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Mr. Brent Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

August 11, 2015

Rule-comments@sec.gov

Re: Investment Company Reporting Modernization
File No. S7-08-15

Dear Commissioners:

This letter is being sent to you by Allianz Life Insurance Company of North America (AZL) and its subsidiaries (together, the AZL Group) to comment on the above-referenced rule proposal (the Rule Proposal). We appreciate this opportunity to comment.

AZL is a stock life insurance company primarily engaged in the issuance of index annuities and variable annuities. The AZL Group also includes two federally registered broker-dealers/FINRA member firms, and two Federally registered investment advisers. One of the AZL investment advisory firms is the manager of the AZL Funds, which are registered open-end management investment companies offered as investment options through AZL variable annuities.¹

AZL has been in business since 1897. It has current assets as of December 31, 2014 of \$140 Billion and capital of \$7.8 Billion.

The principal purpose of this letter is to recommend that:

- As part of implementing the Rule Proposal, Rule 172 of Regulation C be amended to provide that issuers of registered insurance products are not excluded by paragraph (c) of that Rule, so that variable insurance product prospectuses become subject to the “access equals delivery” doctrine.
- In addition, or in the alternative, proposed Rule 30e-3 should be expanded to allow substantially broader electronic delivery of documents, including specifically delivery of “evergreen” Fund and Variable Contract prospectuses to in-force customers, and that this delivery should be permitted based upon implied consent.

¹ The companies in the AZL Group are subsidiaries of Allianz SE, a German holding company based in Munich.

Historical Development of Electronic Commerce

As the Commission is aware, electronic commerce has been expanding exponentially for most of the last two decades. Today, as pointed out by the Commission's staff in the Rule Proposal, most consumers have internet access, and many prefer electronic communication of investor communications to paper communication. Communication by paper is increasingly regarded as archaic. However, despite the widespread adoption of electronic communication and the increased desire of consumers to receive electronic rather than paper communications, current law in effect creates a default in favor of paper delivery unless the consumer affirmatively elects otherwise. We believe that this bias in favor of paper delivery is no longer justifiable. Electronic delivery should be permitted as a default absent an affirmative request by a customer for paper disclosure documents.

In 1995, the Commission's staff issued a thoughtful, forward-looking release on electronic communications (the 1995 Release),² which clarified substantially the proper manner of issuing disclosure documents electronically. The guidance in the 1995 Release has been relied upon by companies in the financial services industry for many years.

In the 1995 Release, the staff required that consent to electronic delivery must be affirmative, in recognition of the fact that in 1995 many consumers were not yet computer literate. Today, however, 20 years after the issuance of the 1995 Release, this is no longer the case. We believe that ongoing adherence to paper delivery should no longer hold back electronic commerce, and the Commission should broadly recognize implied consent to electronic delivery, so long as paper delivery remains an option if requested by the customer.

The Applicability of Rule 172 to Investment Companies and Investment Company Products Should be Re-examined as Part of the Rule Proposal

In 2005, the Commission promulgated Rule 172, which is referred to as the "access equals delivery" rule. Rule 172 is, in many respects, an early "electronic delivery" rule. The adopting release to the Rule states:

"[R]apid technological advances in the area of information delivery have resulted in greater access to information. For example, prospectuses and other filings now are available through EDGAR and other electronic sources, including the internet, immediately upon filing....

[O]ur new and amended rules are intended to facilitate effective access to information, while taking into account advancements in technology...."³

Pursuant to Rule 172, because "access" to prospectuses issued by certain types of issuers is deemed to be equivalent to "delivery" of the prospectus, certain types of documents, including confirmations and physical securities, are permitted to be delivered without being accompanied or preceded by a statutory Section 10(a) prospectus. Rule 172 acknowledges, in effect, that prospectuses and the information in those prospectuses are widely available electronically (including typically on the issuer's web site), and delivery of a physical prospectus to all customers is unnecessary.

