

NEWS

SECURITIES AND EXCHANGE COMMISSION

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The Commission today announced the adoption of rules under the Investment Company Act of 1940 for variable life insurance separate accounts. They will become effective November 30, 1976, culminating several years of comprehensive regulatory study and planning in this field.

As a practical matter, this action will facilitate insurance companies for the first time offering variable life insurance contracts to the general public. (One company previously applied for and obtained an order of the Commission which granted certain exemptions from the 1940 Act and permitted it to offer variable life insurance.)

Variable life insurance contracts provide for death benefits and cash surrender values which vary to reflect the investment experience of the separate account established to provide for such payments. It is this participation in investment experience that gives this type of separate account some of the same characteristics as those of other types of investment companies and gives rise to the SEC's jurisdiction. The contracts also provide for a guaranteed minimum death benefit and an assumption of the mortality and expense risks thereunder by the life insurer. These contracts will be registered under the Securities Act of 1933 and all purchasers will therefore receive a prospectus which fully describes the product.

The principal provisions of these rules, Rule 6e-2 and 6c-3, provide limited exemptions from provisions of the Investment Company Act of 1940 which would otherwise be applicable to such contracts. Those provisions require management accountability to contract holders, impose limitations on sales loads which may be charged in connection with the sale of a variable life insurance contract, and require issuers of such contracts to offer refunds under certain circumstances.

The primary exemption from the "accountability" provisions of the Act would permit, under certain circumstances, the insurance company which established and maintains the variable life insurance separate account effectively to veto certain kinds of changes in the separate accounts. Such changes, which may be proposed by variable life insurance contract holders or the board of directors of the separate account, would include a revision of the accounts investment policy, or selection of a new investment adviser or principal underwriter.

The exemptions from the sales load and refund provisions provide for:

- calculation of the maximum permissible sales load after deduction of certain specified insurance and insurance-administrative charges.
- calculation of the statutory 9% limitation on sales load over a period of up to 20 years.
- inclusion of an allowance for dividends in calculating sales loads under participating variable life insurance contracts.
- modification of the previously proposed 18-month refund requirement on contracts sold with a "front-end load" by increasing the refund period to 24 months.
- reducing the amount of sales load required to be refunded in the event a contract holder cancels during the first two years.

Rule 6e-2 provides the above relief for companies which prefer not to register their accounts with the Commission as investment companies. Rule 6c-3 provides for comparable relief but entails registration as an investment company.