6.1.1 CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds

CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CCIR CCRRA Canadian Council of Insurance Regulators Conseil canadien des responsables de la réglementation d'assurance

CSA AND CCIR JOINT NOTICE AND REQUEST FOR COMMENT

PROPOSED AMENDMENTS TO

NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

AND TO

COMPANION POLICY 31-103CP *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

AND PROPOSED

CCIR INDIVIDUAL VARIABLE INSURANCE CONTRACT ONGOING DISCLOSURE GUIDANCE

TOTAL COST REPORTING FOR INVESTMENT FUNDS AND SEGREGATED FUNDS

April 28, 2022

Introduction

The Canadian Securities Administrators (the **CSA**) and the Canadian Council of Insurance Regulators (the **CCIR**, together, the **Joint Regulators** or **we**), are publishing, for a 90-day comment period, proposed enhanced cost disclosure reporting requirements for investment funds and new cost and performance reporting requirements for individual variable insurance contracts or IVICs (referred to here as **Segregated Fund Contracts**), as described below (collectively, the **Proposals**).

The Proposals have been developed by a joint project committee composed of members from the CSA, CCIR, Canadian Insurance Services Regulatory Organizations (CISRO), Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA)** (together referred to as the **SROs**) (the **Project Committee**). The Proposals follow on work securities regulators began after the completion of the Client Relationship Model, Phase 2 (**CRM2**) project in 2016 and recommendations published by the CCIR in a December 2017 position paper on segregated funds, as revised in June 2018 (**CCIR Segregated Funds Position Paper**).

The Proposals for the securities sector (the **Proposed Securities Amendments**) are for amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103** or the **Instrument**) and Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**31-103CP** or the **Companion Policy**).

The Proposals for the insurance sector are for an *Individual Variable Insurance Contract Ongoing Disclosure Guidance* (the **Proposed Insurance Guidance**) – an enhanced disclosure framework for Segregated Fund Contracts. The CCIR expects each of its member jurisdictions will adopt the framework by local guidance or, in certain jurisdictions, regulation. In addition to including cost and performance reporting guidance, the Proposed Insurance Guidance also includes additional ongoing performance disclosure guidance designed to bring the insurance sector into closer harmony with the securities sector, as well as guidance with respect to ongoing disclosure with respect to Segregated Fund Contract guarantees.

The Proposed Securities Amendments would apply to all registered dealers, advisers and investment fund managers. The Proposed Insurance Guidance would apply to all insurers offering Segregated Fund Contracts to their policy holders.

This notice contains the following annexes:

- Annex A – Specific questions regarding the Proposed Securities Amendments
- Annex B – Specific questions regarding the Proposed Insurance Guidance
- Annex C – Proposed Amendments to NI 31-103
- Annex D – Proposed changes to 31-103CP
- Annex E – Blackline showing changes to NI 31-103 under the Proposed Amendments
- Annex F – Blackline showing changes to 31-103CP under the Proposed Amendments
- Annex G – Sample prototype statement and report for the securities sector
- Annex H – Sample prototype report for the insurance sector
- Annex I – Local matters
- Annex J – Proposed Insurance Guidance
- Annex K – Segregated funds and investment funds: differences between products, distribution channels and regulation

This notice will be available on the following websites of CSA jurisdictions:

www.lautorite.qc.ca
www.asc.ca
www.bcsc.bc.ca
www.fcnb.ca
nssc.novascotia.ca
www.osc.ca
www.fcaa.gov.sk.ca
www.msc.gov.mb.ca

This notice will also be available on the CCIR website: https://www.ccir-ccrra.org.

Substance and Purpose

The Proposals are part of the Joint Regulators' harmonized response to concerns we have identified relating to current cost disclosure and product performance reporting requirements for investment funds and segregated funds. The Proposed Insurance Guidance also addresses concerns about ongoing disclosure regarding Segregated Fund Contract guarantees. We seek to enhance investor protection by improving investors' and policy holders' awareness of the ongoing embedded fees such as management fund expense ratios (**MER**) and trading expense ratios (**TER**) that form part of the cost of owning investment funds and segregated funds. The Proposed Insurance Guidance also seeks to enhance policy holder protection by improving policy holders' awareness of their rights to guarantees under their Segregated Fund Contracts and how their actions might affect their guarantees.

One important concern is that there are currently no requirements for securities industry registrants or insurers to provide ongoing reporting to investors and policy holders on the amount of such costs after the initial sale of the investment product, in a form which is specific to the individual's holdings and easily understandable. While fund facts and ETF facts documents required to be delivered at the point of sale for some investment funds contain certain disclosure concerning the ongoing costs of ownership of those funds, those documents are not tailored to the individual's holdings or required to be delivered on an ongoing basis and this requirement only applies to a subset of investment funds[1].

Research carried out by the Ontario Securities Commission's (**OSC**) Investor Office and the Behavioural Insights Team)[2] in connection with the adoption of CRM2 shows that Canadian investors presented with a sample annual charges and compensation report, assumed that it included embedded fees associated with investment funds, when it does not include such fees.[3]

We believe it is important that investors and policyholders be aware of all of the costs associated with the investment funds and segregated funds they hold, as these fees can impact their returns and have a compounding effect over time. Furthermore, transparency about costs may encourage more competition, which would benefit investors and policyholders.

The Proposals would require disclosure of the ongoing costs of owning Segregated Fund Contracts and investment funds, both as a percentage, for each fund or segregated fund, and as an aggregate amount, in dollars, for all investment funds or investments in a Segregated Fund Contract held during the year.

The Proposals are as consistent as possible between the securities and insurance sectors with respect to disclosure of the ongoing costs of owning Segregated Fund Contracts and investment funds, taking into account the material differences among those products and in the ways the two sectors and their regulatory regimes operate. Differences include who provides cost disclosure to clients, how often account statements are typically sent, distribution channels and product features, as indicated in the table in Annex K.

Summary of Proposals

Securities sector

The Proposed Securities Amendments would add the following new elements to client reporting under NI 31-103:

- in the account statement (s.14.14) or additional statement (s.14.14.1) as appropriate, the fund expense ratio, stated as a percentage for each investment fund held by the client; and
- in the annual report on charges and other compensation (s.14.17) for the account as a whole:
  - the aggregate amount of fund expenses, in dollars, for all investment funds held during the year; and
  - the aggregate amount of any direct investment fund charges (e.g., short-term trading fees or redemption fees), in dollars.

Fund expenses would be calculated by reference to the fund expense ratio, which would be defined as the sum of the MER and the TER. This definition is consistent with how that term is used in the context of a mutual fund's fund facts document and with how the term "ETF expenses" is used in the ETF Facts document.[4] The methodology for determining the information included in the reports would be prescribed in order to ensure comparability for investors and a level playing field for registrants. Explanatory notes, substantially in a prescribed form tested with investors, would be included as appropriate.