² Investment Company Act Release No. 21399 (October 6, 1995)

³ Release No. 33-8591 at page 243 (December 1, 2005).

When Rule 172 was adopted, it specifically excluded prospectuses issued by investment companies, including mutual funds and registered insurance company separate accounts. In doing so, the Commission stated that relief such as that provided by Rule 172 should be provided to investment companies as part of a broad-ranging investment company disclosure initiative. The Commission stated:

“[R]egistered investment companies...will not be able to rely on the Rule. [These types of entities] are subject to a separate framework governing communications with investors, and we believe that it would be more appropriate to consider any changes to our prospectus delivery requirements as they apply to registered investment companies...in the context of a broader reconsideration of this framework.”⁴

We believe that today, 10 years after the promulgation of Rule 172, the Rule should be revisited with regard to investment companies, as the Commission indicated it would in the adopting release to the Rule. We believe that the current Rule Proposal, which is over 500 pages in length, clearly constitutes a “broader reconsideration of the [investment company disclosure framework],” and that therefore the Rule Proposal should be used as a forum to expand the applicability of the “access equals delivery” concept to investment companies. Specifically, the Rule should be expanded to include securities issued by registered insurance company separate accounts. As noted above, Rule 172 was promulgated 10 years ago, and at this point the Commission’s staff should have sufficient experience with Rule 172 to expand its applicability to investment companies.

In analyzing whether Rule 172 should be expanded to provide relief to products issued by registered separate accounts, we believe that significant consideration should be given to the substantial regulatory protections provided by state insurance laws. The Commission has previously acknowledged these substantial protections when engaging in rulemaking. *See*, for example, the adopting release to Exchange Act Rule 12h-7.⁵ Congress has also acknowledged the comprehensive protections provided by state insurance laws, when engaging in enacting legislation.⁶

To the extent the Commission’s staff believes that applicability of the “access equals delivery” doctrine should be limited to seasoned issuers, we believe that for separate account products the term “seasoned issuer” should be defined by reference to Form N-4 Item 23(b) Instruction 3.

⁴ *Id.* at 248, 249.

⁵ Release No. 33-8996 (May 1, 2009.) The Commission stated:

“Where an insurer’s financial condition and ability to meet its contractual obligations are subject to oversight under state law, and where there is no trading interest in an insurance contract, the concerns that periodic and current financial disclosures are intended to address are generally not implicated....

Id. at page 7.

... we believe that the exemption is necessary or appropriate in the public interest and consistent with the protection of investors. We base that view on two factors: first, the nature and extent of the activities of insurance company issuers, and their income and assets, and, in particular, the regulation of those activities and assets under state insurance law; and, second, the absence of trading interest in the securities....

Id. at 68 and 69.

State insurance regulation, like Exchange Act reporting, relates to an entity’s financial condition. We are of the view that, in appropriate circumstances, it may be unnecessary for both to apply in the same situation, which may result in duplicative regulation that is burdensome.”

Id. at page 70.

⁶ *See* the Dodd Frank Act Section 989 J.

If the Commission does determine to amend Rule 172 to apply to investment companies, we recommend the following additional conforming changes:

- In addition to applying to “[w]ritten confirmations”, Rule 172(a)(1) should be amended to also apply to “applications.”
- Rule 172(c) (3) should be revised to change “Rule 424” to “Rule 424 or 497, as applicable.”

SEC Request for Comment on Proposed Rule 30e-3

In the Rule Proposal, the SEC staff requests comment on whether additional forms of electronic delivery should be permitted, particularly in the area of “evergreen” prospectuses sent to in-force customers. The staff asks at page 179:

“In addition to allowing funds to electronically transmit reports to shareholders, should we also consider options for permitting similar delivery of summary or statutory prospectuses? Why or why not?”

