiative and in 2006, SVIA used $158,000 to fund the three initiatives.

Please see the attached balance sheet for 2005 and 2006 for more information. Please note that some auditor adjustments have not yet been made for 2006. This shows up most significantly when looking at Total Accounts Payable. The 2005 number of $381,949 includes 2006 deferred dues. The 2006 number for Total Accounts Payable does not incorporate 2007 deferred dues that were collected during the year. Additionally, the 2006 net income number may be significantly lower once the auditor makes these accounting-driven adjustments. Lastly, a two year comparison of Profit and Loss is also attached for your information.

Meetings. SVIA held its last Forum at the Ritz Carlton this year. 158 people registered for the event. The Forum collected $178,592.05 in revenue. $11,000 of revenue came from AM Best's co-sponsorship of the event. Expenses for the event were $130,537.99, which meant that net income from the Forum was $48,054.06.

SVIA's first Spring Seminar produced similar results. Registration revenues from the seminar were $178,188.41 and expenses were $92,061.89. Net income for the Spring Seminar was $86,126.52.

The Fall Forum tends to have higher expenses due to the longer format of a day and a half compared to the Seminar's two half days and two receptions. Additionally, travel, speaker expenses and hotel meal costs tend to be higher for the Forum than the Spring Seminar. For more detail, please review the Profit & Loss by Class Statement.

October Minutes. The October Board and September Executive Committee action items were unanimously adopted.

Attachments: Meeting Dates 2007 to 2008
Updated Board Roster
Balance Sheet Comparison December 31, 2006 to 2005
Profit Loss Comparison December 31, 2006 to 2005
Profit Loss by Class December 31, 2006