SVIA

June 6, 2012

To: SVIA Board of Directors

From: Gina Mitchell, President

Re: June 5th Board of Directors' Meeting

SVIA's Board of Directors met on June 5 at the Morrison House in Alexandria, Virginia. The following individuals participated in the meeting.

Board Members

Ed	Adams	IBM Retirement Funds
Peter	Chappelear	JPMorgan Asset Management
Brett	Gorman	PIMCO
Susan	Graef	The Vanguard Group
Aruna	Hobbs	New York Life Investments
James	King	Prudential Financial
Stephen	Kolocotronis	Fidelity Investments
Marc	Magnoli	JP Morgan Chase Bank
Gina	Mitchell	SVIA
Marijn	Smit	Transamerica Stable Value Solutions
Tim	Stumpff	Morley Financial Services, Inc.

Board Members Unable to Participate

Sharon	Cowher	Halliburton Company
Joe	Fazzino	UTC
Warren	Howe	Metropolitan Life Insurance Company
Stephen	LeLaurin	Invesco Advisers, Inc.

SVIA Members and Guest Speakers

Robin	Andrus	Prudential Financial
Jonathan	Flynn	CWT
Tim	Keehan	ABA
Don	Meyers	Morgan Lewis

Jim King opened the meeting by reminding the Board of its major objectives: preserving the stable value asset class and educating plan sponsors, participants, consultants and policymakers about stable value. He introduced the Board and Robin Andrus, and SVIA's guest speakers: Jon Flynn, Tim Keehan and Don Meyers.

Board Attendance & Participation. Board members were reminded that two of the ongoing requirements for Board membership are active participation and to attend at least three out of four of the yearly meetings. The June meeting was the first Board meeting that more than two people were unable to participate in the past ten years. Due to conflicts, five Board members were unable to attend.

Board Election. Three Board seats will be up for election this fall. They are:

- Ed Adams who serves as a plan sponsor. Plan sponsors can run and serve as many terms as they wish.
- Pete Chappelear who is a service firm member. He is finishing the first term and is eligible to run for a second term.
- Marijn Smit who is a service firm member. He is eligible for another term. He has served one full term; and was previously appointed by the Board to complete Brian Murphy's term.

The Board agreed to have the nomination process in September following Labor Day. Any member wishing to run for the Board will need to be nominated as a candidate. Service firm members need at least three nominations and at most 10% of total voting members or eight to become a candidate. Board members were asked to reach out and encourage SVIA members who they felt would make positive contributions to the Board to run for a Board seat.

The Board also agreed that the candidates for this year's election will be announced at the Fall Forum. The election will occur immediately after the Fall Forum.

Dodd-Frank Update. CWT's Jonathan Flynn updated the Board on the Dodd-Frank product definitions and the stable value study. Flynn said the product definitions, which will define swaps and derivatives, may be considered by the CFTC at their June 21st meeting. Should the Commission release the product definitions at that time, it will take at least two-weeks for the product definitions to appear in the *Federal Register.*

Flynn reminded the Board that once the definitions were finalized, the CFTC and SEC were charged with determining if stable value contracts were swaps, and if the contracts were swaps if it is in the public interest to exempt stable value contracts from regulation as swaps. Until the Commissions formally rule on stable value contracts, stable value contracts are not considered swaps.

<u>OCC's Proposed Regulations of STIFs.</u> The American Bankers' Association's Tim Keehan updated the Board on the Association's response to the Office of the Comptroller of Currency's (OCC) proposed regulations of STIFs. Keehan said the ABA comments were generally supportive of the proposed regulations, which imposed money market fund requirements on STIFs and preserved the OCC's regulation of this important product from the Securities and Exchange Commission, which has oversight of money market funds. Keehan noted that most of the reforms had already been adopted by STIF funds in response to the financial crisis.

Keehan noted that the ABA questioned the belief that as the SEC adopts tighter regulations for money market funds that large sums from money market funds will flow into STIFs. He emphasized that offering a STIF fund required a bank to have a standing relationship with a trust, and there were other significant barriers to entry for a company to create a STIF fund.

Update on DOL Regulations. Morgan Lewis' Don Meyers updated the Board on recent DOL regulations. Meyers noted that recent regulations required providers to disclose recordkeeping charges if fees were bundled and/or asset-based. Meyers said the regulations on fee disclosure put more pressure on plan fiduciaries as to how they use this information.

Meyers said question 30 in the recent field assistant bulleting raised some questions for self-directed brokerage disclosure. Question 30 defines fiduciary responsibility for the brokerage window as selection, ensuring good execution and that costs are reasonable. Question 30 goes on to say that if the window is significantly used, which means more than one percent of participants use it, the fiduciary must also report performance data and monitor the window. Meyers said that many have questioned the Department's legal position and authority on Question 30 and said it is uncertain how this issue will be resolved.

<u>Managers' Observations on Stable Value.</u> Vanguard's Sue Graef shared her observations from a series of interviews with six managers on stable value funds. She noted that comments centered around five areas: negative stable value press, questions regarding stable value's value proposition, stable value's flexibility to address and accommodate plan design changes, the need for a capital preservation product, and participants' understanding of stable value.

She said her next steps were to go back to the managers to make sure they were comfortable with the draft and any attributions made to them; to interview issuers' for their perspectives, and to incorporate these comments in a FAQ that could be shared with the membership.

