

Parent Company Guarantees of Annuities

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Rule amendments proposed in October by the SEC could impact insurers whose obligations under certain types of annuity contracts have been guaranteed by the insurers' affiliates.

For example, parent companies of some insurers historically have guaranteed the insurers' obligations under fixed annuity contracts with "market value adjustment" features that require such obligations to be registered on SEC Forms S-1 or S-3. Among other things, such parent guarantees permit the parent company's consolidated financial statements and other financial information (rather than the insurer's) to be incorporated in such SEC registrations. This can result in cost savings where the parent is already a reporting company with the SEC and therefore already prepares financial statements and other financial information in the form that the SEC requires.

In order to achieve such advantages, however, Rule 3-10 of the SEC's Regulation S-X requires that the footnotes to the parent company's consolidated financial statements set forth specified information about the parent's subsidiaries. The SEC's proposed rule amendments would revise what information about the subsidiaries is required, as well as where and for how long that information must be set forth.

Although these changes will generally make it easier to comply with the rule, any affected insurers and their parent guarantors will need to revise their practices once the amendments are finalized.

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