



October 24, 2019

Vanessa Countryman, Acting Secretary

Securities and Exchange Commission
100 F Street, NE Washington, DC 20549-1090

Re: Rule 498A (File No. S7-23-18)

Dear Secretary Countryman,

Donnelley Financial Solutions (DFIN) supports the Commission's efforts to propose a Summary Prospectus for variable annuity and variable life insurance contracts. We agree with the Commission's disclosure framework of two versions of the Summary Prospectus. However, we believe adding an investor specific fund list of the annuitant's existing holdings in the Updating Summary Prospectus will be a critical element that will enhance the investor experience. Reviewing these customized holdings lists will prompt some investors to examine their underlying fund choices instead of reading a generic list of all investment choices available in the contract as is currently proposed. This letter follows DFIN's Comment Letter dated Mar. 12, 2019 related to File S7-23-18, and a discussion DFIN staff had with Commission staff on this rule on Aug. 7, 2019 at your office. This letter focuses on our proposal to include a list of the individual investor's holdings in the Updating Summary Prospectus. This customized list will allow the annuitant to compare their active holdings with alternative underlying funds available in the contract.

Purpose of the Updating Summary Prospectus

Because investors can make changes to their active underlying funds in a variable annuity or variable life contract, we believe the Updating Summary Prospectus disclosure should highlight:

1. Contract changes that have happened in the past year (e.g. fee change from 1.5% to 1.7%)

2. Changes in market conditions that warrant reconsideration of existing holdings

Purpose of including customized list of holdings

Adding a list of investor specific holdings is consistent with strategies of some of the most successful investors, and it is a cost-effective way to improve the investor experience. Peter Lynch of Fidelity Investments had a mantra — know what you own, and why you own it. In his books, he advocates maintaining an awareness of your holdings; “If you stay half alert, you can pick spectacular performers...”¹ In his book *Beating The Street*, Lynch stresses the importance of choosing investments based on informed research — “The worst thing you can do is to invest in companies you know nothing about.”² In addition to highlighting changes in a contract from one year to the next, the Updating Summary Prospectus should include an active holdings list that serves as a reminder for the investor about what they own, and prompt them to consider reallocation based on change in market conditions.

John Bogle of The Vanguard Group believed that If you can measure the returns of your investments, you can effectively manage them. In his book *The Little Book of Common Sense Investing*, he states “Successful investing, then, is about minimizing the share of returns by our corporations that is consumed by Wall Street and maximizing the share that is delivered to Main Street. That’s you...”³ Adding the existing portfolio holdings list with expense ratio and average annual return data is consistent with the Commission’s expressed purpose of the Summary Prospectus as stated in the proposed rule, “This disclosure is intended to remind investors of one of the most important decisions they face during the life cycle of a contract — that is, whether, and where, to allocate additional purchase payments and reallocate contract value among the portfolio companies or investment options available to them.”⁴ The Commission also states, “Additionally, the Updating Summary Prospectus would include certain of the information required in the Initial Summary Prospectus that we consider most relevant to investors when making additional investment decisions or otherwise monitoring their contract.”⁵ We believe providing a customized list of active holdings will prompt investors to compare current holdings with other available choices in the contract.

¹ One Up On Wall Street; Know How To Use What You Already Know To Make Money In The Market; Peter Lynch, Simon & Schuster, 2000, ISBN0 0-7432-0040-3, p 32.

² *Beating The Street*; Peter Lynch, John Rothchild, Simon & Schuster, 1994, ISBN 0-671-75915-9, p 12

³ *The Little Book of Common Sense Investing*, John C. Bogle, John Wiley & Sons, 2017, ISBN 978-1-119-40450-7, p 21.

