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VIA ELECTRONIC SUBMISSION

March 14, 2019

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

**Re: Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts
File No. S7-23-18**

Dear Mr. Fields:

We appreciate the opportunity to provide comment to the Securities and Exchange Commission (the "Commission") on the Commission's above-referenced proposal to permit variable annuity and variable life insurance contracts to employ a summary prospectus in providing required disclosures to investors (the "Proposal").¹ The Capital Group Companies is one of the oldest asset managers in the United States. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally. The majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies distributed through financial intermediaries and held by individuals and institutions across different types of accounts. As part of the American Funds family of mutual funds, we manage the American Funds Insurance Series ("AFIS"), a variable insurance trust consisting of 28 individual funds with over \$125 billion in assets. The AFIS funds serve as underlying investment options for variable annuity and variable life insurance contracts issued by more than thirty leading insurance companies.

We ardently support the Commission's recent efforts to modernize and improve regulatory disclosures provided to all investors,² and, as a provider of mutual funds that serve as investment options underlying variable annuity and variable life insurance contracts, we are similarly strong supporters of the Proposal. We commend the Commission's efforts to advance the specific interests of variable contract holders. Particularly given the unwieldy nature and volume of disclosures currently made in the variable contract context, holders of variable annuity and life insurance contracts stand to benefit greatly from an improved disclosure framework.

¹ *Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts*, Investment Company Act Release No. 33286 (Oct. 30, 2018), 83 Fed. Reg. 61730 (Nov. 30, 2018), available at <https://www.govinfo.gov/content/pkg/FR-2018-11-30/pdf/2018-24376.pdf>.

² See, e.g., Comment Letter of The Capital Group Companies, Inc., File No. S7-12-18 (Oct. 30, 2018).

In general, we agree with the comments submitted by The Investment Company Institute.³ However, we offer below a number of additional comments on a few key issues raised by the Commission in the Proposal. In particular, we believe that, in certain respects, holders of variable annuity and variable life insurance contracts would benefit from greater disclosure than that which would be required under the Proposal. Given the long-term nature of variable contract investments, for example, investors should be made aware of the longer-term results of a contract's underlying investment options. In light of the important role that such variable contracts may play in an investor's broader financial plan, investors must also be notified when a variable contract issuer seeks to substitute one underlying investment option for another. Additionally, we support the Commission's proposal to adopt the notice-and-access model for electronic delivery of underlying fund prospectuses to variable contract holders. However, as noted in our recent comment letter on the fund retail investor experience,⁴ we believe the Commission should make a similar delivery option available for retail fund prospectuses.

1. Under certain circumstances, the Commission should require disclosure of an underlying fund's average annual total returns for lifetime periods.

The Proposal would require that a summary prospectus issued by a variable contract separate account include an appendix summarizing the key terms of each investment option underlying the variable contract. We support this requirement, and we generally support the requirement that such appendix include average annual total returns for the past one-, five- and ten-year calendar periods for each underlying investment option. However, given the long-term nature of investments in variable contracts, we believe that disclosure of returns data for lifetime periods would greatly enhance the effectiveness of the appendix in delivering meaningful information to owners of variable annuity and life insurance contracts.

Variable annuity and variable life insurance contracts are generally sold as long-term investments. As the Commission notes, "although the average age of an annuity owner is 70, the average age at which owners purchased their first annuity is 51," and, though "there is limited data available regarding variable life insurance contracts, ... the demographics of investors for those products are likely comparable."⁵ Such data suggests that variable contracts could reasonably be expected to be held for a period of at least twenty years, and, accordingly, results information for a period of ten years or less, without more, may not be of particular utility to a variable contract holder. It is, therefore, imperative that holders of variable contracts be provided with returns information consistent with the expected timelines of their investments.

To this end, we recommend that issuers of variable contracts be required, under certain circumstances, to disclose the average annual total returns of underlying investment options for lifetime periods. Specifically, wherever an underlying fund discloses lifetime returns data in its prospectus, the variable contract issuer should similarly disclose the underlying fund's lifetime returns. Doing so would not only promote parity of information across market participants, but would also advance investor understanding of the underlying fund's performance over time.

³ Comment Letter of The Investment Company Institute, File No. S7-23-18 (Feb. 15, 2019).

⁴ *Id.*

⁵ Proposal at 61732.

2. The Commission should require enhanced disclosure regarding substitution of underlying investment options.

The Commission proposes to formalize its longstanding position that investors should be put on notice of the possibility that an insurer may substitute one underlying investment option for another by expressly requiring such disclosure in Forms N-3, N-4 and N-6. We agree with the Proposal in this respect, as such disclosure would provide investors with important information about the possibility of future substitutions that may affect both the nature and value of their investment.

In the Proposal, the Commission separately requests comment on whether to affirmatively require disclosure to investors of the substitution of one underlying investment option for another pursuant to Section 26(c) of the Investment Company Act of 1940, as amended (the "1940 Act"). We strongly believe that such disclosure is necessary, particularly where a substitution alters the fundamental nature of a contract holder's investment. More importantly, though, if such a disclosure requirement is to have any practical utility, it must apply not only to substitutions that have already been effected, but also to *proposed* substitution transactions for which a variable contract issuer seeks exemptive relief. Accordingly, we recommend that the Commission amend Rule 0-2, which governs the filing of applications under the 1940 Act, to require notice to contract holders of the filing of a substitution application by an insurance company.