<u>Blackrock Paper on Stable Value.</u> Brett Gorman shared Blackrock's paper on stable value with the Board for their consideration. He asked that the Board consider developing an industry response to articles and papers that were critical of stable value similar to Blackrock.

Communication and Education Committee Report. Marijn Smit, who chairs the Committee on Communication and Education, reported that *Stable Times* will be released towards the middle of June. He noted that the issue supplemented Randy Meyers' coverage of the Spring Seminar with Editorial Board articles and SV features that included how stable value responses to a rising rate environment by Galliard; to Morgan Lewis' overview of the new DOL fee disclosure regulations; to articles on ICI/EBRI's 2010 asset allocation database, SVIA's Quarterly Survey and SVIA's Annual Survey. The Editorial Board met its goal of having a more involved Board and robust publication.

Smit said the Committee is looking at ways to promote stable value using Association data and surveys. He highlighted that SVIA had released a press release on the Quarterly Survey demonstrating stable value's strength over money market funds.

Smit noted that stable value had received positive press in Barron's "Steady Eddies" article in April, which was followed by dueling letters to the editors that included Carol Cybert's letter critizing stable value wraps and Gina Mitchell's letter demonstrating stable value's strong performance due to good investment management and the wrap contracts.

Smit said the Committee is ready to use capacity survey as a starting point for dialogue with consultants/plan sponsors. As the Board suggested, the Association could conduct webinars using the survey to update key constituents on capacity and wrap issues. However, the Board was asked to identify key consultants who are opinion leaders in order to launch this initiative. Smit reiterated that sharing of contact lists was necessary in order to carry out this objective and asked the Board to provide their contact lists to the Association to support this endeavor.

Smit shared that a rating agency was issuing a report on stable value issuers that may be released in summer or early fall. He said the report reaffirms the due diligence of the rating agency and acknowledges the long-tail risk associated with stable value. Smit said the Committee may prepare talking points to help the membership respond to client or other inquires about the report.

Data & Research Committee Report. Steve LeLaurin who chairs the Committee was unable to attend the Board meeting. Gina Mitchell reported on the Committee's activities.

Mitchell reminded the Board that the Committee has responsibility for three surveys. A biannual survey of issuers that covers wrap assets and sales. The last half of 2011 was just released. The survey covered 24 companies and reported:

- $386 billion in assets, which is up 5% from first half of 2011.
- $31 billion in new sales.
- $3.6 billion in renewal sales.

- $5 billion in ongoing deposits.

The Committee also oversees the Stable Value Funds' Quarterly Characteristics Survey. This quarterly survey covers 24 stable value managers. The survey looks at five data points: duration, overall portfolio credit quality, AUM, crediting rate and M/B ratio. The latest survey for the First Quarter of 2012 covered $441 billion in assets. It found the average weighted crediting rate was 2.73%, duration was 2.83 years and credit quality was 8.47 or AA or higher. The M/B ratio was also 104.49%.

Finally, the results from SVIA's Annual Stable Value Funds' Investment and Policy Survey for assets as of December 31, 2011 have been completed. The annual survey covers all major management segments: individually managed funds, pools and insurance. The results from the survey were released to the membership on May 31, 2012. The survey covered $645.6 billion in assets covering 159,000 plans. 92% of assets are in DC plans. The largest segment is now life insurance company accounts followed by single plans then pooled funds. Pooled funds had the greatest increase in 2011 compared to 2010. All but three pooled managers reported increases in assets under management.

Government Relations Committee. Steve Kolocotronis who chairs the Committee noted that much of the Committee's activities were covered by Jon Flynn, Don Meyers and Tim Keehan. He stressed that the Committee may need to respond very quickly once the Commissions release the product definitions in June with meetings and comments to the Commissions.

It was suggested that the Association survey the membership on the stable value fees. The Board agreed that the Committee should undertake this task and also capture data as to all the expenses that might be included in this ratio. Steve Kolocotronis, Brett Gorman and Ed Adams agreed to work on developing this survey and overseeing this effort.

Membership and Budget Committee. Halliburton's Sharon Cowher chairs the Committee on Membership and Budget. She was unable to attend the Board meeting so Gina Mitchell gave the Committee report.

Mitchell reported that as of April 30th, the Association had raised 79% of its revenue target. She noted that the Association is on course to meet its revenue goals since this total excludes the October Fall Forum. She noted that Association expenses are in line and that the Association is using administrative help at this time on a temporary basis.

Mitchell noted that the Association had met its membership goals. However, Goode Investment is terminating its stable value fund in August and will be dropping its membership. Additionally, David Wray is retiring from the Profit Sharing Council and not renewing membership.

Events Planning Committee. Gina Mitchell, who chairs the Committee on Event Planning, asked the Board to formally adopt SVIA's Hotel Cancellation Policy. She noted that several Associations had to pay attrition charges that required special assessments to their membership. The proposed policy would prevent this situation by requiring those who make last minute changes responsible for potential attribution charges. The Board unanimously adopted this policy and agreed to make it a point of emphasis in all meeting communications.

Mitchell reported that the Spring Seminar sites for 2013 and 2014 had been selected. The 2013 Spring Seminar will be held at the Four Seasons Resort Palm Beach on April 14-16th with a $300 room rate. The 2014 Spring Seminar will be held on April 27-29th with a $310 room rate. SVIA's Fall Forum will be held at the Fairmont in Washington, D.C. on October 2-4, 2012 with a room rate of $289.

April Action Items. The Board unanimously approved the April 22nd action items.