

DRAFT

**Minutes
Meeting
of the
2018 CEFLI Advisory Committee
Wednesday, June 6, 2018**

A meeting of the Advisory Committee (the "Committee") of The Compliance and Ethics Forum for Life Insurers ("CEFLI") was held on Wednesday, June 6, 2018 at 10:00 AM EST at The Hilton Garden Inn in Bethesda, Maryland.

The following individuals participated in the meeting in-person:

Steve Kline (NAIFA)

Larry Kosciulek (FINRA)

Suzanne McGovern (SEC)

Tim Mullen (NAIC)

The following individuals participated in the meeting via conference call:

Michele Kulish Danielson (American Enterprise)

Samantha Knackmuhs (State Farm)

George Hanley (Deloitte)

Jessica Loesing (Drinker Biddle)

Timothy O'Driscoll (Drinker Biddle)

Gary Sanders (NAIFA)

Also participating in the meeting were Donald J. Walters, President & CEO of CEFLI and Kelly Ireland, Vice President - Compliance & Ethics of CEFLI.

The meeting was called to order by Mr. Walters, who presided. Mr. Walters acted as Secretary of the meeting.

I. Welcome and Introduction.

Mr. Walters welcomed the Committee members and referred to CEFLI's antitrust statement to alert Committee members that an objection would be made to any discussion that might engender a potential violation of the antitrust laws.

II. Approval of Minutes - January 24, 2018 Meeting.

On motion, duly made and seconded and unanimously carried, the Committee: RESOLVED, that, the Minutes of the January 24, 2018 meeting of CEFLI's Advisory Committee are hereby approved.

III. SEC Rule Proposals.

On April 18, the SEC issued a package of proposed rules to address retail investor relationships with investment advisers and broker-dealers. Three proposed rules were issued:

Regulation Best Interest;
Investment Adviser Interpretations; and
Form CRS - Relationship Summary.

The Committee discussed the elements of the process to consider comments submitted on the rule proposals and to issue final rules. The timing of final rules will depend upon the volume of comments submitted and the extent to which those comments may alter the originally proposed rules.

SEC Commissioner Clayton has been conducting a series of roundtables with retail investors across the country to gather their feedback. Given that many retail investors do not know the distinctions between broker-dealers and registered investment advisers, it is hoped that the Relationship Summary proposed disclosures may identify accurately the characteristics of whether a retail investor is working with a broker-dealer, registered investment advisor or dual registrant.

The rule proposals are likely to generate a high volume of comments and, therefore, it is not anticipated that final rules will be issued prior to 2019.

The Committee also discussed the potential impact of issuance of final SEC rules pertaining to these three proposed rules may have upon current FINRA rules; specifically, the extent to which a final Regulation Best Interest rule may impact current FINRA's suitability standards. The Committee confirmed that the answer to this issue will be unknown until such time as the SEC issues a final rule under the Regulation Best Interest proposal.

IV. DOL Fiduciary Rule.

The Committee discussed the possibility that the Fifth Circuit would issue a final mandate to certify its previous decision to vacate the DOL Fiduciary Rule.

It was the general sense of the Committee that it was unlikely that the DOL would appeal the previous decision to vacate the DOL Fiduciary Rule and that the Fifth Circuit

would be likely to issue a final mandate of its previous decision within the next several weeks.

Committee members discussed the impact of the DOL Fiduciary Rule has had upon the marketplace. Several organizations indicated a movement toward a fee-based model of distribution in light of the DOL Fiduciary Rule. Also, it was noted that several broker-dealer firms have decided to transition into a solely retail investment advisor distribution model due to the potential impact of the DOL Fiduciary Rule.

Some members of the Committee indicated that the revisions to their current distribution and business models made in response to the compliance requirements of the DOL Fiduciary Rule would remain in place.

V. NAIC Annuity Suitability (A) Working Group.

The Committee discussed the recent activities of the NAIC Annuity Suitability (A) Working Group as they consider possible modifications to the NAIC Suitability in Annuity Transactions Model Regulation.

Mr. Walters provided a brief report concerning the key highlights of the recent Drafting Sessions that were held in Kansas City to review comments submitted on the proposed revisions to the NAIC Suitability in Annuity Transactions Model Regulation.

During the course of the Drafting Sessions, Working Group Chair, Idaho Director Dean Cameron, indicated that the leadership of the Working Group had met with the SEC and the DOL in an attempt to promote harmonization pertaining to sales standards impacting the sale of life insurance and annuity products.

The current strategy for the Working Group calls for the Working Group to meet at the Summer National Meeting to continue further revisions to the NAIC Suitability in

Annuity Transactions Model Regulation with a goal of developing a final work product prior to the end of the 2018 calendar year for possible adoption by the NAIC.

It was acknowledged that the timing of the NAIC's effort to revise the NAIC Suitability in Annuity Transactions Model Regulation may be impacted by the timing of the issuance of a final Regulation Best Interest rule by the SEC.

VI. New York Department of Financial Services - Re-Proposed Amendments to Regulation 187.

The Committee discussed re-proposed amendments to the New York Department of Financial Services' Regulation 187. The re-proposed amendments would subject both life insurance products as well as annuity products to a "best interest" standard.