The Proposed Securities Amendments would apply to all registrants to which the requirements to deliver an account statement, additional statement or annual cost and compensation report currently apply,[5] in respect of all investment funds owned by their clients, including scholarship plans, labour sponsored funds, foreign funds, mutual funds, non-redeemable investment funds, prospectus-exempt investment funds and exchange-traded funds.

Existing exemptions for statements and reports provided to non-individual permitted clients (including, for example, many different institutional investors), pursuant to subsections 14.14.1(6) and 14.17(5) of NI 31-103, would continue to apply. SRO rules would be amended to be uniform in substance with final amendments to NI 31-103.

Registered investment fund managers would be required to provide the registered dealers and registered advisers with certain information that the dealers and advisers would require in order to prepare the enhanced statements and reports for their clients.

The Proposed Securities Amendments would allow investment fund managers to rely on publicly available information disclosed in an investment fund's most recently published fund facts document, ETF facts document, prospectus or management report of

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1 Other continuous disclosure documents prepared by investment funds, such as annual statements or management reports of fund performance, are not prepared by all investment funds, present information in a form which may be complex for retail investors to understand and do not allow investors to understand their total costs of investing, as they present information which is specific to a single issuer or group of issuers.

2 Behavioural Insights Team is a social purpose company part-owned by the U.K. Government.

3 See OSC Staff Notice 11-787 *Improving Fee Disclosure Through Behavioural Insights*, August 19, 2019, p. 11.

4 See item 1.3 of Part II of Form 81-101F3 in *National instrument 81-101 Mutual Fund Prospectus Disclosure*.

5 See sections 14.14, 14.14.1 and 14.17 of NI 31-103.

fund performance, unless this information is outdated, or the investment fund manager reasonably believes that doing so would cause the information reported in the statement or report to be misleading.

If advisers or dealers are unable to rely on information provided by investment fund managers or believe that doing so would cause the information reported in the statement or report to be misleading, they would be required to rely on the most recent publicly available information in the relevant fund facts document, ETF facts document, prospectus or management report of fund performance, and if they cannot do so, would be required to make reasonable efforts to obtain that information by other means.

We believe this approach would adequately balance the need for investors to receive information about the ongoing costs of owning investments funds, while avoiding imposing an undue regulatory burden on registrants.

Insurance sector

The Proposed Insurance Guidance would express the CCIR's expectation that insurers would provide certain information to clients who own Segregated Fund Contracts at least once each year. The full list of these elements of disclosure is found in Annex J.

With respect to costs of holding Segregated Fund Contracts, these elements include:

- the fund expense ratio, stated as a percentage for each segregated fund held by the client within their Segregated Fund Contract during the statement period; and
- for the Segregated Fund Contract as a whole:
    - the aggregate amount of fund expenses, in dollars, for all segregated funds held during the statement period;
    - the aggregate cost of insurance guarantees under the Segregated Fund Contract, in dollars, for the statement period; and
    - the aggregate amount of all other expenses under the Segregated Fund Contract, in dollars, for the statement period.

The statement period would be no more than one year.

The fund expense ratio would be defined as the sum of the MER and the TER. The methodology for determining the information included in the statements would be prescribed in order to ensure comparability for investors and a level playing field for insurers and agents. Explanatory notes, substantially in a prescribed form tested with investors, would be included as appropriate.

The remaining elements of the ongoing disclosure would reflect the expectations set out in the CCIR Segregated Funds Position Paper, except as follows:

- insurers would be expected to report the total deposits, withdrawals and the change in value of segregated funds since the Segregated Fund Contract began and since the start of the previous statement period.
    - In contrast, the CCIR Segregated Funds Position Paper recommended reporting the aggregated dollar value change in net asset value of the Segregated Fund Contract.
- with respect to the amount the client would receive upon redeeming the entire Segregated Fund Contract, insurers would be expected to:
    - include a notice, substantially in a prescribed form, that explains the total net asset value for the contract is not necessarily the amount the client would receive if they ended their contract, and explains how the client could obtain more details about the amount of money they would receive, and
    - if the costs incurred at the redemption would be significant, include a notice, substantially in a prescribed form, that explains these costs.
- insurers would be expected to indicate whether a deferred sales charge may apply to each segregated fund; and
- when a Segregated Fund Contract provides a guaranteed income payment, insurers would be expected to state how long the guaranteed payment would be payable.

Insurance regulators in each jurisdiction will implement this initiative in line with their respective regulatory requirements.

Prior Consultations

In developing the Proposals, the Joint Regulators conducted extensive consultations with investor advocates and market participants, notably at a meeting of the Joint Forum of Financial Market Regulators[6] held on June 10, 2021, as well as through informal technical consultations with industry associations and service providers.

Prior to beginning the joint project, CCIR consulted with stakeholders with respect to disclosure of fees and performance through an Issues Paper released for public consultation in May 2016 and discussion directly with stakeholders. These consultations led to the 2017/2018 CCIR Segregated Funds Position Paper, which set out CCIR's expectations regarding cost disclosure. CCIR continued related research, including through investor focus groups, between the release of the Position Paper and the start of the joint project.

The Project Committee also worked with OSC Investor Office Research and Behavioural Insights Team (**IORBIT**), drawing in part on earlier research commissioned by the MFDA, to design seven prototype disclosure documents for the securities sector, which differed both in terms of substantive content and presentation. Four prototypes were developed for the insurance sector. IORBIT then tested the prototypes to determine which ones would be most effective in maximizing investor or policyholder's comprehension of cost information. The Proposed Amendments reflect the findings from IORBIT's research. The final prototypes are included in Annex G and H as illustrative examples, showing what statements and reports could look like if the Proposed Amendments were adopted, with the new information highlighted.[7]

Transition

We recognize that developing and implementing system enhancements to implement the Proposals will require a significant investment of time and resources by industry stakeholders. However, we firmly believe that providing both investors and policyholders with essential information about the ongoing embedded costs of investment funds and segregated funds at the earliest possible date is a priority. We therefore intend to adopt a short transition period for both the securities sector and the insurance sector.

We are proposing that both sectors move forward in lockstep, with final amendments coming into effect at the same time in September 2024, as further detailed below, assuming that final publication would occur and ministerial approvals be obtained during the second quarter of 2023. This would represent a transition period of approximately 18 months. Registrants and insurers would be required to deliver statements and reports compliant with the Proposals as of the first reporting periods that fall entirely after this date.

In practical terms, this means that

- for the securities sector, investors would receive the first quarterly account statements containing the newly required information for the reporting period ending in December 2024, and the first annual reports containing the newly required information for the reporting period ending in December 2025; and
- for the insurance sector, policyholders would receive an annual report containing the newly required information for the reporting period ending in December 2025, and a half-yearly statement containing the newly required information for the reporting period ending in June 2025, in the case where such statements are delivered.

