

October 11, 2016

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: **Disclosure Update and Simplification, File Number S7-15-16**

Dear Mr. Fields:

We are submitting these comments on behalf of the Committee of Annuity Insurers (the “Committee”).¹ The Committee appreciates the opportunity to comment on the above-referenced release dated July 13, 2016 (the “July 13th Release”), which proposes amendments to a broad range of disclosure requirements imposed under the Securities Act of 1933 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”).

While the Committee supports the overall goal of the July 13th Release, it respectfully disagrees with the characterization of the proposed elimination of Rule 7-02(b) of Regulation S-X as a technical amendment of a requirement that may have become “redundant, duplicative, overlapping, outdated or superseded in light of other disclosure requirements, U.S. GAAP, IFRS or changes in the information environment.” Rule 7-02(b) currently permits mutual life insurance companies and wholly-owned stock insurance subsidiaries of mutual life insurance companies to include financial statements based on statutory account principles (“SAP Financial Statements”) in any SEC filing, including a registration statement for a regulated insurance product. Eliminating the relief provided by Rule 7-02(b) would require mutual companies that do not otherwise prepare financial statements based on generally accepted accounting principles (“GAAP financial statements”) to include GAAP financial statements in any registration statements for insurance products that are not investment company securities and, therefore, are registered on Forms S-1 or S-3 (“general account insurance products”).² Requiring insurance companies to prepare GAAP financial statements *solely* for the purpose of issuing insurance

¹ The Committee is a coalition of 29 life insurance companies that issue fixed and variable annuities. The Committee was formed in 1981 to participate in the development of federal securities law regulation and federal tax policy affecting annuities. The member companies of the Committee represent over 80% of the annuity business in the United States. A list of Committee member companies is attached as Appendix A.

² Forms N-3, N-4 and N-6 for variable insurance products permit the insurance company depositor of a registered separate account to file SAP financial statements if it would not otherwise have to prepare GAAP financial statements except for use in a registration statement on Forms N-3, N-4 or N-6. The elimination of Rule 7-02(b) would not impact this GAAP relief.

products that are registered as securities on Form S-1 or S-3 would impose a substantial financial burden that will deter such companies from participating in the growing markets for these products.

Like mutual insurance companies and their wholly-owned stock life insurance subsidiaries, some stock life insurance companies that are not subsidiaries of a mutual insurance company do not otherwise have any legal or regulatory obligation to prepare GAAP financial statements. For these companies, like mutual insurance companies, the requirement to prepare GAAP financial statements *solely* for insurance products registered on Forms S-1 or S-3 imposes substantial financial burdens that significantly deters these companies from offering these products.

In the July 13th Release, the SEC has not considered the impact that eliminating Rule 7-02(b) will have on mutual companies that do not currently prepare GAAP financial statements. As just noted, it could substantially increase their costs or even prevent them from offering certain types of registered general account insurance products. Therefore, the proposed elimination of Rule 7-02(b) should not be included in the technical amendments that the SEC ultimately adopts insofar as that rule currently permits mutual insurance companies that do not otherwise prepare GAAP financial statements to include SAP financial statements in the registration statements for insurance products registered on Forms S-1 and S-3. Furthermore, the Committee advocates that the SEC extend the relief provided by Rule 7-02(b) to permit the use of SAP financial statements in registration statements on Forms S-1 and S-3 for general account insurance products to any life insurance company that does not otherwise prepare GAAP financial statements for use in SEC filings.

The SEC should preserve the relief provided by Rule 7-02(b) for mutual insurance companies that do not otherwise prepare GAAP financial statements for use in SEC filings.

The July 13th Release suggests that Rule 7-02(b) is no longer relevant to mutual insurance companies.³ While no mutual insurance company currently may file SAP Financial Statements in reliance on Rule 7-02(b), elimination of the rule could have a significant impact on the companies' future business strategies and product development plans. Eliminating Rule 7-02(b) may effectively prevent mutual insurance companies that do not already prepare GAAP financial statements from issuing general account annuity and other fixed insurance products that are registered with the SEC.

If Rule 7-02(b) were eliminated, a mutual insurance company issuing a general account insurance product would have to comply with the requirement in Form S-1 or S-3 to provide GAAP financial statements, which would impose significant financial and administrative

³ The release states that accounting guidance issued in 1995 obviated the purpose of Rule 7-02(b) and that no issuer under the Securities Act or the Exchange Act relies on the rule as a basis to report under statutory accounting requirements. July 13th Release at page 129.

burdens on mutual companies that do not otherwise prepare financial statements on a GAAP basis. Based on estimates provided by large mutual companies, building the infrastructure necessary to prepare GAAP financial statements could cost as much as \$100 million. For mutual companies, this cost would be borne entirely by policyholders. If Rule 7-02(b) were eliminated, any mutual company that does not already prepare GAAP financial statements would have to choose between foregoing any participation in the market for registered general account insurance products or imposing on its policyholders the cost associated with building the infrastructure for preparing GAAP financial statements.

