

Press Release

SEC Adopts Investor Disclosure Improvements for Variable Annuities and Variable Life Insurance Contracts

Amendments would streamline and simplify critical disclosures for investors in variable annuity and life insurance products

FOR IMMEDIATE RELEASE

2020-57

Washington D.C., March 11, 2020 — The Securities and Exchange Commission today announced that it has adopted a new rule and related form and rule amendments to simplify and streamline disclosures for investors about variable annuities and variable life insurance contracts. The changes permit the use of a concise, reader-friendly prospectus designed to improve investors' understanding of the contracts' features, fees, and risks. The framework's use of layered disclosure and technology will provide investors with a roadmap so that they can more easily access information that they need to make an informed investment decision. These changes are an important milestone in the Commission's ongoing efforts to improve the investor experience.

"The Commission is taking this important step to improve Main Street investors' understanding of these products," said SEC Chairman Jay Clayton. "With today's technology and the benefits of layered disclosure, investors should not have to work through hundreds of pages of disclosure to understand these products' risks, fees, and features in order to make informed investment decisions. I applaud the Division of Investment Management for their continuing efforts to improve the investor experience."

The new rule permits variable annuity and variable life insurance contracts to use a summary prospectus to provide disclosures to investors. A summary prospectus is a concise, reader-friendly summary of key facts about the contract. More-detailed information about the variable annuity or variable life insurance contract will be available online, and an investor can choose to have that information delivered in paper or electronic format at no charge.

The new framework builds on the Commission's experience with a similar layered disclosure approach for mutual funds – with investors able to receive a summary prospectus and access more-detailed information online and upon request – since 2009.

To implement the improved disclosure framework, the Commission adopted amendments to the registration forms and related rules for variable annuity and variable life insurance contracts. Variable annuities and variable life insurance contracts may begin using the modernized layered disclosure approach as early as July 1, 2020.

FACT SHEET

Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts

Action

The Commission adopted a new rule, and related rule and form amendments, to help investors make informed investment decisions regarding variable annuity and variable life insurance contracts. The new rule permits a person to satisfy its prospectus delivery obligations under the Securities Act for a variable contract by providing a summary prospectus to investors and making the statutory prospectus available online. The new summary prospectus framework leverages both technology and a layered disclosure approach to improve the ability of investors to understand and evaluate variable contracts.

Highlights

New Option to Use a Summary Prospectus for Variable Contracts

New rule 498A under the Securities Act permits the use of two distinct types of contract summary prospectuses:

- initial summary prospectuses covering variable contracts currently offered to new investors; and
- updating summary prospectuses for existing investors.

The initial summary prospectus includes: a table summarizing certain key information about the contract's fees, risks, and other important considerations; an overview of the contract; and more detailed disclosures relating to fees, purchases, withdrawals, and other contract benefits. The updating summary prospectus includes a brief description of certain changes to the contract that occurred during the previous year, as well as the key information table from the initial summary prospectus.

In certain types of variable contracts, investors allocate their investment to one or more underlying investment options (typically, mutual funds). Both the initial summary prospectus and the updating summary prospectus provide certain key information about those underlying investment options.

Availability of Variable Contract Statutory Prospectus and Other Materials

The new rule requires that the variable contract's statutory prospectus, as well as the contract's Statement of Additional Information (SAI), be publicly accessible, free of charge, at a website address specified on, or hyperlinked in, the cover of the summary prospectus. An investor who receives a contract summary prospectus will be able to request the contract's statutory prospectus and SAI be sent in paper or electronically, at no cost to the investor.

Optional Method to Satisfy Prospectus Delivery Requirements for Underlying Mutual Funds

The new rule permits variable contracts to make the prospectuses for underlying mutual fund investment options, and other documents relating to those mutual funds, available online. The variable contract's summary prospectus must provide certain key information about those mutual funds. Investors will be able to request and receive these mutual funds' prospectuses (and the other related documents that are available online) in paper or electronically, at no cost.

Updates to Variable Contract Registration Forms

The amendments to Forms N-3, N-4, and N-6—the registration forms for variable contracts—are designed to update and enhance the disclosure regime for those investment products. 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 (e.g., the prevalence of optional insurance benefits in today's variable contracts). In addition, the Commission adopted amendments to require the use of the Inline eXtensible Business Reporting Language (Inline XBRL) format for the submission of certain required disclosures in the variable contract statutory prospectus.

Discontinued Variable Contracts

The issuers of some variable contracts that are discontinued by July 1, 2020, will not have to update the variable contracts' registration statements or provide updated prospectuses to existing investors. The Commission is taking the position that this would not provide a basis for enforcement action under specified conditions, including that investors are provided with certain alternative disclosures, as described in the adopting release. In taking this position, certain staff no-action letters relating to discontinued contracts providing alternative disclosures will be withdrawn.

Other Amendments

Finally, the Commission adopted certain technical and conforming amendments to its rules that reflect the new framework for variable contract summary prospectuses. The Commission also adopted other amendments and the rescission of certain rules and forms that were rendered moot by legislative actions or are otherwise no longer necessary.

What's Next?

The new rule and related rule and form amendments will become effective on July 1, 2020, and will be published on the Commission's website and in the Federal Register.

To provide a transition period after the effective date of the new rule and form amendments, the Commission has adopted the following compliance and other dates:

July 1, 2020:

- A registrant can rely on rule 498A to satisfy its obligations to deliver a variable contract's statutory prospectus by delivering a summary prospectus if the registrant is also in compliance with the amendments to Forms N-3, N-4, or N-6 (as applicable).
- The staff no-action letters relating to discontinued contracts providing alternative disclosures will be withdrawn and the Commission position for eligible discontinued contracts will take effect.

Jan. 1, 2022:

All initial registration statements on Forms N-3, N-4, and N-6, and all post-effective amendments that are annual updates to effective registration statements on these forms, must comply with the rule and form amendments.

Jan. 1, 2023:

Registrants must submit to the Commission certain specified disclosures in Inline XBRL.

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Related Materials

- [SEC Final Rule](#)