

October 16, 2009

To: SVIA Board of Directors

From: Gina Mitchell, SVIA

Re: Action Items from the October 14<sup>th</sup> Board of Directors' Meeting

The SVIA Board of Directors met on October 14<sup>th</sup> at the Fairmont Hotel. The following board members attended the meeting: Ed Adam, Tony Camp, Jordan Culp, Terry Finan, Doris Fritz, Warren Howe, Steve LeLaurin, Marc Magnoli, Sharon Parkes, Marijn Smit, David Starr, Richard Taube and Michael Wyatt. In addition, many SVIA members attended the meeting. A list of attendees is attached for your information.

**SVIA Officers.** The meeting started with introduction of SVIA's officers and followed with introductions among all attendees. SVIA's officers are:

- Marc Magnoli, SVIA Chairman,
- Richard Taube, Communications & Education,
- Steve LeLaurin, Data & Research,
- Doris Fritz, Membership & Budget and Treasurer/Secretary,
- Tony Camp, Government Relations,
- Gina Mitchell, Events.

**SVIA Board Elections.** SVIA's Board of Directors' election will begin on October 15<sup>th</sup> and closes on October 23<sup>rd</sup>. Each firm's voting member has been asked to register their choice for the four open positions among the five candidates. There are three service firm positions and one plan sponsor position open. The candidates are:

- Ed Adams, IBM as plan sponsor,
- Peter Chappellear as service firm,
- Jim King as service firm,
- Marijn Smit as service firm,
- Richard Taube as service firm,

The election is electronic and all votes are confidential.

**Communications & Education Update.** Richard Taube updated the Board on the Communication and Education Committee's activity. After several months of blunting press stories that focused on problems within stable value funds, press has become positive. Positive stories ran in the *Wall Street Journal* on October 14<sup>th</sup> story, Kiplinger's *Personal Finance's* October issue and *Employee Benefit News* on September 15.

**Website Updated.** SVIA's website was redesigned and released at the end of August. The change in technology permits SVIA to get the Association's message out to the

public in real time. Examples of SVIA's ability to respond include the FAQs, responses to incorrect or misleading press articles.

Additionally, the Members' Only section has been revamped to make it more secure and fully functional. All members are required to have an ID, which is their email, and a password, which is automatically assigned but can be reset once a member logs in. The system allows passwords to be reset if they are forgotten, lost, or someone wishes to change to a password they can more readily remember.

The Members Only section contains information that is available only to members such as: SVIA's Consultant Outreach Presentation, which served as base for several other presentations available on the website including the New York Federal Reserve and the ERISA Advisory Council. This section also houses all SVIA surveys, past issues of *Stable Times*, and updates on issues that are of interest to the stable value industry.

**Membership and Budget.** Doris Fritz, the Chairperson of the Committee on Membership and Budget gave a quick report on membership and budget. She noted that SVIA did experience a drop in membership due to changes in the economy and the industry. Firms such as AIG, Hueler, ING (Colorado), Principal, Putnam, and UBS were no longer members. Additionally, participation in the Value Program declined with the loss of AIG, Ameriprise, Goode, Principal, Rabbobank and ING moving to a Silver Sponsorship level. SVIA did gain two new members: TIAA CREF and Charles Schwab.

**2009 Budget.** Doris reported that SVIA was well within its budget. She noted that despite changes in membership, SIVA had achieved 95% of its revenue target at the end of the August. SVIA also had spent 55% of budgeted expenses for the same period. This included the redesign of SVIA's website, which had not been contemplated when the 2009 budget was approved last fall.

**Secretary's Report.** Doris, who also serves as SVIA's Secretary reported that several items had been unanimously approved prior to the October meeting in order to dedicate more time to the capacity and tail risk discussion. The issues that were unanimously approved were:

- Steve LeLaurin as Chairman of the Data & Research Committee,
- The June Board of Directors' action items,
- Antitrust Policy Resolution,
- Larsen Allen for audit and tax preparation services for 2009 through 2011.
- SVIA's 2010 Budget, which has conservative revenue expectations and realistic expense expectations. She noted that the Association would be having two conferences in 2010: the Spring Seminar in April and the Fall Forum in October. Additionally, the budget did not anticipate a major public relations or regulatory or legislative initiative.

**Data and Research.** Steve Lelaurin emphasized that data is critical for the membership and to carry out SVIA's government and public relation initiatives. He stressed that timely, accurate, and full participation is needed. He reminded the group that all individual responses are confidential and that data is only used in the aggregate and very selectively.

SVIA has three survey initiatives. They are the Annual Stable Value Fund Investment and Policy Survey, which occurs at the end of January; the SVIA-LIMRA Stable Value Sales and Assets Survey, which is biannual; and the Stable Value Quarterly Characteristics Survey, which began this year.

