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November 7, 2010

Ms. Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Mr. David A. Stawick, Secretary
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Ms. Murphy and Mr. Stawick,

We are pleased to have the opportunity to provide you with information regarding stable value funds organized pursuant to the exemption set forth in section 3(c)(11) of the Investment Company Act of 1940, as amended ("1940 Act") (each a "Stable Value Fund" and collectively, "Stable Value Funds"). We hope that this information is helpful in the Dodd-Frank follow-on study regarding Stable Value Funds and the book value wrap contracts that support these funds. In this letter, we provide some history and background to the Stable Value Fund marketplace, and we also try to identify the public policy issues that need to be addressed by the relevant regulatory bodies. In addition to the materials provided in this letter, we are available to discuss these topics further with you at your convenience.

Public Policy Issues

1. Defined contribution plan participants (Plan Participants) have benefitted (and continue to benefit) from investing in Stable Value Funds as the income earned in these vehicles typically exceeds alternative money market or cash sweep investment options. Over 50% of defined contribution plans (and many 529 college savings plans) offer Stable Value Funds as an investment choice for their Plan Participants. Where Stable Value Funds have been offered, it has generally been a popular investment choice as they offer preservation of capital, liquidity of varying frequency, and a yield in excess of money market funds which are the natural alternative investment choice. It is important to note, however, that unlike retail money market funds, Stable Value Funds are not subject to rule 2a-7 of the 1940 Act and have very different underlying investment strategies investing in securities with maturities of two to three years: thus the risk profile is different from that of a 2a-7 fund. Elimination of Stable Value Funds would be detrimental to the ability of plan sponsors to provide Plan Participants an increased range of lower volatility cash management options in their plan retirement asset allocation.

2. A regulatory decision to unwind Stable Value Funds may cause a negative impact on the capital markets for short- and intermediate-duration high quality fixed income securities. Stable Value Funds represent over $650 billion of Plan Participant assets which effectively help fund this segment of the fixed income marketplace. As described below, the underlying assets in Stable Value Funds are generally high quality fixed income securities. A regulatory decision to wind down Stable Value Funds would result in these underlying portfolio securities being sold into the marketplace. Such a significant amount of supply hitting the market place may impact the asset prices and cause unexpected losses for Plan Participants.

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3. Book value wrap contracts differ significantly from “swaps” and do not in our view pose significant systemic risk issues to the wider capital markets and general economy. Unlike swaps, book value wrap contracts are designed to provide “benefit-responsive liquidity”. The counterparty exposure of the Plan Participants to the wrap providers is limited to the difference between market value and book value and the exposure of the wrap provider is further limited by the underlying plan characteristics. The mechanics of book value wrap contracts are described in more detail below.

History of Stable Value

The key distinction between stable value from other fixed income investments is its ability to provide benefit responsiveness to Plan Participants. The criteria for benefit responsiveness are provided by the Financial Accounting Standards Board (FASB), and allow Plan Participants to transact at book value regardless of what the current mark-to-market is on their investment.

Stable Value Funds were originally designed in the mid-1970’s as defined contribution retirement plans grew in popularity. Stable Value Funds, then called guaranteed investment funds, were offered as an investment vehicle that provided a guarantee of principal and a stable rate of return in excess of cash rates, making them an attractive option for conservative investors.

The original Stable Value Funds were composed of Guaranteed Investment Contracts (GICs) which functioned in a similar manner to bank certificates of deposits, but were issued primarily by insurance companies to plan sponsors or to Stable Value Funds. These GICs guaranteed contract holders a fixed interest rate for a stated maturity and responsiveness to pay retirement benefits. Insurance companies took the proceeds from these GIC sales and invested them in their general accounts creating direct and concentrated credit exposure for the retirement plans to the insurance companies’ creditworthiness. In the 1980’s, this concentrated credit exposure became a problem when Executive Life and Confederated Life were unable to meet their obligations. As a result, plan sponsors decided that they needed a more diversified approach, and market participants collaborated to create synthetic GICs and insurance separate accounts as the new generation of “GICs”.

Today, the most common type of investment contract used in Stable Value Funds is a “synthetic GIC”. In this structure, an underlying high quality fixed income portfolio is insured by a bank or insurance company through a book value wrap contract. The wrap contract entitles the Plan Participant to make withdrawals and transfers to other plan options at book value (which equals their investment value plus credited interest). Plans, however, are often restricted from making book value withdrawals for participants in mass without advance notice. If the Stable Value Fund cannot support the withdrawal, the issuer must make the benefit payment which is the value/benefit provided by the wrap contract. In this structure, Plan Participants enjoy the benefits of a diversified, high quality fixed income portfolio with a small counterparty exposure to the wrap contract provider instead of the concentrated single issuer credit risk of an insurance company which provided a traditional GIC in the past. It is also worth noting that that most funds have multiple wrap contracts and thus diversified credit exposure.