We are proposing this approach considering the importance of this initiative for investors and policyholders and the fact that pre-consultations with industry stakeholders and investor advocacy groups have taken place and will continue. We strongly encourage registrants and insurers to begin reviewing their systems and conduct advanced planning as soon as possible in order to have all of the resources necessary for implementation in place on time, following the final publication and ministerial approvals. If you have comments on this transition period proposal, please provide detailed discussion of the comments in your submission.

Request for Comments

We welcome your comments on the Proposals and questions in Annexes A and B.

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period. All comments with respect to the Proposed Securities Amendments will be posted on the websites of each of the OSC at www.osc.ca, the Alberta Securities Commission at www.albertasecurities.com and the Autorité des marchés financiers at www.lautorite.qc.ca. Therefore, you should not include personal information directly in comments to be published. It is important you state on whose behalf you are making the submissions.

Similarly, all comments with respect to the CCIR Guidance may be posted on the CCIR website.

[6] https://www.securities-administrators.ca/news/joint-forum-of-financial-market-regulators-engages-with-industry-and-investor-groups-on-investment-fee-transparency/

[7] The final prototype cost and compensation report developed for the securities sector will also be included as an appendix to 31-103CP.

Deadline for Comments

Please submit your comments in writing on or before July 27, 2022. If you are not sending your comments by email, please send a CD containing the submissions in Microsoft Word format.

Comments on Proposed Securities Amendments:

Address your submission to the CSA jurisdictions as follows:

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Deliver your comments only to the addresses listed below. Your comments will be distributed to the remaining CSA jurisdictions.

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: 514-864-6381
consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416-593-2318
comment@osc.gov.on.ca

Comments on Proposed Insurance Guidance:

Address and deliver your comments to:

Mr. Tony Toy, Policy Manager
Canadian Council of Insurance Regulators
National Regulatory Coordination Branch
25 Sheppard Avenue West, Suite 100
Toronto, Ontario
M2N 6S6
ccir-ccrra@fsrao.ca

Your comments will be delivered to member jurisdictions of the CCIR.

Questions

If you have any questions, please contact the staff members listed below.

With respect to securities questions:

Gabriel Chénard
Senior Policy Analyst
Supervision of Intermediaries
Autorité des marchés financiers
(514) 395-0337, ext. 4482
Toll-free: 1 800 525-0337, ext. 4482
gabriel.chenard@lautorite.qc.ca

Jan Bagh
Senior Legal Counsel
Alberta Securities Commission
Corporate Finance
(403) 355-2804
jan.bagh@asc.ca

Chad Conrad
Senior Legal Counsel
Alberta Securities Commission
Corporate Finance
(403) 297-4295
chad.conrad@asc.ca

Kathryn Anthistle
Senior Legal Counsel, Legal Services
Capital Markets Regulation Division
British Columbia Securities Commission
(604) 899-6536
kanthistle@bcsc.bc.ca

Curtis Brezinski
Compliance Auditor
Financial and Consumer Affairs Authority of Saskatchewan
(306) 787-5876
curtis.brezinski@gov.sk.ca

Clayton Mitchell
Registration and Compliance Manager
Financial and Consumer Services
Commission (New Brunswick)
(506) 658-5476
Clayton.mitchell@fcnb.ca

Nick Doyle
Compliance Officer
Financial and Consumer Services Commission (New Brunswick)
(506) 635-2450
Nick.doyle@fcnb.ca

Brian Murphy
Manager, Registration
Nova Scotia Securities Commission
(902) 424-4592
brian.murphy@novascotia.ca

Chris Jepson
Senior Legal Counsel
Ontario Securities Commission
(416) 593-2379
cjepson@osc.gov.on.ca

With respect to insurance questions:

Mr. Tony Toy, Policy Manager
Canadian Council of Insurance Regulators
National Regulatory Coordination Branch
416-590-7257
ccir-ccrra@fsrao.ca

Chantale Bégin CPA auditor, CA
Senior Accountant, Standardization of Financial Institutions
Capital Oversight of Financial Institutions
Autorité des marchés financiers
Tel : 418 525-0337, ext 4595
Toll free : 1 877 525-0337, ext 4595
chantale.begin@lautorite.qc.ca

ANNEX A

SPECIFIC QUESTIONS REGARDING THE PROPOSED SECURITIES AMENDMENTS

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,

    (a) exchange-traded funds,

    (b) prospectus-exempt investment funds,

    (c) scholarship plans,

    (d) labour-sponsored funds,

    (e) foreign investment funds?

2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?

4. Do you anticipate any other implementation issues related to the Proposed Securities Amendments?

5. Do you anticipate any issues specifically related to the proposed transition period?

ANNEX B

SPECIFIC QUESTIONS REGARDING THE PROPOSED INSURANCE GUIDANCE

This annex has been prepared by the Canadian Council of Insurance Regulators (CCIR). Please send comments relating to it to the CCIR National Regulatory Coordination Branch at the address indicated under "Comments on Proposed Insurance Guidance".

[Editor's Note: This annex is reproduced on the following separately numbered pages. Bulletin pagination resumes at the end of this annex.]

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ANNEX B

SPECIFIC QUESTIONS REGARDING THE PROPOSED INSURANCE GUIDANCE

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Insurance Guidance,

   (a) Segregated Fund Contracts which are no longer available for sale, but to which customers can still make deposits;

   (b) Segregated Fund Contracts which are no longer available for sale and to which customer can no longer make deposits;

   (c) Segregated Fund Contracts that have the potential to have funds in more than one phase at one time (i.e. Accumulation Phase, Withdrawal Phase, Benefits Phase);

   (d) Segregated Fund Contracts that may include insurance fees that are paid both directly (i.e. from money outside a segregated fund, such as where units are cashed out to pay the insurance fee) and indirectly (i.e. from assets held within a fund in which the client holds units)?

2. The Proposed Insurance Guidance does not yet include a method insurers must follow when calculating the fund expenses for each Segregated Fund Contract. Please comment on the advantages and disadvantages of calculating the fund expenses for each segregated fund the client holds each day as follows.

   Option 1:

$$\frac{A}{365} \times B \times C$$

   Option 2:

$$\frac{A}{365} \times \frac{B}{(1 - \frac{A}{365})} \times C$$

   In each option

   A = fund expense ratio of the applicable class or series of the segregated fund;

   B = the net asset value of a unit of the applicable class or series of the segregated fund for the day; and

C = the number of units owned by the client for the day.

The difference between these two options is that Option 1 bases the allocation of fund expenses on the net value of assets in the fund after they are reduced to reflect the fund expenses for the day. Option 2 bases the allocation of fund expenses on the gross assets before they are reduced to reflect these expenses.

