April 18, 2007

To: SVIA Board of Directors

From: Gina Mitchell, SVIA

Re: Action Items from April 15, 2007 Meeting

The Board of Directors met on April 15th at the Charleston Place Hotel in Charleston, South Carolina.

The following individuals attended the meeting. They were Ed Adams, 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. Andy Apostel and David Starr also attended the meeting. Ben Allison was unable to attend.

Listed below are the action items from the April meeting.

Stable Value Practices. The Board of Directors reviewed an updated draft of the stable value practices that incorporated comments received from the general membership. Seventeen members provided comments that were described as constructive and positive. The Board affirmed the draft's principle-based approach and agreed to keep descriptions of stable value practices reasonably broad since the Annual Stable Value Fund Investment and Policy Survey provides an annual overview of stable value investment practices.

The group agreed to the changes recommended by the Executive Committee in the revised draft. The Board agreed to have the final draft professionally edited before a final review by the Board and release to the membership.

DOL Proposed QDIA Safe Harbor. The Board was updated on the DOL's proposed QDIA safe harbor regulations. The Department is working to finalize the regulations this summer. It is anticipated that the Department may send the regulations to OMB for final review before Memorial Day, where the regulations have been cleared for expedited approval. While the DOL remains very circumspect on stable value as a safe harbor, staff has indicated that the Department understands that the regulations have over-estimated equity returns, under-estimated stable value returns, and over-estimated the ability to use stable value in the three-proposed safe harbors. The Department also understands that the only direct way to obtain stable value is to offer stable value as a QDIA.

The DOL has raised specific concerns on the inclusion of guaranteed products. They are concerned about withdrawal restrictions and market-rate adjustments. Additionally, a very large lobby group has emerged to support the DOL's equity-based QDIAs compared to those supporting stable value. SVIA met with the Department on March 8th. Marc Magnoli, Ben Allison, David Babbel and Gina Mitchell represented the Association. SVIA will be meeting with staff on April 18th. SVIA will be represented by Marc, David, Gina and Laura Dagan.

The Board agreed that should the Department remain silent on the addition of stable value as a QDIA, the Association should go to OMB and make its case since OMB has final authority on all regulations.

<u>CRAI/Wharton Study.</u> SVIA hired David Babbel from Charles Rivers Associates International (CRAI) and Wharton to evaluate the assets discussed in DOL proposed regulation. The evaluation has two goals. The evaluation should provide strong economic and financial support for including stable value as a fourth QDIA. The second goal is to produce a white paper that evaluates stable value as an asset class.

CRAI/Wharton's David Babbel has asked the Association to consider publishing the study's findings in a leading economic and/or investment journal. A published article would add to stable value's credibility as an asset class and increase awareness within the investment community. The Board agreed that the study should be published and that SVIA would not 'brand' the study as SVIA-sponsored research since such branding might invite questions about bias. Publishing such an article in a leading journal is generally a two-year process.

CRAI/Wharton's research to date has found that stable value funds deliver what has been promised: a bond-like return without the volatility with the liquidity of a money market fund. Additionally, the study has found that stable value dominates bond funds, money markets, most balanced funds and life style funds.

The CRAI/Wharton stable value return series is <u>*net of fees.*</u> The series covers $189 billion in stable value assets, which is approximately 47 percent of the total assets managed by SVIA members. Nine of SVIA members contributed data to the series: Dwight, Fidelity, INVESCO, JPMorgan, Merrill Lynch, New York Life, PIMCO, TRowePrice, and Vanguard.

<u>401(k) Fees & Disclosure.</u> Ralph Egizi reported that most plan sponsors were still waiting to see what developed from lawsuits charging that 401(k) fees were too high and were not disclosed. He reported most of the suits were still in the discovery phase.

Gina Mitchell reported that the House Committee on Education and the Workforce also held a hearing on 401(k) fees. The hearing produced agreement that fees were an important component of defined contribution plan investing and that fees should be disclosed to plan participants. Vanguard's current fee information and Spitzer's negotiated disclosure with AIG were sited as models for disclosure by the Chairman George Miller. Additionally, the Chairman noted that the Department of Labor was also looking at disclosure and would be issuing guidance shortly.

The Board agreed to continue to monitor the fee disclosure issue at this time.