From the investing public's perspective, the market is best served by facilitating the availability of a wide array of lifetime income and protection products offered by a large number of insurance companies. The Committee submits that, insofar as the elimination of Rule 7-02(b) would operate to prevent a significant segment of the life insurance industry from offering registered general account insurance products that are not investment company securities, such as products with market value adjustment features or index-linked (structured) insurance products, it would adversely impact the development of that market.

The proposed elimination of Rule 7-02(b) requires a thorough cost-benefit analysis to ensure that it strikes the right balance to further the SEC's public policy objectives. The Committee believes that such analysis, which is missing from the July 13th Release, would reveal that the proposal would impose significant unwarranted costs on mutual companies that do not currently prepare GAAP financial statements. The Committee urges the SEC to preserve the relief provided by Rule 7-02(b) insofar as it permits mutual insurance companies that do not otherwise prepare GAAP financial statements to use SAP financial statements in registration statements for insurance products registered on Forms S-1 and S-3.

The SEC should permit all insurance companies that do not otherwise prepare GAAP financial statements to file SAP financial statements in Securities Act registration statements for their insurance products.

Requiring GAAP financial statements for general account insurance products registered on Forms S-1 or S-3 also deters many stock life insurance companies from offering such products. Like mutual life insurance companies, some stock life insurance companies do not have a legal or regulatory obligation to prepare GAAP financial statements. Requiring any life insurance company to prepare GAAP financial statements *solely* for the purpose of issuing registered general account insurance products imposes a substantial financial burden on those companies that choose to issue the products despite the added costs, and discourages many other companies from participating in the market. The Committee has members in both situations – companies that have incurred the cost to prepare GAAP financial statements solely for general account products and companies that do not issue general account products because of the additional cost -- that are deeply concerned about this issue. For this reason, the Committee advocates that the SEC extend to all life insurance companies that do not otherwise prepare

GAAP financial statements for SEC filings the relief provided by Rule 7-02(b) to use SAP financial statements in registration statements on Forms S-1 and S-3 for general account insurance products.⁴

Forms N-3, N-4 and N-6 for variable insurance products all permit life insurance companies that do not otherwise prepare GAAP financial statements for SEC filings to file SAP financial statements in registration statements for variable products. No similar relief, however, is currently provided for general account insurance products, which do not pass through to contract owners the performance of an insurance company separate account and whose contract value, benefits and guarantees are paid out of the insurance company's general account. Such products are not investment company securities eligible to register on one of the specialized forms for variable insurance products (Forms N-3, N-4 or N-6) and, in the absence of a specialized registration form, must be registered under the Securities Act on Forms S-1 or S-3.

By providing GAAP relief in the specialized forms for variable insurance products, the SEC has already acknowledged the cost and administrative burden of producing GAAP financial statements. In the adopting release for Forms N-3 and N-4, the SEC explained that GAAP relief was provided solely to reduce the disclosure burden on such issuers of variable insurance products.⁵ The SEC later reaffirmed this position when it adopted Form N-6 in 2002, again citing the cost burdens that would otherwise be imposed on issuers if the insurance companies would not have to prepare GAAP Financial Statements except for use in a variable product registration statement.⁶

Permitting insurance companies that do not otherwise prepare GAAP financial statements to use SAP financial statements for insurance products registered on Forms S-1 or S-3 will not harm investors. At the time the SEC fashioned the disclosure requirements for Forms N-3 and N-4, it observed that the receipt of annuity payments and other guarantees provided by the contract depends upon the solvency of the insurance company and that contract owners, participants, and annuitants who invest in the contracts may not want or need disclosure about the investment performance of the insurance company, but instead may be interested *only* in the company's solvency.⁷ SAP financial statements are designed to facilitate regulatory oversight of insurance

⁴ The Committee previously advocated this position in its comment letter dated July 21, 2016 on the Concept Release on Business and Financial Disclosure Required by Regulation S-K, 81 F.R. 23,916 (April 21, 2016). The Committee believes that limiting the relief to insurance companies that do not otherwise prepare GAAP financial statements for use in SEC filings would effectively preclude the relief from being relied upon by any company that issues other types of registered securities, such as stocks, bonds or notes.

⁵ Registration Forms for Insurance Company Separate Accounts that Offer Variable Annuity Contracts, Securities Act Release 6588, Investment Company Act Release 14575, 50 FR 26145 (June 25, 1985) at footnote 9.

⁶ Registration Form for Insurance Company Separate Accounts that Offer Variable Life Insurance Policies, Securities Act Release No. 8088, Investment Company Act Release No. 25522, 67 FR 19848 (April 23, 2002) at 19856.