**Government Relations.** Tony Camp, who chairs the Government Relations Committee, reported that SVIA had testified before the ERISA Advisory Council on July 23<sup>rd</sup>. SVIA appeared as a panel before the Council. SVIA was represented by: Gerry Katz, Marc Magnoli, Jim McKay, and Gina Mitchell. He reported that the ERISA Advisory Council would be issuing a report to the Assistant Secretary of the Employee Benefits Security Administration this fall. The Council is:

- Recommending more education such as FAQs for plan sponsors on stable value,
- Recommending simple and concise materials for plan participants that explains stable value, and
- Not asking the Department to revisit or revise the QDIA to include stable value funds.

Tony also reported that SVIA met with the New York Federal Reserve on July 24<sup>th</sup> at their request. The New York Federal Reserve is considering stable value as part of systemic risk assessment and is currently gathering information. He reported that SVIA was represented by: himself, Julie Fisher, Steve Kolocotronis, Marc Magnoli, Jim McKay, Gina Mitchell, and David Starr. He stressed that SVIA's message was that stable value funds are working despite market stresses. He noted that the policymakers' questions centered on employer initiated events and problem securities.

He reported that the New York Federal Reserve and Department of Treasury urged the Association to develop best practices and/or standard terms and conditions to promote consistent application on employer-initiated events and problem securities. The policymakers stressed that in discussions with stable value market participants they learned that stable value funds have inconsistent applications for employer initiated events and troubled securities and that contract terms were also inconsistent or opaque. They stressed that the industry needed to demonstrate what lessons have been learned from last fall's market challenges and prevent them from reoccurring in the future.

Tony reported that a Working Group had been formed to look at the issues (employer initiated events and troubled securities) identified by the New York Federal Reserve and Treasury Department. Their first call was held on October 9<sup>th</sup>.

**Derivatives Legislation.** Tony reported that the Government Relations Committee was reviewing derivatives legislation introduced by the House and Senate. A concern was raised that the legislation, which is intended to regulate over the counter derivatives, may impose reporting and capital reserve requirements on stable value funds. Tony asked that the membership review the legislation and share their concerns and observations with the committee.

**Consumer Protection Legislation.** Marijn Smit asked that SVIA monitor legislation that creates a consumer protection agency, which may subject stable value to additional regulation if they are inadvertently included within this new agency's jurisdiction. The Board added this issue to the Government Relations' agenda.

**Events.** Gina Mitchell reported that despite the challenging times within the industry, the Fall Forum has been favorably received. 126 individuals registered for the Forum. She announced that SVIA will be holding a Spring Seminar on April 11-13, 2010 at the Four Seasons in Palm Beach (\$205 rate) and next year's Fall Forum will be held on October 13-15, 2010 at the Fairmont.

**Working Group on Capacity.** Jim McKay and Marijn Smit, who co-chair this Working Group, reported on the Group's deliberations. Jim and Marijn said their group had divided into two sub-groups: one focusing on increasing capacity among existing wrappers, which is led by Adam Silver and Henry Kao; the other focusing on bringing new entrants to the industry, which is led by Al Turco and Mark Lubjuich.

They reported that the sub-group focusing on existing issuers had interviewed many of the issuers and found three concerns that inhibited capacity. They were concerns with tail risk and the perception of increased volatility and risks, differences in contract terms, and evergreen contracts, specifically that these contracts did not contain provisions that provided for adjustment to reflect changes or exit provisions.

Al and Mark's group have pulled together a library of data and information that is useful to new entrants. They have also identified a list of potential new entrants.

**Separate Accounts.** Gerry Katz and Steve Schaefer headed this Working Group. This Working Group identified a number of issues and obstacles to increasing separate account capacity. They are exploring the reasons why this stable value structure is under-utilized. It is used mostly by insurance companies. They have also identified companies that may be interested in participating or renewing their participation in this market.

**Reinsurance.** John Axtell and Paul Curran have led this Working Group that is looking at property, life insurers and even hedge funds to take some of the risk in stable value fund contracts as a means to open up capacity. They have been using an S&P white paper on reserving capital for stable value funds as a resource. Additionally, they have

surveyed existing wrap providers to determine their interest and key issues in pursuing reinsurance. They have identified a list of potential institutions that may have an appetite for reinsurance. However, John noted that this group tends not be highly rated, this initiative gets expensive, and it is also complicated.

**Tail Risk Considerations.** A roundtable discussion was held that discussed tail risk concerns. Participants included Tony Camp, Bill McCloskey, Marijn Smit and BobWhiteford.

**Recognitions.** Laura Powers and Laura Dagan were recognized for their many contributions to the Association. Laura resigned from SVIA when she left BlackRock this summer. Laura had chaired the Data & Research Committee and led the Association's efforts on accounting including establishing a uniform methodology for wrap valuation. Laura Dagan is retiring from Dwight Asset Management in December. Laura is a former member of the SVIA Board and she has spear-headed the Association's initiatives on capacity and related issues.

Attachment: List of Board of Directors' Attendance