The following comments are in response to Mr. Kilcoyne’s questions which are repeated below for ease of reference.

The following questions are more specific to the IAC response and the redlined draft submissions. It is assumed that the goal is to allow the owner to continue coverage and terms as close to the original purchase as possible.

In connection with what may happen when an owner ceases to be a qualified owner, we agree with the observation that the goal is to allow the owner to continue coverage and terms as close as possible to the original purchase. An additional goal is to afford insurers the ability/flexibility to comply with federal securities laws. In the course of developing the proposed standard, we did notice that not all insurers interpret the requirements of federal securities laws in exactly the same manner; therefore a permissive approach rather than a prescriptive approach to policy form requirements is indicated.

1. If a qualified owner must be both an accredited investor and a qualified purchaser, should this be clarified in the Uniform Standards?

The IAC November 22, 2016 response used “and”, while the proposed standards use “or”. The “or” is the correct usage, and we believe that the proposed standard is clear on this point.

2. What is the purpose of the proposed reference to a “qualified client” in the definition of a qualified owner? If the purpose is to enable additional exempt funds with additional restrictions, the change doesn’t seem necessary. If the purpose is to enable a more restrictive definition of qualified owner, the change may warrant some discussion.

To invest in certain exempt funds, owners may also have to be a qualified client or a qualified eligible person, which are defined under federal securities laws.

3. Is federal law so restrictive that only a qualified owner can make premium payments into the policy, or would premium payments be permissible if directed to a non-exempt fund or the general account?
We don’t think federal law would restrict premium payments if directed to a non-exempt fund or the general account. We note that once an owner is no longer a qualified owner, companies have an administrative burden to monitor premium payments and transfers to be sure exempt funds are not impacted.

4. Is federal law so restrictive that positions in any exempt fund must be liquidated if the qualified owner ceases to be a qualified owner? If so, isn’t the best solution to require a transfer from exempt funds to non-exempt funds or the general account?

We don’t think federal law specifically requires that the exempt fund position must be liquidated if the qualified owner ceases to be a qualified owner. We believe there are companies that have taken the position that it is appropriate to require liquidation in these circumstances, to reduce their exposure in this regard. We agree that requiring a transfer from exempt funds to non-exempt funds or the general account is a viable solution, and perhaps is the best way to continue coverage and terms as close as possible to the original purchase. Ultimately, because companies must interpret federal law (both current and future), it is appropriate for the standards to permit flexibility in this area.

5. Are there circumstances where there is no legal remedy other than to require surrender of the policy if the owner ceases to be a qualified owner? If so, shouldn’t any forced surrender be limited to those circumstances only?

Consistent with our response to question 4, we don’t think federal law specifically requires that the exempt fund position must be liquidated, but there are companies that believe it is appropriate to require surrender if the qualified owner ceases to be a qualified owner and no other acceptable remedy is available. Therefore the surrender option should remain in the standards to provide needed flexibility. The present language in the proposed standard could be modified to clarify more limited circumstances if you believe this is necessary.

6. Under the currently proposed language, where the policy allows the owner (having ceased to be a qualified owner) a new remedy (under the Transfers section), what is the expectation should the owner regain the status of a qualified owner? Would the owner regain access to exempt funds or is it intended that the policy could dictate yes or no?

The securities laws and related rules do not directly address these circumstances. We believe it makes sense to leave this to company discretion.
Submitted by the Industry Advisory Committee:

Hugh Barrett, Mass Mutual Life
Chelsea Crucitti, IRI
Brian Deleget, Nationwide
Angela Hanson, Northwestern Mutual
Michael Hitchcock, Pacific Life
Steve Kline, NAIFA
Amanda Matthiesen, AHIP
Rod Perkins, ACLI