

Treasury Department Urges SEC to Act on Life Company Products

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The U.S. Department of the Treasury published an October 2017 report, "A Financial System That Creates Economic Opportunities — Asset Management and Insurance" in response to President Trump's Executive Order 13772 on "Core Principles for Regulating the United States Financial System." The report's numerous recommendations include the following steps that the SEC could take to "reduce regulatory costs and improve consumer disclosure":

1. **Authorize a summary prospectus for variable annuities.** The report finds it problematic that "a variable annuity prospectus can range from 100 to 300 pages in length and contains dense legal, actuarial, and regulatory language not readily understood by retail investors." The SEC official who is specifically tasked with promoting investors' interests has also supported this initiative. See "SEC Investor Advocate's 2018 Objectives Target Key Issues for Life Insurers," Expect Focus, Vol. III, 2017.
2. **Streamline annual update prospectuses for variable annuities.** The report observes that "the insurance industry has advocated for ... "a streamlined annual update document that is available online at any time, for both new investors and investors who already own annuity contracts."
3. **Permit online delivery of annual and semiannual underlying mutual fund reports.** The report notes that the SEC previously proposed Rule 30e-3 that "would allow mutual funds to provide statutorily required shareholder reports on the Internet." As to a somewhat similar proposal, see "SEC Committee Advocates for Summary Mutual Fund Shareholder Reports" on page 16.
4. **Provide registration statement forms tailored for non-variable products.** The report finds it problematic that companies "are increasingly offering annuity contracts that are not exempt securities," but "must use registration forms designed for equity or debt offerings by public companies." The report seems also to endorse the use of statutory financial statements by referring to the fact that life companies "utilize an accounting standard known as Statutory Account Principles" that is "tailored to permit regulators to analyze the unique nature of the business of insurance."

Authored By



Gary O. Cohen

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