For example, suppose that A = 2%, B = $1,000 and C = 10,000.

Under Option 1, the fund expenses for the client for that segregated fund for the year would be $547.95:

$$\frac{0.02}{365} \text{x } 1000 \text{ x } 10000$$

Under Option 2, the fund expenses would be $547.98:

$$\frac{0.02}{365} \text{ x } \frac{1000}{(1-\frac{0.02}{365})} \text{ x } 10000$$

3. Should all insurers be required to use the same formula to calculate the dollar amount of fund expenses? Please comment on the advantages and disadvantages of:

    a. Requiring all insurers to use the same calculation; or

    b. Allowing an insurer to use a different calculation method if the insurer can create a more precise approximation.

4. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using the following to calculate fund expense ratio (i.e. MER + TER):

    a. MER from the most recent Fund Facts document published before the year in question begins and a TER calculated at the same time on similar basis;

    b. MER and TER calculated for the year in question after the year ends; or

    c. Other estimated MER and TER for the year (please explain how this MER and TER would be calculated if you discuss this option)?

5. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using:

    a. 365 days;

    b. The actual number of days in the calendar year in question; or

    c. Another number that reflects the number of days on which the NAV is calculated for the fund rather than the number of days in the year?

    Note that the proposed calculation for securities assumes 365 days.

6. Would you consider it acceptable if, instead of information about each segregated fund's fund expense ratio (MER + TER), the MER alone was:

    a. disclosed in annual statements for each fund; and

    b. used in the calculation of the total fund expenses for the Segregated Fund Contract for the year?

    What are the costs, benefits and risks of using (MER + TER) versus only using MER?

7. Might Segregated Fund Contract customers incur significant costs, other than for deferred sales charges, if they withdraw all funds from their Segregated Fund Contracts? If so, what are those costs?

8. The guidance describes annual statements. Do you anticipate any issues in connection with the guidance as drafted in cases where an insurer provides semi-annual statements to customers?

9. Do you anticipate any other implementation issues related to the Proposed Insurance Guidance?

10. Do you anticipate any issues specifically related to the proposed transition period?

ANNEX C

PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

1. National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended by this Instrument.

2. Section 1.1 is amended by adding the following definitions:

““direct investment fund charge” means an amount charged, by an investment fund or an investment fund manager, to a client if the client buys, holds, sells or switches units or shares of an investment fund, including any federal, provincial or territorial sales taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund's fund expenses;

“ETF facts document” has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*;

“fund expense ratio” means the sum of an investment fund's management expense ratio and trading expense ratio, expressed as a percentage;

“fund facts document” has the same meaning as in section 1.1 of National Instrument 81-101 *Mutual Fund Prospectus Disclosure*;

“management expense ratio” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“management report of fund performance” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“trading expense ratio” means the ratio, expressed as a percentage, of the total commissions and other portfolio transaction costs incurred by an investment fund to its average net asset value, calculated in accordance with paragraph 12 of item 3 Financial Highlights of Part B of Form 81-106F1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;”

3. Section 14.1.1 is replaced with the following:

“14.1.1. Duty to provide information – investment fund managers

(1) A registered investment fund manager of an investment fund must, within a reasonable period of time, provide a registered dealer or a registered adviser that has a client that owns securities of the investment fund with the information that is required by the dealer or adviser, in order for the dealer or adviser to comply with paragraph 14.12(1)(c), subsections 14.14(4) and (5), 14.14.1(2) and 14.14.2(1) and paragraphs 14.17(1)(h) and (i) and (j), or with a reasonable approximation of such information.

(2) For the purpose of subsection (1), with respect to the information required in respect of paragraph 14.17(1)(i), the registered investment fund manager must provide the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars, determined using the following formula:

$\frac{A}{365} \text{X } B = C$, where

A = fund expense ratio of the applicable class or series of the investment fund;

B = the net asset value of a share or unit of the applicable class or series of the investment fund for the day;

C = the daily dollar cost per unit for the investment fund class or series.

(3) For the purpose of subsection (1), and paragraph 14.14(5)(c.1) or 14.14.1(2)(c.1), if a registered investment fund manager provides an approximation, the approximation must be determined based on information

disclosed in an investment fund's most recently disclosed fund facts document, ETF facts document, prospectus or management report of fund performance, making any reasonable assumptions, unless

(a) the information was disclosed more than 12 months before the end of the period covered by the statement or report which is required to be delivered by the registered dealer or registered adviser under subsection 14.14(1), 14.14.1(1) or 14.17(1), or

(b) the investment fund manager reasonably believes that doing so would cause the information disclosed in the statement or report to be misleading."

4. Subsection 5 of section 14.14 is amended by adding the following, after paragraph (c):

"(c.1) the fund expense ratio of each class or series of each investment fund in the account;

(c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;"

5. Subsection 5 of section 14.14 is amended by adding the following, after paragraph (g):

"(h) if there are investment funds in the account, the following notification or a notification that is substantially similar:

"Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.""

6. Subsection 2 of section 14.14.1 is amended by adding the following after paragraph (c):

"(c.1) the fund expense ratio of each class or series of each investment fund;

(c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;"

7. Subsection 2 of section 14.14.1 is amended by adding the following after paragraph (h):

"(i) if the statement includes information under paragraph (c.1), the following notification or a notification that is substantially similar:

"*Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.*""

8. Subsection 1 of section 14.17 is amended by adding the following, after paragraph (h):

"(i) the total amount of fund expenses, in relation to securities of investment funds owned by the client during the period covered by the report, either:

(a) charged to the client by an investment fund, its investment fund manager or any other party, or;

(b) charged to an investment fund by its investment fund manager or any other party;

(j) the total amount of direct investment fund charges charged to the client by an investment fund, investment fund manager or any other party, in relation to securities of investment funds owned by the client during the period covered by the report, excluding any charges included in the amounts under paragraph (c) or (f);

(k) the total amount of the fund expenses reported under paragraph (i) and the direct investment fund charges reported under paragraph (j);

(l) the total amount of the registered firm's charges reported under paragraph (d) and the investment fund fees reported under paragraph (k);

(m) if the client owned investment fund securities during the period covered by the report, the following notification or a notification that is substantially similar:

"*Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.*

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold."

(n) if the client owned investment fund securities during the period covered by the report and any deferred sales charges were paid by the client, the following notification or a notification that is substantially similar:

"*You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received."*

(o) if the client owned investment fund securities during the period covered by the report and direct investment fund charges, other than redemption fees, were charged to the client, a short explanation of the type of fees which were charged;

(p) if the information reported under paragraph (i) or (j) is based on an approximation or any other assumption, a description of the assumption or approximation."