<u>Accounting Issues.</u> Laura Powers reported that the controversy with auditors on the FSP's yield and credit rate calculations had been clarified by FASB. Use of the word earned in the FSP had rendered two different interpretations: one required a calculation at a specific point in time; the other required a 365 day calculation. The AICPA had requested guidance from FASB on this issue. Importantly, FASB upheld that the calculation should be at the end of the period date. It is anticipated that the AICPA will alert auditors to the FASB decision in a risk alert technical memorandum.

GASB will provide guidance on accounting for state and local plans' that invest in synthetic GICs as part of their derivatives guidance project. The final draft of the derivatives guidance is expected in June. SVIA's Working Group on Accounting has reviewed draft language from an investment, accounting and implementation point of view. To date, GASB's approach is very similar to FASB.

Audit. SVIA was audited by Stokes and Company for 2006. Stokes and Company gave SVIA an unqualified opinion. The cash flow statement shows a loss of $50,409, which represents a decrease from previous years. The loss represents unbudgeted and open-ended expense for accounting consultants on GASB-FASB and now the safe harbor, with Reed Smith and CRAI/Wharton. Additionally, the new statements break out expenses by SVIA's major functions: professional services, operations, communications and, dues and revenue.

SVIA has a three-year agreement with Stokes for audit and tax preparation. They suggested SVIA change how credit card charges for dues and conferences were processed. SVIA has incorporated that change.

2008 Spring Seminar Location. The 2008 Spring Seminar will be held at Ponte Vedra Inn & Club, which is located at Ponte Vedra Beach, Florida. The Inn is roughly 20 minutes from the Jacksonville Airport. The Inn recently received the Five Diamond Award by AAA. It is directly on the beach and has two 18-hole golf courses on property in addition to a gym, two pools and a new spa. SVIA's room rate is $290 for beach front rooms. The Spring Seminar is scheduled for April 13-15, 2008.

2007 Spring Seminar. Attendance for the second Spring Seminar is roughly equal to the first seminar with 130 people in attendance. Additionally, this year may be affected by weather due to storms up and down the East Coast.

Communications & Education. Vicky Paradis asked that individuals interested in serving on the Communications and Education Committee, please speak up. She reported that Brian Murphy and Dylan Tyson had agreed to join the Working Group to develop an action plan and materials related to the CRAI/Wharton study. The Working Group would develop messages and an outreach plan for key gatekeepers like consultants and plan sponsors.

Data & Research. Marc Magnoli reported that SVIA was halfway through the Annual Survey. Data had been collected from the external and pooled fund manager segments. The insurance segment response was sent out in early April with an April 20th deadline. He anticipated that the survey in its entirety will be released in May.

LIMRA-SVIA Survey. Marc also reported that SVIA and LIMRA surveyed the membership about moving the quarterly survey to semi-annually and about listing the rankings of respondents. Responses to the survey wanted to keep the survey quarterly. However, the majority of banks did not want to be part of a quarterly ranking. The banks' response was overwhelmingly negative: four to two.

Membership & Budget. Gina Mitchell reported that SVIA's revenues were positively tracking past years. One Value Program member dropped down to the $5,000 level. Additionally, the Spring Seminar revenues are estimated to be $144,000. However, the expenses for the Spring Seminar should be less than anticipated. Expenses for accounting consultant have wound down.

However, professional fees will remain high since the CRAI/Wharton study may run as much as $350,000.

January 2007 Action Items. The action items from the January Board meeting were unanimously approved.

SVIA Board Membership. Recent changes in Ben Allison's company affiliation have pointed out an ambiguity in the bylaws. Board members are individuals. However, all Board members must be from a company that is in good standing and be the voting member for the firm. Board members run as an individual from a select firm. The Board charged the Executive Committee to address the ambiguity in the bylaws and make a recommendation on how to address the change in affiliation for the Board's consideration as soon as possible.

Elections. SVIA's Board will have six seats, three service firm and three plan sponsor seats up for election in October. Three of the individuals are prohibited from running since they have served two-consecutive three year terms. They are listed below.

Service Firm: Ben Allison
Service Firm: Bob Madore (6)
Plan Sponsor: Don Butt (6)
Plan Sponsor: Mark Devine
Plan Sponsor: Bob Fox (6)
Service Firm: Ken Quann

Next Meeting. The Board's next meeting will be June 4-5 in New York, New York. It will be hosted by Vicky Paradis and held at JPMorgan's new offices, which are located at 245 Park Avenue.