⁴ Proposed Rule 498A (II)(A)(2)(c)

⁵ *Ibid* (II) (A)(2)(a)

Technology makes cost effective customization of disclosures possible

The technology exists today to cost effectively add customized information to each Updating Summary Prospectus enabling investors to assess and allocate payments among the available underlying fund options. Data analytics software ingests customer data and seamlessly composes customized active holdings lists for inclusion in electronic or printed Updating Summary Prospectuses. Given that approximately 15% of variable annuity and variable life contract owners have consented to e-delivery,⁶ our technology can incorporate these individualized lists for online, print, app or electronic delivery of the Updating Summary Prospectus. Our proposal is appropriate given the current demographics of these contract holders. DFIN's 30-year experience in innovation related to SEC disclosure creation, distribution, and our decades of service to the variable products, has allowed us to develop customized disclosures that do exactly this. Our background qualifies us to comment on innovations in summary disclosure that leverage technology to improve the next generation of disclosures, for print, e-mail, interactive electronic channels and video.

Proposed existing holdings lists satisfy securities laws

We believe the holdings lists proposed would be permitted under section 10(b) of the Securities Act and section 24(g) of the Investment Company Act for the purpose of 5(b)(1) of the Securities Act.⁷

Registrants can combine multiple contracts with multiple holdings lists and not cause investor confusion

In response to the Commission's questions in the proposed rule, "Is it appropriate to permit the Updating Summary Prospectus to include multiple contracts under the statutory prospectus to which the Updating Summary Prospectus relates? Would this approach promote operational efficiency?"⁸ We believe including the list of active holdings in the Updating Summary Prospectus would facilitate consolidation of multiple contracts in one Updating Summary Prospectus because it would focus the investor's attention on his/her subset of active holdings as opposed to the entire set of possible choices. We agree with the Commission's position on the advantages and disadvantages of aggregating content in the

⁶ Ibid (III) (B) (2)

⁷ Section 10(b) of the Securities Act authorizes the Commission to adopt rules that are in the public interest and for the protection of investors that permit the use of an "omitting prospectus" for the purposes described in section 5(b)(1) that summarizes information that appears in the statutory prospectus. Section 24(g) of the Investment Company Act authorizes the Commission to use a prospectus under section 10(b) of the Securities Act that includes information that is not included in the statutory prospectus. 15 U.S.C. 77j(b); 15 U.S.C. 77e(b)(1); 15 U.S.C. 80a-24(g); see also 2009 Summary Prospectus Adopting Release, supra note 33, at n.70.

⁸ Ibid (II)(A)(1)(b)

Summary Prospectuses. For the Updating Summary Prospectus, "...we believe permitting registrants to combine multiple contracts would not cause investor confusion in the same way that combining disclosure about multiple contracts in the initial summary prospectus might."⁹ "Aggregating disclosures for multiple contracts[...]can hinder investors from distinguishing between contract features and options that apply to them and those that do not."¹⁰ In 2017, the average number available underlying funds in a variable contract were 59 choices.¹¹ Multiplying this number by the number of contracts in a consolidated Updating Summary Prospectus would create a daunting fund list in which all funds appear the same way; by including the active holdings, the annuitant can clearly focus on the current position. Investors' account values change depending on performance or these investment options selected, so we propose that a list of existing allocated portfolios be included in single and multiple contract Updating Summary Prospectuses.

Proposed presentation of the active holdings list

The hypothetical illustration of the Updating Summary Prospectus that appears in Rule 498A includes 46 fund choices; this is a perfect example of how confusing it would be for an investor to locate their five or six active holdings within that list for comparison. We propose that the active holdings can be presented in two ways:

1. Present funds owned as of 12/31 of the previous year as a separate list located in the Updating Summary Prospectus at the top of page 4 in the sample, between the key information table and the section entitled *APPENDIX: Portfolio Companies Available under the Contract*, as it appears in the proposed Hypothetical Updating Summary Prospectus.¹² Active holdings would be labeled as a separate, subset list next to the complete list of all available portfolios, and would be presented with the same data and format as all portfolio companies available under the contract. This will encourage investors to compare expense ratios and total annual return of existing holdings to other investment choices in the contract.
2. Alternatively, add a column in the table in the APPENDIX and add a symbol next to those funds currently owned. This presentation would not increase the length of the document. We believe investor testing about

⁹ Ibid (II) (A)(2)(b)

¹⁰ Ibid (II) (A) (1) (b).