9. Section 14.17 of the Instrument is amended by adding the following subsection:

"(6) For the purposes of determining the total amount of fund expenses under paragraph (1)(i), the fund expenses for each class or series of each investment fund owned by the client during the reporting period must be added together after using the following formula to calculate the fund expenses for each fund for each day that the client owned it,

(A x B) where

A = the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars using the formula in subsection 14.1.1(2), and

B = the number of shares or units owned by the client for the day."

10. The Instrument is amended by adding the following section, after section 14.17:

"**14.17.1 Reporting of fund expenses and direct investment fund charges**

(1) Subject to subsection (2), for the purposes of paragraphs 14.14(5)(c.1), 14.14.1(2)(c.1), and 14.17(1)(i) and (j), the information required to be delivered to clients by a registered dealer or registered adviser must be based on the information provided under section 14.1.1.

(2) Subject to subsection (3), if no information is provided under section 14.1.1, or the registered firm reasonably believes that any part of the information provided pursuant to section 14.1.1 is incomplete or that relying on it would cause information required to be delivered to a client to be misleading, the registered firm must rely on the most recent information disclosed in the relevant fund facts document, ETF facts document, prospectus or management report of fund performance, as applicable;

(3) If there is no publicly available information or if the information referred to in subsection (2) was disclosed more than 12 months before the end of the period covered by the statement or report required to be delivered to the client, or the registered firm reasonably believes that relying on the publicly available information would cause

information required to be delivered to the client to be misleading, the registered firm must not rely on the publicly available information and must

(a) make reasonable efforts to obtain the information referred to in subsection (1) by other means, and

(b) subject to subsection (4), rely on the information obtained under paragraph (a).

(4) If the registered firm reasonably believes it cannot obtain information under paragraph (3) that is not misleading, the registered firm must exclude the information from the calculation of the amount of fund expenses or of the direct investment fund charges reported to the client, as the case may be, or, in the case of a fund expense ratio, must not report the fund expense ratio, and must disclose the fact that the information is excluded or not reported in the relevant statement or report."

11. This Instrument comes into force on [●].

ANNEX D

PROPOSED CHANGES TO 31-103CP

NOT PUBLISHED IN ONTARIO – SEE ANNEX F: BLACKLINE SHOWING PROPOSED CHANGES TO COMPANION POLICY 31-103CP *NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

ANNEX E

BLACKLINE SHOWING
PROPOSED AMENDMENTS TO
NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

1.1 Definitions of terms used throughout this Regulation

In this Instrument (…)

“direct investment fund charge” means an amount charged, by an investment fund or an investment fund manager, to a client if the client buys, holds, sells or switches units or shares of an investment fund, including any federal, provincial or territorial sales taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund’s fund expenses;

“ETF facts document” has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*;

“fund expense ratio” means the sum of an investment fund’s management expense ratio and trading expense ratio, expressed as a percentage;

“fund facts document” has the same meaning as in section 1.1 of National Instrument 81-101 *Mutual Fund Prospectus Disclosure*;

“management expense ratio” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“management report of fund performance” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“trading expense ratio” means the ratio, expressed as a percentage, of the total commissions and other portfolio transaction costs incurred by an investment fund to its average net asset value, calculated in accordance with paragraph 12 of item 3 Financial Highlights of Part B of Form 81-106F1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

(…)

14.1.1 Duty to provide information – investment fund managers

(1) A registered investment fund manager of an investment fund must, within a reasonable period of time, provide a registered dealer or a registered adviser that has a client that owns securities of the investment fund with the information that is required by the dealer or adviser, in order for the dealer or adviser to comply with paragraph 14.12(1)(c), subsections 14.14(4) and (5), 14.14.1(2) and 14.14.2(1) and paragraphs 14.17(1)(h) and (i) and (j), or with a reasonable approximation of such information.

(2) For the purpose of subsection (1), with respect to the information required in respect of paragraph 14.17(1)(i), the registered investment fund manager must provide the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars, determined using the following formula:

$\frac{A}{365}$ x B = C , where

A = fund expense ratio of the applicable class or series of the investment fund;

B = the net asset value of a share or unit of the applicable class or series of the investment fund for the day;

C = the daily dollar cost per unit for the investment fund class or series.

(3) For the purpose of subsection (1), and paragraph 14.14(5)(c.1) or 14.14.1(2)(c.1), if a registered investment fund manager provides an approximation, the approximation must be determined based on information disclosed in an investment fund’s most recently disclosed fund facts document, ETF facts document, prospectus or management report of fund performance, making any reasonable assumptions, unless

(a) the information was disclosed more than 12 months before the end of the period covered by the statement or report which is required to be delivered by the registered dealer or registered adviser under subsection 14.14(1), 14.14.1(1) or 14.17(1), or

<u>(b) the investment fund manager reasonably believes that doing so would cause the information disclosed in the statement or report to be misleading.</u>

(…)

14.14. Account statements

(1) A registered dealer must deliver to a client a statement that includes the information referred to in subsections (4) and (5)

(a) at least once every 3 months, or

(b) if the client has requested to receive statements on a monthly basis, for each one-month period.

(2) A registered dealer must deliver to a client a statement that includes the information referred to in subsections (4) and (5) after the end of any month in which a transaction was effected in securities held by the dealer in the client's account, other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan.

(2.1) Paragraph 1(b) and subsection (2) do not apply to a mutual fund dealer in connection with its activities as a dealer in respect of the securities listed in paragraph 7.1(2)(b).

(3) A registered adviser must deliver to a client a statement that includes the information referred to in subsections (4) and (5) at least once every 3 months, except that if the client has requested to receive statements on a monthly basis, the adviser must deliver a statement to the client for each one-month period.

(3.1) (paragraph revoked).

(4) If a registered dealer or registered adviser made a transaction for a client during the period covered by a statement delivered under subsection (1), (2) or (3), the statement must include the following:

(a) the date of the transaction;

(b) whether the transaction was a purchase, sale or transfer;

(c) the name of the security;

(d) the number of securities purchased, sold or transferred;

(e) the price per security if the transaction was a purchase or sale;

(f) the total value of the transaction if it was a purchase or sale.

(5) If a registered dealer or registered adviser holds securities owned by a client in an account of the client, a statement delivered under subsection (1), (2) or (3) must indicate that the securities are held for the client by the registered firm and must include the following information about the client's account determined as at the end of the period for which the statement is made:

(a) the name and quantity of each security in the account;

(b) the market value of each security in the account and, if applicable, the notification in subsection 14.11.1(2);

(c) the total market value of each security position in the account;

<u>(c.1) the fund expense ratio of each class or series of each investment fund in the account;</u>

<u>(c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;</u>

(d) any cash balance in the account;

(e) the total market value of all cash and securities in the account;

(f) whether the account is eligible for coverage under an investor protection fund approved or recognized by the securities regulatory authority and, if it is, the name of the investor protection fund;

(g) which securities in the account might be subject to a deferred sales charge if they are sold;

(h) if there are investment funds in the account, the following notification or a notification that is substantially similar:

"Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.";

(6) (paragraph revoked).

