

[Securities Regulation Daily Wrap Up, FORMS AND FILINGS—SEC proposes disclosure improvements for variable annuities and variable life insurance contracts, \(Oct. 31, 2018\)](#)

Securities Regulation Daily Wrap Up

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The SEC has proposed rule changes intended to improve disclosure about variable annuities and variable life insurance contracts. A proposed new rule would allow the use of a summary prospectus for these contracts, providing investors with a concise, reader-friendly summary of key information about the contract terms, benefits, and risks, with more detailed information being available online. The comment period will remain open through February 15, 2019 (*Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts, Release No. 33-10569*, October 30, 2018).

The proposal arises out of the Commission's concern that the volume, format, and content of disclosures for variable contracts make it hard to find and understand key information needed to make an informed investment decision. According to the Commission, the proposal leverages both technology and a layered disclosure approach to improve the ability of investors to understand and evaluate variable contracts. Like mutual fund summary prospectuses, which have been available since 2009, the variable contract summary prospectus is intended to be but one element in a layered disclosure regime, and any information incorporated by reference would be separately available, either electronically or in print. Variable contracts can be more complex than other investment products, and the Commission's proposed approach will reflect their unique features and risks. Describing the proposal, Chairman Jay Clayton [noted](#): "Providing key summary information about variable annuities and variable life insurance contracts to investors is particularly important in light of the long-term nature of these contracts and their potential complexity."

Summary prospectus. Proposed new Securities Act Rule 498A would permit the satisfaction of prospectus delivery obligations under the Securities Act for a variable annuity or variable life insurance contract by sending or giving a summary prospectus to investors and making the statutory prospectus available online. The proposed rule contemplates an "initial summary prospectus" to be provided to new investors, and an "updating summary prospectus" for existing investors. The initial summary prospectus would include: an overview of the contract; a table summarizing certain key information about the contract's features, benefits, and risks, along with more detailed disclosures relating to fees, purchases, withdrawals, and other contract benefits. The updating summary prospectus would include a brief description of certain changes to the contract that occurred during the previous year, plus the key information table from the initial summary prospectus.

The proposed rule would also require that the statutory prospectus and the contract's Statement of Additional Information (SAI), to be accessible, for free, online at a website specified in the summary prospectus. And, prospectuses for underlying mutual fund investment options may also be available online; this option would only be available for portfolio companies available as investment options through variable contracts that use contract summary prospectuses. An investor may also choose to have the above information delivered in print or electronically at no charge.

Form amendments. The proposal would also revise the registration forms for variable contracts: Forms [N-3](#), [N-4](#), and [N-6](#). Form N-6, the newest of these forms, was used as a model for many of the revisions to Forms N-3 and N-4. The Commission says that these amendments are intended to improve the content, format, and presentation of information to investors, including by updating the required disclosures to reflect industry developments, in particular the prevalence of optional insurance benefits offered under the contracts. The

amendments will also make the forms more consistent, allowing for greater efficiencies among sponsors of variable contracts registering on multiple form types, and other market participants.

Other amendments. Registrants would be required to use the Inline eXtensible Business Reporting Language (Inline XBRL) format for the submission of certain required disclosures in the variable contract statutory prospectus. Among the items that registrants would be required to tag using Inline XBRL are the Key Information Table, Fee Table, and the Principal Risks of Investing in the Contract.

Finally, the Commission also proposed technical and conforming amendments to reflect the proposed new rule and the form amendments. This includes the rescission of rules and forms that the Commission believes are no longer necessary or have been rendered moot by other amendments, including Forms N-1, N-27E-1, and N-27F-1.

The comment period for the proposal will close on February 15, 2019. The Commission seeks [comment](#) on the proposed rule changes and a hypothetical [summary prospectus](#) sample included in the appendix to the release.

The Release is [No. 33-10569](#).

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