June 6, 2007

To: Board of Directors

From: Gina Mitchell

Re: Action Items from June 5th Meeting

The Board of Directors met on June 5th at JPMorgan in New York, NY. The following individuals attended the meeting. They were Ed Adams, Don Butt, Tony Camp, Karen Chong Wulff, Rick Cook, 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. Ben Allison, Mark Devine and Steve Lelaurin were unable to attend the meeting.

Stable Value Key Principles. A final draft was presented to the Board for approval. The final draft incorporated the April meeting discussions and Board members' comments that were received prior to the meeting. The Board unanimously approved the stable value key principles with the major changes described below:

- Moved 'stable value use' paragraph from key principles to introduction since it was not a principle but an explanation of where stable value is used.
- Eliminated the last paragraph that discussed required disclosures since these were not principles but requirements. Compliance to different regulatory authorities was previously addressed in the statement.
- Agreed to keep the language describing duration to "…between two to five years…" This language was put to a vote to the Board and won over the alternative proposed, which was "between two to six years."
- Agreed to add short to the last sentence of the Introduction to read, "…short and intermediate-duration bonds…"
- Agreed to eliminate liquidity in the second paragraph of key principles. The sentence now reads, "…invests in investment-grade, fixed income…"
- Agreed to eliminate liquidity in the fourth paragraph of key principles. The sentence now reads, "…generally includes high-credit-quality, fixed income securities…"

FASB Implementation Issues. The Board discussion focused on the confusion and inconsistency among auditors this year on the new FSP. It was reported that auditors were asking for more documentation as to methodology and supporting data.

AICPA's education materials for auditors of employee benefit plans were discussed and distributed to the Board. The Board agreed to post the information for the general membership. The information includes guidance on Paragraph 11, which dictates how required yield

calculations must be made. This information reflects SVIA's assertion that the data required is for the period ending date for the yield and/or rate calculations.

GASB. GASB's derivatives exposure draft incorporates guidance for synthetic GICs. The proposed guidance affirms that contract value is required. The GASB Board is scheduled to review the proposed guidance at its June 19th meeting. The Board anticipates more comments and public hearings but expects to have final guidance released by the end of the year. The guidance would be effective in 2008.

SVIA has sought four clarifications. Two of the clarifications have been incorporated in the latest versions of the exposure draft. They are to clarify that the:

- Wraps' assurances are to plan participants, which is incorporated.
- High credit quality applies to overall portfolio of assets not individual securities, which is incorporated.
- Guidance applies to all stable value structures. As currently drafted, the guidance can be applied strictly to governmental pooled funds, which leaves out state and local governmental funds that invest in stable value through bank pooled funds or separate accounts. To cover the various stable value structures that exist now and that may develop in the future in response to governmental plans' needs, a reference to these types of structures is necessary. SVIA has suggested and the staff has agreed to add language that states that the guidance applies to a broad array of synthetic structures such as, "This guidance applies to an array of synthetic GIC structures such as but not limited to separate accounts, bank pooled funds and/or governmental collective funds."
- Contract value needs to be reaffirmed in individual participant statements. GASB provides guidance on the valuation of units in external pooled funds in GASB 31. This guidance requires market valuation, which means participants' statements must show market value. Staff agreed to clarify that contract value should be used for units in a stable value fund by codifying that contract value is the appropriate valuation for units in stable value pools in GASB 31.

Bylaw Clarifications. Several items in the bylaws were outlined for clarification. They included: vacancies, board membership changes, time-off Board requirement, majority of Board membership consists of service firms, definition of a plan sponsor and service provider. The Board agreed to define a plan sponsor as an entity not involved in stable value other than offering stable value as an investment option in a tax-deferred savings vehicle. The Board defined a service provider as any entity that offers stable value services. Additional items for clarification include officers, their terms, how officers are appointed/elected, make-up of the Executive Committee, ex-officios, and voting.

