

## **STATEMENT of SCOPE of a PROPOSED RULE**

Regarding Section Ins 2.18, Wis. Adm. Code, relating to supervision systems addressing compliance with the law in the sales of annuities and affecting small businesses.

- (a) A statement of the objective of the proposed rule:

The Office intends to work with interested parties, including life insurers and agents, and other federal and state governmental bodies and agencies to develop a rule which will establish standards for supervision systems addressing compliance with the law in the sales of annuities.

- (b) A description of existing policies relevant to the rule and of new policies proposed to be included in the rule and an analysis of policy alternatives:

Current law requires insurers, general agencies and independent agencies to maintain a system to supervise the sale of annuities to seniors that is reasonably designed to achieve compliance with the law. In addition under current law a violation by an agent in the course of making any annuity sale is imputed to the insurer and insurance agency the agent represents. Finally current law requires all licensed insurers and intermediaries to maintain methods and practices in conducting business such that the public interest is protected. None of these current requirements provide specific standards for supervision systems addressing compliance with the law in the sales of annuities. This rulemaking process is proposed in order to develop a rule that provides specific standards for supervision systems.

- (c) A statement of the statutory authority for the rule:

The statutory authority for this rule is ss. 601.41 (4), 601.42, 611.13, 611.20, 613.13, 613.20, 614.13, 614.20, 618.12, 618.37, 628.04, 628.10, 628.34, 628.347 and 628.38, and ch. 645, Wis. Stats.

- (d) An estimate of the amount of time that state employees will spend to develop the rule and a description of other resources necessary to develop the rule:

2000 hours. The Office also will invite interested parties, including life insurers and agents, and other governmental bodies and agencies to contribute to the deliberations concerning the development of the rule.

- (e) A description of all of the entities that may be affected by the rule:

The proposed rule will affect insurers, general agencies and independent agencies. It will also affect individual insurance intermediaries.

(f) A summary and preliminary comparison of any existing or proposed federal regulation that is intended to address the activities to be regulated by this proposed rule:

The Office expects that the proposed rule will be drafted so as to coordinate with regulations of the National Association of Security Dealers (“NASD”) that address supervision systems for the sales of securities. Some insurance products, particularly variable annuities, are subject to those rules.

The NASD is a self-regulating organization established under the Securities Exchange Act of 1934. NASD Conduct Rule 3010, requires members (security brokers) to establish a system and develop, maintain, and implement written procedures to supervise the activities of each registered representative, reasonably designed to achieve compliance with applicable securities laws, regulations and association rules. Conduct Rule 3010 requires, at a minimum that members designate qualified supervisors with appropriate authority to monitor and review compliance requirements with each registered representative, to implement appropriate practices such as records inspections and compliance audits to detect violations, and to take appropriate action. Members must periodically review the supervisory systems and procedures to ensure they are current and adequate.

This Statement of Scope of a Proposed Rule is prepared under s. 227.135, Stats., and approved on January 30, 2007.

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Sean Dilweg  
Commissioner