(7) For the purposes of this section, a security is considered to be held by a registered firm for a client if

(a) the firm is the registered owner of the security as nominee on behalf of the client, or

(b) the firm has physical possession of a certificate evidencing ownership of the security.

14.14.1. Additional statements

(1) A registered dealer or registered adviser must deliver a statement that includes the information referred to in subsection (2) to a client if any of the following apply in respect of a security owned by the client that is held or controlled by a party other than the dealer or adviser:

(a) the dealer or adviser has trading authority over the security or the client's account in which the security is held or was transacted;

(b) the dealer or adviser receives continuing payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the issuer or any other party;

(c) the security is issued by a scholarship plan, a mutual fund or an investment fund that is a labour-sponsored investment fund corporation, or labour-sponsored venture capital corporation, under legislation of a jurisdiction of Canada and the dealer or adviser is the dealer or adviser of record for the client on the records of the issuer of the security or the records of the issuer's investment fund manager.

(2) A statement delivered under subsection (1) must include the following in respect of the securities or the account referred to in subsection (1), determined as at the end of the period for which the statement is made:

(a) the name and quantity of each security;

(b) the market value of each security and, if applicable, the notification in subsection 14.11.1(2);

(c) the total market value of each security position;

(c.1) the fund expense ratio of each class or series of each investment fund;

(c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;

(d) any cash balance in the account;

(e) the total market value of all of the cash and securities;

(f) disclosure in respect of the party that holds or controls each security and a description of the way it is held;

(g) whether the securities are, or the account is, eligible for coverage under an investor protection fund approved or recognized by the securities regulatory authority;

(h) which of the securities might be subject to a deferred sales charge if they are sold;

(i) if the statement includes information under paragraph (c.1), the following notification or a notification that is substantially similar:

"*Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because* *they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.*"

(…)

14.17. Report on charges and other compensation

(1) For each 12-month period, a registered firm must deliver to a client a report on charges and other compensation containing the following information, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:

(a) the registered firm's current operating charges which might be applicable to the client's account;

(b) the total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report, and the total amount of those charges;

(c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report, and the total amount of those charges;

(d) the total amount of the operating charges reported under paragraph (b) and the transaction charges reported under paragraph (c);

(e) if the registered firm purchased or sold debt securities for the client during the period covered by the report, either of the following:

(i) the total amount of any mark-ups, mark-downs, commissions or other service charges the firm applied on the purchases or sales of debt securities;

(ii) the total amount of any commissions charged to the client by the firm on the purchases or sales of debt securities and, if the firm applied mark-ups, mark-downs or any service charges other than commissions on the purchases or sales of debt securities, the following notification or a notification that is substantially similar:

"*For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged*.";

(f) if the registered firm is a scholarship plan dealer, the unpaid amount of any enrolment fee or other charge that is payable by the client;

(g) the total amount of each type of payment, other than a trailing commission, that is made to the registered firm or any of its registered individuals by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(h) if the registered firm received trailing commissions related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

"*We received $[amount] in trailing commissions in respect of securities you owned during the 12-month period covered by this report.*

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus, fund facts document or ETF Facts document for each fund.";

(i) the total amount of fund expenses, in relation to securities of investment funds owned by the client during the period covered by the report, either:

(a) charged to the client by an investment fund, its investment fund manager or any other party, or;

(b) charged to an investment fund by its investment fund manager or any other party;

(j) the total amount of direct investment fund charges charged to the client by an investment fund, investment fund manager or any other party, in relation to securities of investment funds owned by the client during the period covered by the report, excluding any charges included in the amounts under paragraph (c) or (f);

(k) the total amount of the fund expenses reported under paragraph (i) and the direct investment fund charges reported under paragraph (j);

(l) the total amount of the registered firm's charges reported under paragraph (d) and the investment fund fees reported under paragraph (k);

(m) if the client owned investment fund securities during the period covered by the report, the following notification or a notification that is substantially similar:

"*Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.*

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold."

(n) if the client owned investment fund securities during the period covered by the report and any deferred sales charges were paid by the client, the following notification or a notification that is substantially similar:

"*You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.*"

(o) if the client owned investment fund securities during the period covered by the report and direct investment fund charges, other than redemption fees, were charged to the client, a short explanation of the type of fees which were charged;

(p) if the information reported under paragraph (i) or (j) is based on an approximation or any other assumption, a description of the assumption or approximation.

(2) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14(5) must be delivered in a separate report on charges and other compensation for each of the client's accounts.

(3) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14.1(1) must be delivered in a report on charges and other compensation for the client's account through which the securities were transacted.

(4) Subsections (2) and (3) do not apply if the registered firm provides a report on charges and other compensation that consolidates, into a single report, the required information for more than one of a client's accounts and any securities of the client required to be reported under subsection 14.14(5) or 14.14.1(1) and if the following apply

(a) the client has consented in writing to the form of disclosure referred to in this subsection;

(b) the consolidated report specifies the accounts and securities with respect to which information is required to be reported under subsection 14.14.1(1).

(5) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

(6) For the purposes of determining the total amount of fund expenses under paragraph (1)(i), the fund expenses for each class or series of each investment fund owned by the client during the reporting period must be added together after using the following formula to calculate the fund expenses for each fund for each day that the client owned it,

$$(A \times B)$$

where

A = the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars using the formula in subsection 14.1.1(2), and

B = the number of shares or units owned by the client for the day.

14.17.1 Reporting of fund expenses and direct investment fund charges

(1) Subject to subsection (2), for the purposes of paragraphs 14.14(5)(c.1), 14.14.1(2)(c.1), and 14.17(1)(i) and (j), the information required to be delivered to clients by a registered dealer or registered adviser must be based on the information provided under section 14.1.1.

(2) Subject to subsection (3), if no information is provided under section 14.1.1, or the registered firm reasonably believes that any part of the information provided pursuant to section 14.1.1 is incomplete or that relying on it would cause information required to be delivered to a client to be misleading, the registered firm must rely on the most recent information disclosed in the relevant fund facts document, ETF facts document, prospectus or management report of fund performance, as applicable;

(3) If there is no publicly available information or if the information referred to in subsection (2) was disclosed more than 12 months before the end of the period covered by the statement or report required to be delivered to the client, or the registered firm reasonably believes that relying on the publicly available information would cause information required to be delivered to the client to be misleading, the registered firm must not rely on the publicly available information and must

(a) make reasonable efforts to obtain the information referred to in subsection (1) by other means, and

(b) subject to subsection (4), rely on the information obtained under paragraph (a).