AZL Group Recommendation Regarding Expansion of Proposed Rule 30e-3

For the reasons set out in this letter, we strongly encourage the Commission to permit expanded electronic delivery of “evergreen” Variable Contract and Mutual Fund prospectuses to in-force customers. This liberalization should apply to any insurance product prospectus, including those filed on Form N-4, N-6, S-1 or S-3.

Disclosure in paper format is burdensome to both companies and consumers

Issuers of variable insurance products (and mutual funds) consume massive amounts of paper to make required securities disclosures. As indicated in research produced for the Commission, a majority of investors rarely read these documents, and of those who do review them, most are inclined to dispose of them. And, as pointed out in the Rule Proposal, the substantial cost of printing and mailing these documents is “borne by the issuers and ultimately by shareholders.” Consumers are irritated by receiving this unwanted mail, and concerned that they are paying the cost of this voluminous paper disclosure. Companies are also concerned, by the substantial cost and administrative burden of printing and mailing hundreds of thousands of paper documents each year.

These problems are exacerbated by the sort of multi-level products that exist today. For example, even a “simple” variable annuity may involve dozens of interlocking investments. These investments would include the Contract (and any attached riders), and also 20-50 different mutual fund investment options. At least annually, this interlocking variable annuity investment would result in the drafting and distribution of an updated prospectus for the Contract, an updated prospectus for each of the 20-50 Funds, an annual report for each of the Funds, and a semi-annual report for each of the funds. Between February 28 and May 1 of each year, a contract owner could receive hundreds or even thousands of pages of paper in the form of multiple prospectuses and multiple annual reports, followed by lengthy semi-annual reports in August of each year. While variable contract issuers attempt to streamline the documents delivered to customers, this is not always possible. As a result, contract owners may receive documents for Funds they do not own, or even funds that are not available through their Contract.

This issue of paper overload is particularly evident with regard to the delivery of updated prospectuses to existing customers for “evergreening” purposes. Particularly in the variable insurance area, the delivery of an updated prospectus is usually virtually meaningless. Once a customer purchases a Variable Contract, there is very little information in the annually updated Contract prospectus that is of any interest to the customer. The customer has already received an annuity contract from the insurer, which generally cannot be changed without contract owner consent. Similarly, while the Fund annual report may provide valuable information to the contract owner, the Fund prospectus is of limited use to the owner once he/she has purchased a Contract.

In a number of respects, electronic disclosure provides better, faster disclosure to consumers

We believe that in many respects electronic communication is superior to paper communication, and that for this reason paper delivery should not be used as a default where there are no clear customer instructions as to whether paper or electronic delivery should be used. Electronic communications are substantially faster. Whereas the typesetting, printing, and mailing process for a paper prospectus or prospectus supplement can easily take 1-2 weeks, electronic disclosure to multiple recipients can be almost instantaneous. Further, consumers have the ability to access this information at will in their home or office, without any assistance from the issuer or the consumer’s sales person. Electronic communication can also facilitate specialized communications to target audiences. For example, one of the most important components of many annuities is the current “rate” or “cap.” At the AZL Group, our registered index annuity provides electronic disclosures as to current “caps” on AZL’s web site 24 hours a day, with a “good through” date for published caps. This specialized, valuable information is continuously available to any customer and agent who have internet access. The customer can access this information by him/herself, without any assistance from an agent or company customer service employee. Or, the customer could contact the Company or his or her agent and receive this information in paper.

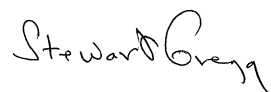
AZL Group’s recommendation regarding Rule 30e-3.

Based on the foregoing, we recommend that the implied consent procedure in proposed Rule 30e-3 should be made available to Variable Contract and Mutual Fund prospectuses that are used for evergreening purposes.

Please note that we have been actively engaged in discussing and drafting the comment letter prepared by the Committee of Annuity Insurers, and we fully support that letter.

You can reach me with any questions at stewart.gregg@allianzlife.com or 763-765-2913.

Sincerely yours,



Stewart D. Gregg,
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