



June 7, 2011

To: SVIA Board of Directors

From: Gina Mitchell, SVIA

Re: Action Items from the April 3rd Meeting

The SVIA Board of Directors' met on June 7 at the Morrison House in Alexandria, Virginia. The following Board members attended the meeting: Ed Adams, Peter Chappellear, Jordan Culp, Terry Finan, Aruna Hobbs, Warren Howe, James King, Steve Kolocotronis, Steve LeLaurin, Marc Magnoli, Sharon Parkes, Marijn Smit, and Bob Whiteford. Tony Camp and Doris Fritz were unable to attend.

Developments Affecting Stable Value. The Board discussed and identified several approaches that might increase contract capacity for pooled funds. They included: tightening of contract terms, shortening of pooled funds' duration, laddering payouts from terminating plans over the duration of the fund, having a floating NAV, concentration of the same advisors/consultants in the fund, concentration of a plan or plans in the fund. The Board agreed to form a Working Group consisting of managers and issuers to explore the issues affecting pooled funds and develop solutions to address concerns where there was a synergy.

Additionally, the Board discussed contract capacity. It was noted that several potential providers were interested in the wrap market. However, for new entrants into stable value, progress is expected to remain very slow and deliberate.

Update on Swap Definition and Stable Value Contract Study. Jonathan Flynn from Cadwalader, Wickersham & Taft, LLP provided an update on the CFTC/SEC's proposed swap definition and the stable value contract study. Both Flynn and Anthony Mansfield serve as SVIA's counsel on swaps and the stable value contract study.

Flynn predicted that it was highly unlikely that the Commissions would meet the Dodd-Frank October deadline for completion of the stable value study. He pointed out that the Commissions had missed most of the deadlines in Dodd Frank. He explained that the delay would not directly penalize stable value contracts since the current regulatory structure would govern stable value contracts and that Dodd Frank grandfathered all contracts in existence until the Commissions issued guidance on the issue. Specifically, the Dodd Frank requires the Commissions to both conduct a study of stable value contracts and conclude if stable value is a swap. Under Dodd-Frank, the Commissions must reach a decision to

either exempt stable value contracts from regulation as a swap, or define the swap regulatory structure for stable value contracts.

Flynn anticipated that the Commissions would act on stable value contracts once they finalized regulations defining swaps. He explained the just released proposed swap definition, which were over 315 pages. He pointed out that as proposed the swap definition carved out all insurance products. The proposed exemption of insurance products was a positive development since it provided insight as to the Commissions' views. However, Flynn noted the proposed swap definition contained a footnote that spotlighted the Congressional mandate that requires the Commission to conduct a study and make a determination as to whether or not stable value contracts were swaps. He elaborated that the Commissions' were moving the two issues on parallel paths. Further, he said it was highly unlikely that the Commissions would include contracts issued by insurance companies as swaps based on the proposed regulations and discussions with Commissioners' staffs. Lastly, he pointed out that the proposed swap definition did not provide insights as to how the Commissions saw bank-issued stable value contracts.

SVIA's Committee on Governmental Relations will continue to work with counsel and monitor this issue.

Kohl Inquiry on Stable Value Funds. The Board discussed the GAO report and Senator Kohl's report on securities lending. The report recognized that stable value funds generally did not participate in securities lending. However, the GAO report had several misstatements on stable value funds. Further, the GAO report made several recommendations for the Department of Labor to mandate additional disclosure, which the Department flatly rejected. Aruna Hobbs and Bob Whiteford agreed to work together to address the misstatements of the GAO report.

Cash Flow Data. The Board discussed resources that could provide comprehensive and timely participant cash flow data for stable value funds. The Board asked that the three data points be added to SVIA's quarterly characteristics survey: the number of plans covered, net cash inflow, and net cash outflows. Steve LeLaurin, who chairs SVIA's Committee on Data and Research along with Aruna Hobbs, agreed to work on a method to ask these questions that would provide consistent/comparable data from the 25 managers who participate in the survey. This new data, like the existing data, would continue to be confidential, used only in the aggregate and reported as minimum, maximum, median, weighted average based on asset under management, and straight average.

Plan Sponsors. The Board discussed ways to increase plan sponsors participation in the Association. The Board was advised by Sharon Parkes and agreed with her that plan sponsors tended not to join trade groups such as SVIA since they tended to work directly with consultants and managers for stable value information. However, it was agreed that SVIA survey results, governmental relation efforts, and updates on issues and press, served as a valuable resource for sponsors by validating and providing additional insights to those of consultants and managers. The Board discussed reaching out to plan sponsor groups such as CIEBA and DCIAA for their membership lists. Further, the Board also discussed reaching out to P&I and Plan Sponsor to obtain their sponsor lists. The Board also concluded that SVIA's

Spring Seminar and Fall Forum provided excellent opportunities for plan sponsor outreach. Bob Whiteford, Jim King, Steve LeLaurin, Terry Finan and Aruna Hobbs agreed to get this information on behalf of SVIA.

Disclosure of Stable Value Expenses. Galliard's Nick Gage raised an issue by email for the Board's consideration regarding how stable value funds should comply with the Department of Labor's new 401(b) (2) regulations governing expense disclosure. The rule did not provide guidance as to whether or not to include the wrap fee in the expense ratio. Gage raised the issue to promote consistent practices for the industry and to fulfill the regulations' goal of providing comparative expense data among all 401(k) investments. The Board agreed to form a working group to look at this issue in two parts: review the SVIA fee template to make sure it was consistent with the new regulations and to develop a recommendation on a consistent practice. Sharon Parkes agreed to lead these efforts. Galliard's Nick Gage was drafted to participate in this effort s. Sharon and Nick were joined by Steve Kolocotronis to work on the template issue and, Jordan Culp to work on a recommendation regarding consistent practice.

Incoming Committee Chairs Elected. The Board undertook some succession planning at the June meeting since two committee chair positions would be open in 2012. One position was on the Committee on Government Relations since Tony Camp will have finished his second term on the Board and SVIA Bylaws require a member to step down from the Board for a period of one term (three years) after serving two consecutive terms (six years). The other position was on the Committee on Communication and Education, which Jim King would be vacating when he becomes SVIA Chairman. Steve Kolocotronis and Marijn Smit expressed an interest in chairing the Government Relations Committee. Smit deferred to Kolocotronis for the position since Kolocotronis would bring the perspective of an ERISA lawyer, a stable value manager, and like himself had taken a leadership position on many Association initiatives. Bob Whiteford who has served on the Stable Times editorial board, which falls under the Committee on Communication and Education volunteered to serve as Chairman. Both Bob and Steve were unanimously approved by the Board as incoming Chairmen.

Action Items Approved. The Board unanimously approved the action items from the April meeting.

Board's Next Meeting. SVIA's Board of Directors will meet next on November 16th at the Fairmont Hotel in Washington, D.C. from 2:00 to 5:00 p.m.