Current substitution practice generally requires a variable contract issuer to obtain an exemptive order granting relief to permit a substitution; however, the issuer is subject to no obligation to provide impacted investors with advance notice of the contemplated substitution and the pending request for relief. In effect, as a practical matter, variable contract holders and the financial intermediaries that sell variable insurance products rarely know about substitutions until after the Commission has approved a substitution order. This, in turn, may disadvantage investors by curtailing their ability to make an appropriately informed investment decision. Absent disclosure of a pending substitution request, for instance, variable contract holders who make ongoing deposits in their contract would not be afforded an opportunity to consider the implications of a potential substitution on their investment before committing additional capital to the impacted contract. First-time purchasers of a variable contract face a similar issue when investing in a contract that is the subject of a pending, yet undisclosed, substitution request. In order to protect investors and the soundness of their investment choices, issuers of variable contracts must be required to disclose the existence and the details of a pending substitution request.

Further to this point, we respectfully encourage the Commission to reconsider the broader process for review and approval of substitution requests under Section 26(c) of the 1940 Act to more effectively protect the interests of variable contract holders. We would be interested in continuing our engagement with the Commission staff on this topic.

3. We commend the Commission's proposal to expand the notice-and-access framework to the variable contract context and encourage the Commission to adopt the notice-and-access electronic delivery model for retail prospectuses.

We strongly support the alternative method proposed by the Commission by which a variable contract issuer may satisfy its obligation to deliver underlying fund prospectuses to contract holders. Under the proposed approach, if a variable contract issuer includes certain key information about each investment option underlying the contract in an appendix to the contract's summary prospectus, the issuer could make the underlying fund prospectuses available to investors online rather than providing

a prospectus for each underlying investment option. Underlying fund prospectuses would also be made available to investors in paper or electronically upon request.

This aspect of the Proposal, if adopted, would dramatically reduce the volume of disclosure material provided to variable contract investors and, in turn, would allow investors to focus on key information regarding a variable contract in a concise, reader-friendly format. Those who desire more information would continue to have access to the same level of disclosure and information online as they have today (with the option to receive hard copies of prospectuses and other reports upon request). In effect, investors would be empowered to make better informed investment decisions, while simultaneously benefiting from significant cost savings on account of decreased printing and mailing expenses.

Though we certainly commend the Commission for its proposal to expand the notice-and-access framework to the variable annuity and life insurance context, we unreservedly encourage the Commission to further expand the framework to registered investment company prospectuses more generally. As discussed in our recent comment letter to the Commission on the fund retail investor experience, adopting a notice-and-access electronic delivery standard for retail prospectuses would produce further cost savings for the benefit of shareholders and would align much more closely with shareholder preferences for accessing financial information online.⁶ Such a model would also mitigate many of the detrimental environmental impacts associated with printing and distribution of paper prospectuses.⁷ Given these benefits, and in light of consistently widespread Internet usage across all age groups, education levels and income ranges,⁸ we believe it would be most sensible to modernize regulatory disclosure delivery models across a broad spectrum of product and disclosure types, including retail fund prospectuses.

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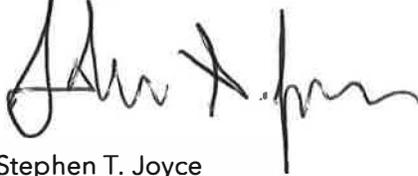
⁶ See Comment Letter of The Capital Group Companies, Inc., File No. S7-12-18 (Oct. 30, 2018).

⁷ *Id.* For the 2017 fiscal year, American Funds mailed approximately 32.2 million summary prospectuses, 30.4 million semiannual shareholder reports and 32.2 million annual shareholder reports. Approximately 5,122 tons of paper were required to print the documents, which required the destruction of about 122,000 trees. Transporting this amount of paper, in turn, required approximately 395 tractor trailer truckloads, resulting in a sizeable increase in carbon emissions.

⁸ Holden, Schrass and Bogdan, "Ownership of Mutual Funds, Shareholder Sentiment and Use of the Internet, 2017," ICI Research Perspective 23, No. 7 (Oct. 2017), p. 19.

We appreciate the opportunity to comment on the Proposal and are grateful for your consideration of our recommendations. If you have any questions regarding our comments, please feel free to contact Erik A. Vayntrub at [REDACTED].

Sincerely,



Stephen T. Joyce
Senior Vice President
American Funds Distributors, Inc.



Erik A. Vayntrub
Vice President, Associate Counsel
Capital Research and Management Company

cc: The Hon. Jay Clayton, Chair
The Hon. Robert J. Jackson, Jr., Commissioner
The Hon. Hester M. Peirce, Commissioner
The Hon. Elad L. Roisman, Commissioner
Dalia Blass, Director, Division of Investment Management