

Customer Complaint Reporting

Changes to Customer Complaint Reporting Procedures Under NASD Rule 3070(c) and NYSE Rule 351(d)

Effective Date: July 1, 2010

Executive Summary

Starting on July 1, 2010, the beginning of the third calendar quarter, firms must use revised and new product codes to report statistical information regarding written customer complaints relating to annuities and life settlement products. The first report using the revised and new codes is due by October 15, 2010, which is the reporting deadline for customer complaints received during the third calendar quarter.

Questions concerning this *Notice* should be directed to Anthony Cavallaro, Central Review Group, at (646) 315-7319.

Background & Discussion

NASD Rule 3070(c) and Incorporated NYSE Rule 351(d) require all member firms to report on quarterly basis statistical information regarding written customer complaints.¹ Firms must report this information by the 15th calendar day of the month following the end of each calendar quarter (*e.g.*, by April 15 for the first quarter). The statistics that firms report provide FINRA with important regulatory information that assists with the timely identification of potential sales practice and operational issues. FINRA is revising the product code relating to annuities and adding new product codes to better categorize the customer complaint information.

New Product Codes & Descriptions

Based on a review of the underlying products reported under current Product Code 20 (Annuities), FINRA is redefining that code and adding two additional codes. Revised Product Code 20 will refer only to variable

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Notice Type

- Guidance

Suggested Routing

- Legal and Compliance
- Operations
- Senior Management

Key Topics

- Customer Complaint Reporting
- Problem and Product Code Changes

Referenced Rules & Notices

- NASD Rule 3070(c)
- NYSE Rule 351(d)
- NYSE Rule 351.13

annuities, whereas new Product Codes 43 and 44 will relate to fixed and equity indexed annuities, respectively. In addition, FINRA has added Product Code 45 to capture customer complaints relating to life settlement products.

The revised and new product codes are as follows:

► **Product Code 20 (Variable Annuities)**

A variable annuity is an insurance company contract that allows the owner to elect to receive immediate or future periodic payments. A variable annuity is purchased, either with a lump sum or over time, with premiums allocated among various, separate account funds offered in the annuity contract. During the accumulation phase, the rate of return and the contract fund value on a variable annuity fluctuates with the performance of the underlying investments in the separate account funds, sometimes called investment portfolios or subaccounts.

► **Product Code 43 (Fixed Annuities)**

A fixed annuity is an insurance contract that is purchased either in a lump sum or over time. A fixed annuity is credited with a fixed or set interest rate and allows the owner to elect to receive immediate or future periodic payments. The insurance company guarantees both earnings and principal.

► **Product Code 44 (Equity-Indexed Annuities)**

An equity-indexed annuity is an insurance company product purchased either in a lump sum or with a series of payments. The insurance company credits the holder with a return that is based on performance of an equity index, such as the S&P 500 Composite Stock Price Index. The insurance company may guarantee a minimum return. After the accumulation period, the insurance company makes periodic payments under the terms of the contract or in a lump sum.

► **Product Code 45 (Life Settlements)**

A life settlement is a financial transaction in which a policy owner sells an existing life insurance policy to a third party for more than the policy's cash surrender value, but less than the net death benefit.

Endnote

- 1 FINRA has incorporated into its rulebook certain rules of the NYSE, including NYSE Rule 351. The Incorporated NYSE rules apply solely to those members of FINRA that are also members of NYSE (Dual Members).

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