Another common type of investment contract used in Stable Value Funds today is an ”insurance separate account GIC”. These contracts can be thought of as a hybrid of a traditional GIC and a synthetic GIC. In these contracts, a plan sponsor or a Stable Value Fund will purchase a contract from an insurance company. However, instead of the assets being held in the insurance company’s general account, the assets are held in a separate account. This separate account is managed as a fixed income portfolio with stated investment guidelines, much like a synthetic GIC. While these contracts have different legal and technical characteristics, they achieve the same result of providing Plan Participants with a diversified, high quality fixed income portfolio and a limited exposure to the insurance company’s credit.

Management of Stable Value Funds
Some very large plan sponsors manage their Stable Value Funds internally. However, most plan sponsors engage an investment advisor for one or more roles. There are “stable value managers” who put together individual and pooled portfolios containing synthetic GICs and/or insurance company separate accounts. Alternatively, the advisor’s role may be to manage the fixed income portfolio and to enter into book value wrap contracts, or the advisor may only be responsible for negotiating the book value wrap contacts. The table below identifies the largest providers of asset management services for Stable Value Funds and/or for synthetic GICs.

Largest Managers of Stable Value Assets

Manager	Est. AUM ($B)
Fidelity Investments	$45.1
Galliard Capital Management	$39.0
BlackRock	$37.3[1]
Prudential Financial	$37.0
Principal Global Investors	$35.7
Dwight Asset Management	$33.0
Vanguard Group	$32.7
Invesco	$30.8
Deutsche Asset Management	$24.7
Pacific Investment Management Co.	$24.5

Source: P&I, BlackRock (as of December 31, 2009)

The Current Stable Value Marketplace
Stable value products have evolved over the past two decades to reflect changes in the markets. When the product was first introduced, it was common to see pricing of 20 to 25 basis points on an all investment grade portfolio. As demand increased from plan sponsors, more providers entered the marketplace. During this evolution, pricing became more competitive (as low as 7 basis points) and investment guidelines were also relaxed to allow some non-investment grade assets.

During the financial crisis of 2008, the gap between market value and book value increased as spreads widened relative to U.S. Treasuries, highlighting potential exposure of book value wrap providers. Not surprisingly, the product evolved again with wrap providers returning to higher quality portfolio requirements. Several wrap providers indicated that they did not want to write additional contracts and/or wanted to reduce their exposures, resulting in industry-wide limits on wrap capacity. On the other side of the equation, investors who valued the conservative nature of these portfolios added significant assets to Stable Value Funds. In this environment, fees increased back to 20 basis points or more. The table below identifies the largest providers of book value wrap contracts, some of which are not currently offering new contracts but may have an existing book of business outstanding.

Largest Book Value Wrap Providers

Largest Book Value Wrap Providers
AEGON Stable Value Solutions
AIG Financial Products Co.
AVIVA Life and Annuity Co.
Bank of America
ING Life Insurance and Annuity Co.

[1] *The Retirement Preservation Trust managed by BlackRock has since been transitioned from a stable value mandate to a money market like mandate.*

JPMorgan Chase Bank N.A.
Metropolitan Life Insurance
Pacific Life Insurance
Prudential Financial
United of Omaha

The continued regulatory uncertainty has limited new entrants to this marketplace and has extended the capacity constraints and higher fees for book value wrap contracts. The table below illustrates typical investment guidelines for a synthetic GIC contract today. These portfolios generally have a duration of less than 4 years, and as is evident, these are very high quality, diversified portfolios.

Sample Investment Guidelines for Synthetic GIC

Asset Class	Typical Credit Quality	Maximum Allocation Ranges
Cash	N/A	100%
Commercial Paper	A1/P1	25 - 30%
Government Debt	U.S. Government	100%
Residential MBS	Agency Backed	40 - 50%
Commercial MBS	AAA	10 - 15%
Taxable Municipal	A	10 - 15%
Corporates	A	30 - 35%
Asset Backed Securities	AAA	20 - 25%

We believe that various book value wrap contract providers will enter or reenter the marketplace over time. The factors that will determine the evolution of the stable value marketplace include but are not limited to: wrap providers' ability to dictate high quality portfolios, a level of fees in line with perceived risk, continuing demand by participants for a stable value investment option, and regulatory clarity and certainty. This latter point is essential as wrap providers need to know how much regulatory capital will be required and whether book value wrap contracts will fall within the definition of swaps before they can commit to writing new contracts, and plan sponsors need assurance that they will not be forced to suddenly unwind these portfolios based on regulatory changes.