The Board was asked to raise any additional areas for review and to make recommendations on these issues. Areas for review and recommendations for change are needed by June 15th. Once revisions are made, they will be put before the Board for consideration. The Board agreed that they would like to move this prior to the October meeting.

DOL Request for Comments on 401(k) Fee Disclosure. The Board agreed to provide comments on the DOL's request for participant information on investments and fees. Don Butt and Ralph Egizi volunteered to share a summary of CIEBA's best practices on fee disclosure to the Board. Additionally, Don Butt agreed to distribute a working draft of plan sponsor groups' response to the DOL request. Ralph agreed to lead this issue. Don Butt, Karen Chong-Wulff, Dylan Tyson, Tony Camp, Rick Cook and Marc Magnoli agreed to be the Working Group to draft SVIA's response. Comments are required by July 24.

DOL Proposed Regulations on QDIA Safe Harbor. SVIA filed a letter with OMB making a case to include stable value funds as the capital preservation option in the safe harbor regulations. Additionally, SVIA requested a meeting with OMB on the proposed regulations once they are submitted for review. OMB has agreed to meet with SVIA on this issue once DOL submits the proposed regulations for final review. It is anticipated that DOL will submit the regulations some time this summer.

On May 31st, the Investment Company Institute sent a letter countering the ACLI's request to include capital preservation vehicles in the safe harbor. The Board agreed that SVIA should respond in writing to the letter. SVIA's response should be to the major points, avoid arguing over assumptions and using dueling experts. A straw man of major points for SVIA's response has been circulated to the Board for comments. The major points will be the basis of SVIA's letter. SVIA's letter must be filed quickly since this issue is expected to move shortly.

White Paper. CRAI/Wharton submitted a first draft of the white paper on stable value. While a good first draft, the paper needs much work to be used as an educational piece on stable value. The Board agreed to use the Executive Committee and participants in the DOL meetings as the Working Group to review and revise the draft. Additionally, the Board agreed that the white paper on stable value should be released after the QDIA debate is settled and that the white paper is a separate and distinct project from the QDIA effort.

Stable Value Performance Measurement Ratio. Vicky Paradis reported that JPMorgan had developed a performance measurement ratio for stable value funds. She described the measurement as a universal measurement of risk for stable value funds. She asked that the Board consider making the ratio an Association initiative since it has been well-received by consultants and plan sponsors. She encouraged the Board to join a JPMorgan web cast on the new stable value ratio. Additionally, she will share more information about JPMorgan's ratio once it is developed.

Review of Revenues. Ken Quann reported that SVIA's was financially stretched as it has picked up more responsibilities such as accounting guidance and the safe harbor regulations. Even though we have added a second conference, attendance at conferences has leveled off resulting in lower than expected net income. The financial stretch is illustrated by the increase in expenses for professional services and lower balances in cash and retained earnings. The Board agreed to review sources of revenues and consider various ways to increase SVIA revenues such as raising dues, registrations or expanding its niche to include the spread based business. Ken Quann agreed to report and make a recommendation to the Board on this issue.

Board Appointments. It was reported that the Board had approved the Executive Committee's recommendation to make and interim appointment of both Ben Allison and Steve Lelaurin to the Board until the end of this year. The Board seat will be up for election this fall since the term for the seat expires at year-end. All but two members supported the Executive Committee's recommendation.

Board Elections. Seven Board positions will be open for election this fall. There are three plan sponsor positions that will be open. All three sponsors: Bob Fox, Don Butt and Mark Devine have served two-consecutive terms and are not eligible to run for the Board. Four provider seats are open. They are held by Bob Madore, Doris Fritz, Ken Quann and Ben Allison. Bob Madore has also served two terms and is not eligible to run again.

January 2008 Meeting. Richard Taube agreed to host the January Board meeting at Pacific Life in Newport Beach.

Next Board Meeting. The Board will meet next at the October Forum on October 9th at the Fairmont Hotel. SVIA's Annual Forum dates are October 9-11.