SVIA

February 7, 2012

To: SVIA Board of Directors

From: Gina Mitchell

Re: Action Items from January 24th Meeting

SVIA's Board of Directors met at the Morrison House in Alexandria, Virginia on January 24th. All members of the Board of Directors attended the meeting. They are listed below for your convenience. Additionally, the Board was joined briefly by Jonathan Flynn and Scott Cammarn, SVIA's counsel from Cadwalder, Wickersham and Taft (CWT).

Edward	Adams CFA	IBM Retirement Funds
Peter	Chappelear	JPMorgan Asset Management
Joe	Fazzino	United Technologies Corporation
Brett	Gorman	PIMCO
Susan	Graef	Vanguard
Aruna	Hobbs	New York Life Investment Management LLC
Warren	Howe	Metropolitan Life Insurance Company
James	King	Prudential Financial
Stephen	Kolocotronis	Fidelity Investments
Stephen	LeLaurin	INVESCO Institutional
Marc	Magnoli	JPMorgan Chase Bank, N.A,
Gina	Mitchell	SVIA
Sharon	Parkes	Halliburton Company
Marijn	Smit	Transamerica Stable Value Solutions
Timothy	Stumpff	Morley Financial Services

New Officers, Members & Responsibilities. SVIA's new officers were introduced to the Board. They are: Jim King, SVIA's Chairman, Marijn Smit, Chair of the Committee on Communication & Education; Steve LeLaurin, Chair of the Committee on Data & Research; Gina Mitchell, Chair of the Events Committee; Steve Kolocotronis, Chair of the Committee on Government Relations; Sharon Parkes, Chair of the Committee on Membership & Budget (also Secretary & Treasurer); and Marc Magnoli as an Ex-Officio member & Past Chairman.

As the new Chairman of the Board, Jim King encouraged everyone to participate on the Board and actively serve on at least one committee. He pledged to represent the industry from a broad industry perspective in his position as Chairman.

SVIA's newest Board members were introduced. They are Brett Gorman, Sue Graef, Steve LeLaurin, who was re-elected for a second term, and Tim Stumpff.

All board members were reminded that SVIA's Bylaws require that they participate and attend all meetings. Members must attend at least three out of four of the Board's quarterly meetings. They must be members in good standing (dues paid & no conflict of interest). They must also be the voting member for their company.

Committee Housekeeping. The Board was asked to review the Committees and to actively serve on at least one committee. Board members should inform the Committee Chairman and/or Gina Mitchell of their interest in serving on the various committees. Additionally, Chairs will reach out to their Committee membership to ask them to reaffirm their commitment to the Committee before the end of February. The Board agreed that the Committees will have quarterly calls at a minimum, to keep members involved and to move the Committee's agenda.

Dodd-Frank Issues. SVIA's counsel, Jonathan Flynn and Scott Cammarn updated the Board on Dodd-Frank issues that may impact stable value. Flynn reminded the Board that the CFTC-SEC must define a swap and then decide two things: if stable value falls within this definition of a swap and if stable value should be exempted from regulation as a swap. Until the CFTC-SEC makes this determination, stable value contracts are not considered swaps. The CFTC-SEC's deadline for defining swap has shifted between March 2012 to sometime in the summer of 2012.

Scott Cammarn briefed the Board on two potential conflicts within Dodd-Frank that may impact stable value funds. Dodd Frank's Volcker Rule could potentially impact commingled stable value funds that do not fall within the Investment Company Act of 1940 Section (c) (11), which defines covered commingled funds. If there are stable value commingled funds that do not fall within this structure, they may be subject to all the requirements of the Volker Rule.

Cammarn also pointed out an inconsistency with the Lincoln Amendment that could potentially impact stable value funds. The Lincoln Amendment does not permit banks to be swap dealers. The Lincoln Amendment does permit banks to push out this function to a separate subsidiary. However, the Volker Rule does not permit this push out. The Dodd-Frank Act did not incorporate a way to resolve these potential conflicts between the Act's provisions.