Analysis of Book Value Wrap Contracts versus Swap Contracts

Book value wrap contracts differ significantly from swap contracts. In a book value wrap, the plan sponsor pays the provider an annual fixed basis point fee for providing protection to Plan Participants. In the event that a significant percentage of Plan Participants choose to change investment options (leaving stable value for another investment option), and this occurs when there is a gap between market value and book value, the book value wrap provider is exposed to that gap. Most plans include a provision called an "equity wash" which limits Plan Participants from moving out of the stable value option directly into a competing money market or fixed income option. In addition, each plan has different demographics and different history, analysis of which is part of the due diligence process undertaken by book value wrap contract providers. The resulting contract is a bilateral agreement that is tailored to the plan and the portfolio. This is very different from a typical swap contract, inasmuch as book value wrap contracts are never used to gain leveraged exposure to a financial market or for speculative purposes, and the potential payouts are unidirectional and subject to numerous conditions. Additionally, these contracts would not meet the conditions for being deemed a derivative under U.S. Generally Accepted Accounting Principles.

Additional Resources for Information on Stable Value

There are several industry organizations that are excellent sources for additional information regarding Stable Value Funds and book value wrap contracts.

1. *Stable Value Investment Association (SVIA)* – A non-profit organization dedicated to educating retirement plan sponsors and the public about the importance of saving for retirement and the contribution Stable Value can make toward a secure retirement. The SVIA is one of the leading authorities on retirement investing with members representing all segments of the Stable Value investment community, including public and private plan sponsors, insurance companies, banks, investment managers and consultants.
   Contact Information:
   Stable Value Investment Association
   Gina Mitchell, SVIA President
   1025 Connecticut Avenue, NW
   Suite 1000
   Washington, DC 20036
   (202) 580-7620
   http://stablevalue.org/
   info@StableValue.org

2. *Defined Contribution Institutional Investment Association (DCIIA)* – A group of leading industry professionals advocating policies and practices that can improve investment outcomes for defined contribution Plan Participants. The organization provides an independent forum for thought leadership and conducts research, hosts events and publishes papers focusing on improving defined contribution plan design as well as educating legislators and regulators on how to advance approaches to retirement security.
   Contact Information:
   Lew Minsky, DCIIA Executive Director
   (202)-367-1124
   lew.minsky@dciia.org.
   http://www.dciia.org/

3. *Council on Employee Benefits (CEB)* – Council composed of major corporations having a common interest in the management of employee benefits. CEB stimulates the development and improves the administration of sound, progressive employee benefit plans among its members and also provides a forum for the exchange of ideas, thoughts and information on the design, operation and financing of benefit plans.
   Contact Information:
   Mary D. Amundson, President CEB
   1311 King Street
   Alexandria, VA 22314
   (703) 549-6025
   scanfield@ceb.org or ccannon@ceb.org
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Conclusion

Stable Value Funds play an important role in defined contribution plans. Book value wrap contracts were introduced more than fifteen years ago in response to concerns about concentrated credit risk. Since then, Stable Value Funds have provided Plan Participants with a conservative, high quality, liquid investment option that has outperformed money market funds. Maintaining the stable value product requires book value wrap contracts, which differ significantly from swaps and should not be regulated as if they were swaps. In turn, the contract providers need more clarity about and more certainty of their regulatory status in order to write these contracts.

The elimination or reduction of stable value investment options would have negative implications for the retirees of the 170,000 retirement plans that currently offer stable value as part of their defined contribution offerings, as well as for the capital markets. We respectfully urge you to recognize the unique aspect of book value wrap contracts and not make them subject to the rules pertaining to swaps.

The issues described in this letter are important to the industry and to our clients. We would welcome the opportunity to discuss them further with you either on our own or in conjunction with an industry symposium.

Sincerely,

Barbara Novick
Vice Chairman

CC:
Matt Daigler - U.S. Securities & Exchange Commission
Stephen Kane - U.S. Commodity Futures Trading Commission
Gina Mitchell - Stable Value Investment Association
Lew Minsky - Defined Contribution Institutional Investment Association
Mary D. Amundson - Council on Employee Benefits