The New York Department of Financial Services will be fielding comments on the re-proposed amendments and will incorporate any additional comments into a final version of amendments to Regulation 187.

The Committee discussed the impact the re-proposed amendments to Regulation 187 will have upon current insurer practices. At a minimum, the Committee acknowledged that the re-proposed amendments (in their current form) would introduce a new supervisory structure for life insurance and annuity product sales in New York. Producers as well as insurers would be subject to key elements of the re-proposed amendments to Regulation 187.

If the re-proposed amendments to Regulation 187 go into effect, New York will be the only state in the country to subject life insurance products to a "best interest" standard.

VII. SEC 2018 Examination Priorities.

The Committee reviewed the SEC's 2018 Examination Priorities as issued in the SEC's Office of Compliance Inspections and Examinations 2018 Priorities Letter.

Areas of focus for the SEC in conducting examinations of broker-dealers and investment advisers in 2018 may include:

- Disclosure of the Costs of Investing;
- Electronic Investment Advice;
- Senior Investors and Retirement Accounts;
- Mutual Funds and Exchange Traded Funds (ETF's);
- Cybersecurity; and
- Anti-money laundering programs.

The discussion of these issues suggested that broker-dealer and investment advisor firms that are smaller in size are less prepared (than larger organizations) to address potential cybersecurity risks. Also, broker-dealers and investment advisers will be examined to determine whether they comply with new customer due diligence beneficial owner rules issued recently by the US Department of Treasury through FinCEN (the Financial Crimes Enforcement Network).

VIII. FINRA Progress Report on FINRA 360.

The Committee discussed FINRA's efforts to implement FINRA 360; a program designed to solicit input from all stakeholders in order to improve the effectiveness and efficiency of FINRA and its operations.

It was noted that FINRA as listed information on its website to provide interested parties with updates concerning the FINRA 360 initiatives. Comments and

recommendations received from various stakeholders will be considered for possible modifications to current FINRA practices.

IX. FINRA Regulatory Notices.

The Committee discussed recent issuance of various Regulatory Notices by FINRA. These notices included:

- Regulatory Notice 18-09 - Outside Business Activities and Private Securities Transactions;
- Regulatory Notice 18-15 - Heightened Supervision Guidelines; and
- Regulatory Notice 18-16 - High-Risk Brokers and Firms that Employ Them.

Regulatory Notice 18-09 sought comments on FINRA's Outside Business Activities Rule and Private Securities Transactions Rule. There are indications to suggest that FINRA may choose to merge these two rules into a singular rule.

Regulatory Notice 18-15 and 18-16 are designed to provide guidance to firms to address individuals who may have a questionable disciplinary history regarding their securities industry activities.

X. Senior Safe Act.

The Committee also discussed the recent passage of the Senior Safe Act in Congress.

The Senior Safe Act would protect the interests of senior investors from possible financial exploitation. State and federal regulators were supportive of enactment of the Senior Safe Act.

Organizations within the financial services industry are developing appropriate training to educate staff and distributors regarding the key elements of the Senior Safe Act as a means to avert potential instances of financial exploitation of seniors.

It also was noted that the SEC also recently concluded its RETIRE initiative and plans to issue a report shortly to identify key findings.

XI. Department of Veterans Affairs - Professional Examination Reimbursement Program.

The Committee discussed a new program offered by the US Department of Veterans Affairs that will reimburse military veterans for the cost of taking the insurance producer licensing exam.

Industry organizations like NAIFA and the ACLI have contacted all state insurance departments to encourage them to participate in this benefit for veterans.

XII. General Data Protection Regulation.

The Committee discussed the General Data Protection Regulation issued by the European Union which may subject companies that market goods or services to EU residents to unique privacy and data protection requirements.

Firms are reviewing their current practices to determine whether they may need to become GDPR compliant.

XIII. FINRA/NAIC Data Sharing.

Over the past several months, FINRA and the NAIC have been sharing information concerning producers contained within FINRA's disciplinary reports. To the extent that a registered representative also possesses an insurance license, steps are taken to notify individual states of the disciplinary actions taken by FINRA.

The NAIC will continue to provide disciplinary reports to the states yet it is up to the resident state to determine whether any action will be taken with respect to the information provided.

XIV. FINRA Securities Exams.

It was noted that, effective October 1, FINRA will add the Security Industry Essentials examination to its portfolio of examinations. An outline of the Securities Industry Essentials Exam can be found on FINRA's website.

For insurance agents that may wish to take the FINRA Series 6 examination, effective October 1, the Securities Industry Essentials examination would have to be completed successfully in order to take the FINRA Series 6 examination.

XV. Other Business.

It was reported that several states have begun coordinating examinations of life insurance companies to determine compliance with the terms of settlement agreements related to unclaimed property practices.

With the recent adoption of the NAIC's Data Security Model Law, the NAIC Market Regulation Handbook is being updated to incorporate exam standards for cybersecurity purposes.

The NAIC is heightening its focus on the range of additional data sources that may be used for accelerated underwriting purposes to determine whether they are being used in a potentially discriminatory manner.

There being no further business to discuss, the meeting was adjourned.