Cammarn said that the Volcker Rule may impact banks that issue stable value wraps most directly by increasing regulatory requirements and costs. This impact is not unique to stable value since it affects all banks and their operations.

Attached is a detailed summary of the Volker Rule for your information and review. The Board directed the Government Relations Committee to look at this issue and determine if it is a potential issue for the SVIA membership.

Outlook for Capacity Survey. In preparation for the Board meeting, the Executive Committee, which is comprised of the Board's officers, identified capacity as a major issue for the industry. Marijn Smit developed a quick survey of issuers to determine the outlook for capacity. The Board agreed that the survey would provide useful information. Further, they were asked to review the survey and the potential distribution list and provide all comments to Smit and Mitchell by the close of the week. The survey went out on February 2nd to 30 issuers with a deadline of February 15th.

DOL New Disclosure Requirements. Steve Kolocotronis raised a question as to the appropriate way to calculate turnover for stable value funds. He had two concerns. First, the DOL's goal of providing comparability will be compromised with a variety of industry approaches. Second, for some entities, collecting and generating this turnover will be a time consuming, one-off, manual process. The Board agreed with his suggestion to develop a series of questions that might lead to a standard approach and based on these questions, determine if it makes sense to seek guidance from DOL. However, the Board also felt that the issue was not a stable value issue but a pooled/commingled fund issue. The Board also agreed that the Government Relations Committee should facilitate a dialogue on the implementation of these new requirements with the membership.

Financial Engines. Marc Magnoli brought up Financial Engines new approach to advice: managed accounts and lifetime income accounts. He noted these new product offerings might be an opportunity to engage Financial Engines to address how they model stable value. Most felt learning more about these products would be helpful but engaging Financial Engines on their modeling of stable value would not produce change.

Issues for 2012. The Board meeting was used to identify the major issues before the stable value industry. Ed Adams and Joe Fazzino kicked off this roundtable discussion by talking about the CIEBA's Working Group on Stable Value, which is mostly comprised of large plans. Their take away on plan sponsor concerns is summarized below.

- Negative press with plan sponsors terminating SVFS (Dell, HP, Wal-Mart, Qwest, Honeywell, Sony, P&G, Corning, Federal Reserve and EDS)
- Higher wrap fees coupled with contract restrictions have reduced the perceived value of the wrap: Why pay for the wrap, when ultimately over time returns are given back to participants?
- SVFs can potentially delay/refuse desired plan changes
- Some sponsors are fatigued by stable value
- Wraps present a potential problem for automatic enrollment

The Board built on this discussion by identifying the following issues for the industry.

- Cannot make plan changes
    - Re-enrollment
    - Tips
    - Target date funds
    - Advice- managed accounts
- Education of plan sponsors/consultants
- Wrap
    - Supply/demand imbalance – capacity
        - Pooled funds
            - 95% of plans are in pooled funds
            - Participants provide diversification
            - Plan sponsor concentrates risk
            - 30 day put with the lower payout of market value or book value
    - Issuer exits
    - SV manager exits
    - Plans terminating SV
    - Retain/maintain plan sponsor support of SV
    - Higher fees
    - Tighter guidelines
    - Stricter contracts
    - Changing regulatory environment
    - Financial crisis: reassessment of stable value business
    - Capital reserves
- Perception that wrap has no value
    - Have payments been made?
    - Does catastrophic insurance comparison answer this question?
- How does SV compare to money market funds and other conservative investments?
- Hybrids
    - Are these an industry solution?
    - Single plan solution?
    - Will they increase capacity?
    - Will they impact wrap fees?
- SV is the only option that impacts plan changes for sponsors
- Allocations to stable value by plan participants is problematic for sponsors
- How does stable value coexist or permit lifetime income options in a plan?