⁷ Registration Forms for Insurance Company Separate Accounts that Offer Variable Annuity Contracts (proposing release), Securities Act Release No. 6502, Investment Company Act Release 13689, 49 FR 614 (Jan. 5, 1984)

company solvency by focusing on measurements that relate to the insurance company's ability to meet its obligations to contract owners, such as the company's liquid assets available for paying policy holder claims and the amount of regulatory capital and surplus it maintains as a financial cushion against unexpected losses. Consequently, SAP financial statements should provide investors in insurance products registered on Forms S-1 and S-3 sufficient financial information about the insurance company issuing the product to assess its solvency and its ability to fulfill its contractual guarantees. With respect to those insurance companies that do not otherwise prepare GAAP financial statements, GAAP financial statements do not provide additional disclosure value to investors in registered insurance products that warrants the cost and administrative burden of preparing and auditing an additional set of financial statement solely for this purpose.

The rationale for providing GAAP relief in registration statements for variable products applies equally to general account insurance products registered on Forms S-1 or S-3. Requiring an insurance company to prepare GAAP financial statements solely for a registered general account insurance product imposes a heavy financial burden that deters many insurance companies from offering such products. Furthermore, owners of general account insurance products, like owners of variable products, are principally concerned about the insurance company's solvency and its ability to fulfill its contractual obligations. For these reasons, the Committee advocates that the SEC extend the relief already provided to insurance products registered on Forms N-3, N-4 and N-6 to insurance products that are registered on Forms S-1 or S-3.

The SEC has already determined that insurance companies issuing general account insurance products warrant relief from certain disclosure requirements that generally apply to other types of securities registered on Forms S-1 or S-3. Rule 12h-7 under the Exchange Act exempts insurance companies from the periodic reporting requirements of the Exchange Act insofar as Securities Act registration of insurance products otherwise would trigger such periodic reporting, provided certain conditions are satisfied. Among the conditions required by Rule 12h-7 is that each year the insurance company file its SAP financial statements with its domiciliary state regulator.⁸

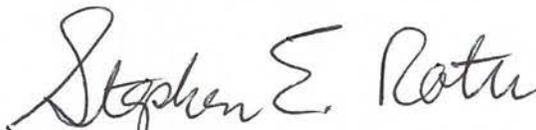
("Form N-4 Proposing Release"). Forms N-3 and N-4 require only that the sponsoring insurance companies provide a two-year comparative balance sheet in the Statement of Additional Information ("SAI"). To limit the size of the SAI, the full financial statements of the insurance company are included in Part C of the registration statement and provided to the contract owner upon request.

⁸ The conditions required to rely on Rule 12h-7 relief from filing periodic reports under the Exchange Act include that: (1) the issuer of the security be subject to state insurance regulation, (2) the security does not constitute an equity interest in the issuer and that the security be subject to insurance regulation, (3) the insurance company file an annual statement of its financial condition with and its financial condition be examined periodically by its domiciliary state insurance regulator, (4) the security not be listed on any exchange or other trading system, (5) the insurance company take steps to ensure that a trading market in the security does not develop and (6) the prospectus for the security disclose the insurance company's reliance on the exemption. See Index Annuities and Certain Other Insurance Contracts, Securities Act Release No. 8996, Exchange Act Release No. 59,221, 74 F.R. 3138 (adopted Jan. 8, 2009).

In conclusion, the Committee urges the SEC to reconsider its proposed elimination of Rule 7-02(b) of Regulation S-X. The plain language of the rule currently permits at least some insurance companies – those companies that are owned by their policyholders – to use SAP financial statements in the Securities Act registration statements for general account insurance products. Rather than eliminate the ability of mutual life insurance companies to use SAP financial statements for insurance products registered on Forms S-1 or S-3, the Committee requests that the SEC extend similar relief to all insurance companies that do not otherwise prepare GAAP financial statements for use in SEC filings so that they also can use SAP financial statements in Form S-1 or S-3 registration statements for general account insurance products that are not investment company securities.

Members of the Committee very much appreciate your consideration of their views. The Committee stands ready to provide any additional information that would be helpful to you and to assist the staff in any way. Please do not hesitate to contact the undersigned at [REDACTED] or at [REDACTED].

Respectfully submitted,


Stephen E. Roth

cc: Barry Miller, Securities and Exchange Commission
Matthew Giordano, Securities and Exchange Commission
William Kotapish, Securities and Exchange Commission

APPENDIX A

THE COMMITTEE OF ANNUITY INSURERS

AIG Life & Retirement
Allianz Life Insurance Company
Allstate Financial
Ameriprise Financial
Athene USA
AXA Equitable Life Insurance Company
Fidelity Investments Life Insurance Company
Genworth Financial
Global Atlantic Life and Annuity Companies
Great American Life Insurance Co.
Guardian Insurance & Annuity Co., Inc.
Jackson National Life Insurance Company
John Hancock Life Insurance Company
Life Insurance Company of the Southwest
Lincoln Financial Group
MassMutual Financial Group
Metropolitan Life Insurance Company
Nationwide Life Insurance Companies
New York Life Insurance Company
Northwestern Mutual Life Insurance Company
Ohio National Financial Services
Pacific Life Insurance Company
Protective Life Insurance Company
Prudential Insurance Company of America
Symetra Financial
The Transamerica companies
TIAA
USAA Life Insurance Company
Voya Financial, Inc.