(4) If the registered firm reasonably believes it cannot obtain information under paragraph (3) that is not misleading, the registered firm must exclude the information, from the calculation of the amount of fund expenses or of the direct investment fund charges reported to the client, as the case may be, or, in the case of a fund expense ratio, must not report the fund expense ratio, and must disclose the fact that the information is excluded or not reported in the relevant statement or report.

ANNEX F

BLACKLINE SHOWING
PROPOSED CHANGES TO
COMPANION POLICY 31-103CP *NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

Division 1 Investment fund managers

Section 14.1 sets out the limited application of Part 14 to investment fund managers. The sections of Part 14 that apply to investment fund managers when performing their investment fund manager activities include section 14.1.1, section 14.5.2, section 14.5.3, section 14.6, section 14.6.1, section 14.6.2, subsection 14.12(5) and section 14.15. An investment fund manager that is also registered as a dealer or adviser (or both) is subject to all relevant sections of Part 14 in respect of that firm's dealer or adviser activities.

Section 14.1.1 requires investment fund managers to provide information that is known to them or which is required to be calculated by them concerning position cost, fund expense ratio, fund expenses, deferred sales charges and any other charges deducted from the net asset value of the securities, and trailing commissions to dealers and advisers who have clients that own the investment fund manager's funds. This information must be provided within a reasonable period of time, in order that the dealers and advisers may comply with their client reporting obligations. This is a principles-based requirement.

When relying on information disclosed in an investment fund's previous disclosure documents, we would expect investment fund managers to inform the advisers or dealers of any assumptions or approximations in the information reported to the advisers or dealers.

An investment fund manager must work with the dealers and advisers who distribute fund products to determine what information they need from the investment fund manager in order to satisfy their client reporting obligations. The information and arrangements for its delivery may vary, reflecting different operating models and information systems. The information and arrangements for its delivery may vary, reflecting different operating models and information systems.

(…)

14.14. Account statements

Section 14.14 requires registered dealers and advisers to deliver statements to clients at least once every 3 months. There is no prescribed form for these statements but they must contain the information referred to in subsections 14.14(4) and (5). The types of transactions that must be disclosed in an account statement include any purchase, sale or transfer of securities, dividend or interest payment received or reinvested, any fee or charge, and any other account activity. The fund expense ratio of each series of each investment fund in the account and a description of any assumptions or approximations used to calculate this ratio must also be disclosed. A firm must deliver an account statement with the information referred to in subsection (4) if any transaction was made for the client in the reporting period. A firm is only required to provide the account position information referred to in subsection (5) if it holds securities owned by a client in an account of the client.

There is no provision for consolidated statements in section 14.14 (or 14.14.1), so a registered firm must provide every client with an applicable statement for each of their accounts. Firms may provide supplementary reporting that they think a client might find useful. For example, a firm might provide a consolidated year-end statement where a client has requested a consolidated performance report under subsection 14.18(4).

14.14.1. Additional statements

A firm is required to deliver additional statements if the circumstances described in subsection 14.14.1(1) apply. The additional statements must be delivered once every 3 months, except that an adviser must deliver the statements on a monthly basis if requested by the client as provided in subsection 14.14.1(3). The requirements set out for the frequency of delivering account statements and additional statements are minimum standards. Firms may choose to provide the statements more frequently.

Paragraph 14.14.1(2)(g) requires disclosure about applicable investor protection funds. However, subsection 14.14.1(2.1) exempts a firm from this requirement where a client's securities are held or controlled by an IIROC or MFDA member. SRO rules require members to be participants in specified investor protection funds and prescribe client disclosures about them. To avoid the potential that clients may be confused or misinformed, registrants that are not participants in an investor protection fund should refrain from discussing its terms and conditions with clients.

Firms may choose to include securities that must be reported under the additional statement requirement in a document that it refers to as an account statement, consistent with their clients' expectations that their accounts are not limited to securities held by the firm, provided it satisfies the requirements for content of statements set out in sections 14.14 and 14.14.1.

(…)

14.17. Report on charges and other compensation

Registered firms must provide clients with an annual report on the firm's charges and other compensation received by the firm in connection with their investments. Examples of operating charges and transaction charges are provided in the discussion of the disclosure of charges and other compensation in section 14.2 of this Policy Statement. The annual report must include information about all of the firm's current operating charges that might be applicable to a client's account. A firm is only required to include the charges for those of its services that it would reasonably expect the particular client to utilize in the coming 12 months.

The discussion of debt security disclosure requirements in section 14.12 of this Policy Statement is also relevant with respect to paragraph 14.17(1)(e).

Scholarship plans often have enrolment fees payable in instalments in the first few years of a client's investment in the plan. Paragraph 14.17(1)(f) requires that scholarship plan dealers include a reminder of the unpaid amount of any such fees in their annual reports on charges and other compensation.

Payments that a registered firm or its registered representatives receive from issuers of securities or other registrants in relation to registerable services to a client must be reported under paragraph 14.17(1)(g). This disclosure requirement includes any form of payment to the firm or a representative of the firm linked to sales or other registerable services to the client receiving the report. Examples of payments that would be included in this part of the report on charges and other compensation include some referral fees, success fees on the completion of a transaction, or finder's fees. This part of the report does not include trailing commissions, as they are specifically addressed in paragraph 14.17(1)(h).

Registered firms must disclose the amount of trailing commissions they received related to a client's holdings. The disclosure of trailing commissions received in respect of a client's investments must be included with a notification prescribed in paragraph 14.17(1)(h). The notification must be in substantially the form prescribed, so a registered firm may modify it to be consistent with the actual arrangements. For example, a firm that receives a payment that falls within the definition of "trailing commission" in section 1.1 in respect of securities that are not investment funds can modify the notification accordingly. The notification set out is the required minimum and firms can provide further explanation if they believe it will be helpful to their clients.

Registered firms should not include in the total amount of direct investment fund charges required to be reported under paragraph 14.17(1)(j), the amount of a charge, including a sales commission, which is required to be reported by the registered firm to the client under paragraph 14.17(1)(c), concerning transaction charges, or (f), specific to scholarship plan dealers, in order to avoid any potential double counting of such charge in the total cost amount required to be reported under paragraph 14.17(1)(l).

Registered firms may want to organize the annual report on charges and other compensation with separate sections showing the charges paid by the client to the firm, and the other compensation received by the firm in respect of the client's account.

Appendix D of this Policy Statement includes a sample Report on Charges and Other Compensation, which registered firms are encouraged to use as guidance.

14.17.1 Reporting of fund expenses and direct investment fund charges

Dealers and advisers are required to rely on information provided by registered investment fund managers pursuant to section 14.1.1. However, they may be unable to rely on such information in certain circumstances, including if:

- there is no registered investment fund manager
- such information is not required to be provided for a fund (for example, as in the case of certain non-Canadian investment funds)
- an investment fund manager does not comply with section 14.1.1 for any reason, or
- the dealer or adviser reasonably believes that relying on this information would cause the information delivered to a client to be misleading.