Use of SVIA Data. The Board agreed to develop reports, white papers, press releases that get positive messages out to the public and key constituencies of plan sponsors and consultants on the benefits of stable value. They tasked the Communications and Education Committee with this responsibility. The purpose of these actions is to establish SVIA as a resource and heighten awareness of stable value's attributes.

Dodd-Frank Issues. SVIA's counsel, Jonathan Flynn and Scott Cammarn updated the Board on Dodd-Frank issues that may impact stable value. Flynn reminded the Board that the CFTC-SEC must define a swap and then decide two things: if stable value falls within this definition of a swap and if stable value should be exempted from regulation as a swap. Until the CFTC-SEC makes this determination, stable value contracts are not considered swaps. The CFTC-SEC's deadline for defining swap has shifted between the March of 2012 to sometime in the summer of 2012. Flynn also noted that a SVIA team of Marijn Smit, Steve LeLaurin, Steve Kolocotronis, Marc Magnoli, Jim King and Gina Mitchell will be meeting with SEC Commissioners Aguilar and Gallagher on January 25th.

Scott Cammarn briefed the Board on two potential conflicts within Dodd-Frank that may impact stable value funds. Dodd Frank's Volcker Rule could potentially impact commingled stable value funds that do not fall within the Investment Advisers Act of 1940 Section (c) (11). If there are stable value commingled funds that do not fall within this structure, they would be subject to all the requirements of the Volker Rule.

Cammarn also pointed out an inconsistency with the Lincoln Amendment that could potentially impact stable value funds. The Lincoln Amendment does not permit banks to be swap dealers. The Lincoln Amendment does permit banks to push out this function to a separate subsidiary. However, the Volker Rule does not permit this push out. The Dodd-Frank Act did not incorporate a way to resolve these potential conflicts between the Act's provisions.

Cammarn said that the Volcker Rule may impact banks that issue stable value wraps most directly by increasing regulatory requirements and costs. This impact is not unique to stable value since it affects all banks and all of their operations.

Attached is a detailed summary of the Volker Rule and the Lincoln Amendment for your information and review. The Board directed the Government Relations Committee to look at this issue and determine if it is a potential issue for the SVIA membership and take appropriate steps.

Communications & Education. Marijn Smit reported that the last issue of *Stable Times* covering 2011 had been published. He reminded the Board that *Stable Times* is SVIA's biannual publication and this past issue highlighted the Association's work and the Fall Forum.

He also suggested that the Committee look at using different social media like Linked In and/or Twitter as mechanisms to get stable value information out to the public. The Committee will investigate and evaluate these vehicles to determine if they can be effectively used and maintained by the Association.

He also noted that the Committee will work with the results from the Quarterly Characteristics Survey to see if there are potential opportunities to use this information to get SVIA's message out to a wider audience.

Data & Research. Steve LeLaurin discussed the three major surveys that SVIA conducts. They are the quarterly characteristic survey that covers 24 managers on five data points: assets under management, duration, crediting rate, credit quality, market to contract value ratio; the SVIA Annual Investment and Policy Survey that covers all management sectors: pooled/commingled funds, life insurance and individually managed, on an annual basis; and the biannual SVIA-LIMRA stable value sales and assets survey, which covers issuers. SVIA provides the bank component for the issuers' survey.

He asked for the Board's help in developing a meaningful measure for cash flow and if there was additional data that the Committee should consider adding.

He also noted that the Committee would be reviewing the Annual Investment and Policy Survey to ensure that all the data requested was necessary. The survey will go to the membership shortly after this review, which should occur in early February.

Events. Gina Mitchell reported that the Seventh Spring Seminar will be officially launched and marketed to the membership at the end of January/beginning of February. This year's event is at the Four Seasons Troon North in Scottsdale, Arizona. SVIA's room rate is $295.

