

August 25, 2017

To: SVIA Board of Directors

Re: Action Items from June 13th Meeting

From: Gina Mitchell SVIA

The SVIA Board of Directors met on June 13th at the Fairmont Hotel in Washington, D.C. The following individuals were in attendance.

Board Members Attending:

Bradie Barr, Transamerica
LeAnn Bickel, Invesco Advisers
Cindy Cristello, New York Life Investment Management
Joe Fazzino, UTC
Nick Gage, Galliard Capital Management
Brett Gorman, PIMCO
Sue Graef, Vanguard
Steve Kolocotronis, Fidelity
Robert Madore, T. Rowe Price
Gina Mitchell, SVIA
Thomas Schuster, MetLife
Russell Smith, Aetna
Gary Ward, Prudential Financial
Keith Watson, Textron

SVIA Members Attending:

Paul Donahue, MetLife
Terry Finan, Jackson National Life
Kostas Sophias, JPMorgan Chase Bank

SVIA Staff Attending:

Zach Gieske, SVIA

Steve Kolocotronis, SVIA's Chairman of the Board of Directors opened the meeting and welcomed the board and SVIA members to the June meeting. Attendees briefly discussed the stable value issues that they were addressing.

Committee on Government Relations. Nick Gage reported that the committee is actively monitoring multiple areas of interest to the stable value industry and continues to seek opportunities to engage with regulators and lawmakers as appropriate. While momentum toward implementing its platform seems to have slowed, the Trump administration and Congress continue to emphasize deregulation of the financial services industry. Gage reported on:

- Dodd-Frank Act. On June 8th, the House of Representatives passed the Financial CHOICE Act, which intends to repeal or significantly reconfigure the regulatory regime established under the

Dodd-Frank Act. The bill moves on to the Senate but is not expected to pass without significant revision. The Treasury Department also released its plan to reform financial regulation on June 12th. While the committee keeps a close eye on these legislative efforts, the Association continues to explore opportunities for outreach to the SEC and CFTC to brief the new Commissioners and staff on the stable value study. However, outreach efforts remain pending the appointment and confirmation of a full complement of commissioners at both the SEC and the CFTC.

Charles Horn, a partner with Morgan Lewis and Bockius provided a quick overview of H.R.10, The Financial Choice Act that was sponsored by House Financial Services Chairman Jeb Hensarling. The bill would roll back several key provisions in Dodd Frank such as too big to fail as well as give Congress more control over spending by financial regulators. The bill would establish new requirements that would make it very difficult to issue and implement new regulations on the financial services industry, including stable value, noted Horn.

- Department of Labor's fiduciary rule. After a 60-day delay, significant portions of the DOL's fiduciary rule (the expansion of the "investment advice fiduciary" definition and Impartial Conduct Standards) became applicable on June 9th. To assist market participants, the Association has developed and released a template disclosure that can be used as a starting point for documenting representations for both stable value synthetic and insurance products that may be required by the rule. In the meantime, the DOL is conducting its full review of the rule, as mandated by Donald Trump in February, and the SEC issued a statement on June 1st that the SEC will also seek public comments on standards of conduct for investment advisers and broker-dealers. As noted above, the House of Representatives recently passed the Financial CHOICE Act, which includes a repeal of the DOL's fiduciary rule but is likely to undergo significant revision in the Senate.

Morgan Lewis and Bockius' Michael Richman overviewed the Administration's actions as well as Congressional developments for the board as to their impact on stable value funds.

- Department of Labor's Form 5500 reporting. The committee continues outreach efforts to the DOL regarding both the DOL's proposed 2019 changes for Form 5500 reporting and the possibility for additional clarification in the interim. Staffing issues resulting from the change in Administration continue to make it difficult to move this forward as quickly as we would like, and we have confirmed that other organizations have experienced similar difficulty. We have also reached out to the AICPA to request their support in addressing our concerns.
- Tax reform. Randy Hardock, a Partner with Harmon and Davis briefed the board about tax reform and the "Rothification proposal" for defined contribution plans. Hardock served as tax counsel to Senator Lloyd Bentsen on the U.S. Senate Committee of Finance as well as Secretary Bentsen's tax counsel on employee benefits at the U.S. Department of Treasury, and Secretary Rubin during the Clinton Administration. Hardock emphasized that "tax reform is hard." He said that the current tax incentives for retirement savings will likely be considered as a source of additional tax income in tax reform proposals of 401(k) plans), and changes to – or the

introduction of – other tax advantaged programs (e.g. HSAs, dependent care savings programs, Roth IRAs, etc.) must also be considered for their indirect impact on traditional retirement savings plans. The committee will continue to monitor developments with respect to these proposals. It is anticipated that the Trump Administration will release more details on their tax reform proposal in late September.