¹¹ IRI Fact Book (2018), page 170

¹² Proposed Rule 498A APPENBIX B

alternatives to the presentation of active holdings is important to achieve maximum impact.

In the proposed rule, the Commission sites that individuals are generally able to make more efficient decisions when they have comparative information that allows them to assess relevant trade-offs.¹³ Locating the existing allocation list “side-by-side” with the complete list of available investment choices will allow annuitants to compare performances and make decisions that better align with their goals. Since variable contracts generally offer exchange privileges that permit annuitants to reallocate investments from one underlying portfolio to another, it is critical that the list of existing allocations be located adjacent to the complete list of all underlying portfolios. This will facilitate performance comparison and effective reallocation. This is consistent with the Commission’s position as stated in the rule, “After receiving notice and a brief description of certain changes, an investor who then wishes to obtain more information on specific changes can consult the contract statutory prospectus to review related disclosures in more detail. We believe highlighting certain key changes with respect to the contract in the updating summary prospectus will provide important information to investors that they can use in considering whether to continue making additional purchase payments or reallocate contract value.”¹⁴

Cost and benefits from adding the active holdings list

The cost for adding the existing holdings list will be minimal and represents a good investment in the investor’s experience. The Commission estimates that printing and mailing expenses for a typical statutory prospectus total \$0.53, and the costs for the Initial and Updating Summary Prospectus would be approximately \$0.35, or a 34% savings. DFIN estimates the cost of data analysis would add \$.05 per Updating Summary Prospectus bringing the cost with customization to \$.40, or a 24% savings. Therefore, the costs of data analysis and production of customized documents would be negligible and be far outweighed by the value of improved decision making for investors.

¹³ Ibid (III) (C) (1) Hsee C.K., Loewenstein G.F., Blount S, Bazerman M.H., *Preference reversals between joint and separate evaluations of options: a review and theoretical analysis*, 125 Psychological Bulletin 576–90 (1999); see also Kling J.R., Mullainathan S., Shafir E., Vermeulen L.C., Wrobel M.V., *Comparison friction: experimental evidence from Medicare drug plans*, 127 Quarterly Journal of Economics 199–235 (2012). In a randomized field experiment, some senior citizens choosing between Medicare drug plans were randomly selected to receive a letter with personalized, standardized, comparative cost information. Plan switching was 28% in the intervention group, but only 17% in the comparison group, and the intervention caused an average decline in predicted consumer cost of about \$100 a year among letter recipients.

¹⁴ Proposed rule 498A(II)(2)(c)(ii)(a)

Closing

Adding the personalized Active Holdings List will promote “readability” and promote investor scrutiny of current holdings. We believe this is the best way for investors to easily compare their active holdings to the other options within the contract. Other disclosure investors receive throughout the year do not offer this:

1. 30e-3 Report Notifications advise the investor where to find all underlying fund information, but do not remind them about which funds they own. Comparison is difficult.
2. Quarterly or Annual Statements list what they own and the performance of each, but usually do not include a list of funds they do not own in the contract. Comparison is not possible.

DFIN is the largest filer in the U.S., so we’re in tune with various stakeholders and what makes their lives easier. We appreciate the Commission’s commitment to work with investors and industry participants to improve the investor experience with better disclosures. Rule 498A is a “forward-focused” proposal, and we hope our recommendations are consistent with your vision. Thank you for the opportunity to comment.

We are eager to continue discussions about how DFIN can contribute to the Commission’s objective for an improved Summary Prospectus for Variable Annuity and Variable Life Contracts.

Sincerely,



Eric J. Johnson
President, Global Investment Markets
DFIN