Additionally, requests for bids for SVIA's Spring Seminar in 2013 and 2014 have been requested. All locations that submitted reasonable bids for past events have been solicited as well as major property chains: Waldorf-Astoria, Four Seasons, Ritz Carlton and the Fairmont. We are looking at Florida, Arizona and California as well as some cities such as Austin and New Orleans.

Government Relations. Steve Kolocotronis reported that the Committee had three issues it was working on. They are: the SEC-CFTC stable value study, potential issues with Dodd-Frank that were discussed by Scott Cammarn and the implementation of DOL's new disclosure rules. Kolocotronis also noted that a SVIA team of Marijn Smit, Steve LeLaurin, Steve Kolocotronis, Marc Magnoli, Jim King and Gina Mitchell will be meeting with SEC Commissioners, Aguilar and Gallagher, on January 25th. These issues have been detailed as separate action items.

January 25th Meeting with SEC. SVIA's team met with SEC Commissioners, Aguilar and Gallagher, on January 25th. They were joined by the Commissioners' staff and SVIA Counsel, Brad Bondi and Jonathan Flynn from CWT. The purpose of the meeting was to introduce the Commissioners to stable value and explain why stable value is not a swap and should be excluded from the swap definition.

The team confirmed that the Commission would first define a swap and then make a determination if stable value was a swap. At year end, the CFTC had indicated that they could act concurrently by defining a swap and making a decision on whether stable value is a swap. The 2011 game plan would have precluded opportunity to comment or influence their decision.

The team also made the Commissioners aware that other provisions of Dodd-Frank may be in conflict with the Act's stable value provisions if they make the determination that stable value is a swap. The Commissioners noted this potential conflict was not unique to the stable value provisions and that they were struggling with ways to address these conflicts.

The team also confirmed that the stable value study issue was not yet a priority for the Commissioners. Lastly, some were doubtful that the SEC-CFTC would finalize the swap definition this year. The team agreed to reach out to the study team staff as a bell weather as to where the Commissions were on the swap definition. The team also reaffirmed that the best way to get information to the Commissioners and their staff was to reach out directly to them.

Membership & Budget. Gina Mitchell reported on behalf of Sharon Parkes on 2012 membership and other financial matters.

As of the Board meeting, 56% of SVIA's membership had renewed and paid. 76% of the Value Program membership had renewed and paid. Additionally, RGA joined the Association and the Value Program Membership at a Bronze Level.

The Board instructed the Committee to continue sending reminders and collection efforts through March. If members are unpaid by the end of March, the Board directed the Committee to drop unpaid members from the Association.

Mitchell said that SVIA exceeded its revenue goals across all categories but interest. She reported that conference participation grew by 14% in 2011. Expenses were mostly in line with the budget with one exception: Legal. Legal expenses are dependent upon issues and very difficult to forecast. Late this summer the CFTC-SEC released 26 questions for public comment on stable value. Answering this request required substantial use of counsel because of the technical nature of the questions and the inability of members to provide information or draft key sections of SVIA's response. SVIA's legal expense increased by 51% compared to 2010 due to the questions. Despite this substantial increase and increases in meeting expenses due to greater attendance, SVIA will do better than break even as budgeted. SVIA should net $35,000 to $40,000 once all outstanding payables have cleared for 2011.

She reported that Larsen Allen will perform our audit and tax work for 2011. This is the third year of their engagement. The field work has been scheduled for February 6 and 7.

As agreed by the Committee on Membership & Budget and the Executive Committee in November, SVIA will combine all staffing: operations and professional services into one line item. This change was reflected in the year end reports for 2011 and will be reflected in 2012.

November Action Items. The action items from November were unanimously approved with Marc Magnoli's requested modifications.

SVIA Next Board Meeting. SVIA's next Board meeting is April 22, 2012 from 2 to 5 p.m. prior to the Seventh Spring Seminar. The meeting will be held at the Four Seasons Resort Troon North in Scottsdale, AZ.

Attachments: CWT on Dodd Frank Issues
Approved November Action Items