- NAIC capital requirements. MetLife’s Paul Donahue provided an update to the board on the National Association of Insurance Commissioners’ (NAIC) proposed changes to its capital charge requirements, which potentially impacts the capital requirements for stable value contracts. A revised version of the proposed changes issued by the Academy of Actuaries in early June, while requiring higher capital charges than the current requirements, appears to be an improvement upon the initial proposal but may still pose some problems for stable value products. The committee is working with the Association’s insurance company membership to further evaluate and, if appropriate, draft a comment letter to the NAIC, which is due July 24th. The proposed changes are due to go into effect in 2018.
- Stable value litigation. There are many recent developments to note with respect to class action litigation involving stable value products. Judgments were recently made in favor of the defendants in two of three outstanding cases against stable value pooled funds, with a magistrate judge recommending the dismissal of the case against Principal/Union Bond & Trust due to lack of standing in May, and the dismissal on summary judgment of a suit against Fidelity Management Trust Company in June. Similarly, the suit against CVS and Galliard was also dismissed by a U.S. District Court judge in April. However, there have been recent rulings in favor of the defendants with respect to the portions of plaintiffs’ claims alleging that the plan sponsor failed to offer a stable value option in class action suits filed against Anthem, Chevron and Insperity/Reliance Trust Company.

Committee on Communications and Education. Transamerica’s Bradie Barr reported that the Communications and Education Committee just released Volume 21 Issue 1 of Stable Times which includes articles on topics covered by the Spring Conference. The committee is continuing to partner with the Data Committee and Morningstar in the development of a stable value fact sheet template. Lastly, the committee is drafting a high-level stable value infographic to help consultants and plan sponsors easily compare different stable value options available in the market place.

Committee on Data and Research. The Vanguard Group’s Sue Graef reported that the SVIA 2016 Annual Survey was published in late April, with the 1Q 2017 Quarterly Survey results released in early June. She noted that the committee received feedback on the “Life Insurance Directly Sold” title for products offered by Life Companies directly to plans, and is currently working on a title more reflective of this segment.

Graef reported that the committee had also surveyed managers for their AUM, to provide respondents a report listing the manager and their assets by name. While there was a good response, it was noted that this information is already collected as part of our other surveys. Going forward, the quarterly and annual survey will ask respondents if their AUM may be released to other respondents on a named basis.

Together with the Communication & Education Committee, Data and Research continues to work with Morningstar to build out their stable value reporting capabilities.

Subcommittee on Finance. Invesco's LeAnn Bickel reported by the close of April, SVIA had collected 74% of budgeted revenue, which included all member dues, and revenues from the Spring Seminar. The Association had spent 31% of budgeted expenses. Expenses are coming in currently slightly (5%) under budget. Guided by the Investment Policy Statement, the Subcommittee is required to close current asset accounts held with United Bank and/or Cardinal Bank due to their recent merger. In June, Steve Kolocotronis, Mitchell and Bickel opened accounts at BB&T and Amalgamated Bank to open new cash accounts to replace accounts that were closed. The Investment Policy Statement requires SVIA to hold assets in FDIC-insured institutions and that balances be at or below the \$250,000 insurance threshold or be in held in financial institutions that have an AAA+ rating. SVIA now has 12 accounts in seven banks. Bickel also reported that the 990 and the 5500 had been filed.

Committee on Events. Gina Mitchell reported that Spring Seminar had 154 attendees like last year. Registration revenue for the event totaled \$175,850 and expenses were \$150,565. The Spring Seminar, while below the \$200,000 revenue target, reduced expenses to produce a net revenue of \$25,184.62. Mitchell noted that planning had begun for the October 9-11th Fall Forum at the Fairmont in Georgetown. The committee will survey the membership on issues and speakers for the event, which should be launched in early July.