In cases where paragraph 14.17.1(3)(a) applies, the registered firm must make reasonable efforts to obtain information about the investment fund's fund expenses, fund expense ratio or direct investment fund charges by other means. Those other means may include:

- relying on information disclosed in disclosure documents of the investment fund other than those referred to in paragraph 14.17.1(2), including documents prepared according to the reporting requirements applicable in a foreign jurisdiction

- requesting that the information be provided in writing by the investment fund or investment fund manager, or
- relying on information reported by a reliable third-party service provider.

We expect registered firms to use their professional judgement in determining what other means of obtaining the information would be appropriate, notably taking into account that doing so must not cause the information reported to clients to be misleading.

(…)

Appendix D Annual Charges and Compensation Report is replaced by [TCR sample account statement and cost report]

ANNEX G

SAMPLE PROTOTYPE STATEMENT AND REPORT FOR THE SECURITIES SECTOR

Highlighting shows new information

Dealer ABC Inc.

Your Account Number: 123-4567

Holdings in your account
On December 31, 2020

Portfolio Assets

Description	Shares Owned	Book Cost	Market Value	Current gain or loss	Fund Expenses[1]	% of your holdings
Investment Funds						
ABC Management Monthly Income Fund, Series A FE	250.00	$17,000.00	$19,500.00	$2,500.00	1.00%	41.49%
ABC Management Canadian Equity, Series A FE	450.00	$19,500.00	$22,500.00	$3,000.00	2.00%	47.87%
Equities						
Company A N/A	100.00	$2,000.00	$3,000.00	$1,000.00		6.88%
Company B N/A	50.00	$1,500.00	$2,000.00	$500.00		4.26%
Totals		**$40,000.00**	**$47,000.00**			**100.00%**

1. Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

Dealer ABC Inc.

Your Account Number: 123-4567

Your Cost of Investing and Our Compensation

This report shows for 2021

- your cost of investing, including what you paid to us and to investment fund companies
- our compensation

Your Cost of Investing

Costs reduce your profits and increase your losses

Your total cost of investing was $815 last year

What you paid

Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.	
Account administration and operating fees – you pay these fees to us each year	$100.00
Trading fees – you pay these fees to us when you buy or sell some investments	$20.00
Total you paid to us	**$120.00**
Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account.	
Fund Expenses - See the fund expenses % shown in the holdings section of your account statement[1]	$645.00
Redemption fees on deferred sales charge (DSC) investments[2]	$50.00
Amount you paid to investment fund companies	**$695.00**
Your total cost of investing	**$815.00**

Our Compensation

What we received

Total you paid us, as indicated above	$120.00
Trailing commissions[3] paid to us by investment fund companies	$342.00
Total we received for advice and services we provided to you	**$462.00**

1. **Fund expenses.** Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

   The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold.

2. **Redemption fees on DSC investments**: You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.

3. **Trailing commissions.** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.

ANNEX H

SAMPLE PROTOTYPE REPORT FOR THE INSURANCE SECTOR

This annex has been prepared by the Canadian Council of Insurance Regulators (CCIR). Please send comments relating to it to the CCIR National Regulatory Coordination Branch at the address indicated under "Comments on Proposed Insurance Guidance".

[Editor's Note: This annex is reproduced on the following separately numbered pages. Bulletin pagination resumes at the end of this annex.]

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Your annual statement
As at December 31, 2020

ABC Insurer Inc.

1234 West Street,
Toronto, Ontario

1 800 567 8901
abcinsurerinc.ca

This statement provides you with information on how your contract has performed this year, including the rate of return and value of guarantees. It provides you with all charges and fees associated with your contract. It will help you track your financial goals. We recommend that you read it carefully. The Fund Fact documents and annual audited financial statements for segregated funds are available upon request. Please contact your representative or us if you require additional information.

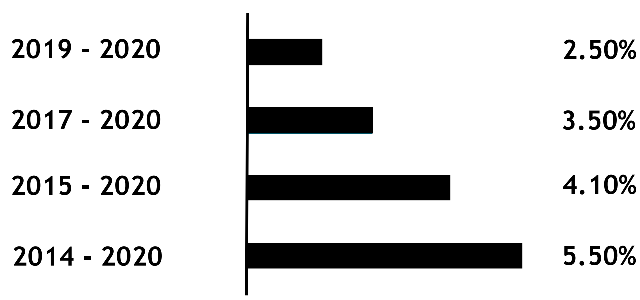
Information on your contract

Contract name:	ABC RetirementPlus
Contract tax status:	Registered
Contract no.:	78902314
Issue date:	March 20, 2014
Owner:	John Smith
Annuitant:	John Smith
Designated beneficiary:	Jane Smith
Your representative:	George Advisor
Your representative's telephone no.:	1 416 444 5353
Your representative's e-mail address:	gadvisor@advisor.ca

As at December 31, 2020			
Segregated funds	Number of units	Market value per unit ($)	Market value ($)
ABC Management Monthly Income Fund, Standard Series, DSC			
Guarantee 75/100	250.00	$78.00	$19,500.00
ABC Management Canadian Equity Fund, Standard Series, FEL			
Guarantee 75/100	450.00	$50.00	$22,500.00
Total[1]			$42,000.00

Your total annual personal rate of return (net of charges)

The following graph shows your total annual personal rate of return net of charges for different periods. Note that this rate of return may be different than the rate of return realized by the segregated funds because it takes into account the timing of your deposits and withdrawals.



[1] This is not necessarily the amount you would receive if you made a withdrawal. As an example, deferred sales charges or withdrawal fees may change the withdrawal value. You can contact us to learn the actual amount you can receive.

Your Contract Number: 78902314

Holdings in your Contract
On December 31, 2020

Contract values since issue on March 30, 2014

Segregated funds	Deposits	Withdrawals	Net Growth or Loss[3]	Market value at end of 2020
ABC Management Monthly Income Fund, Standard Series 75/100, DSC[2]	$18,666.67	$1,666.67	$2,500.00	$19,500.00
ABC Management Canadian Equity, Standard Series 75/100, FEL	$19,500.00	$0.00	$3,000.00	$22,500.00
Totals	$38,166.67	$1,666.67	$5,500.00	$42,000.00

Contract values since December 31, 2019

Segregated funds	Market value at end of 2019	Deposits	Withdrawals	Net Growth or Loss[3]	Market value at end of 2020	Fund expenses[4]
ABC Management Monthly Income Fund, Standard Series 75/100, DSC[2]	$20,650.21	$0.00	$1,666.67	$516.46	$19,500.00	1.18%
ABC Management Canadian Equity, Standard Series 75/100, FEL	$21,951.22	$0.00	$0.00	$548.78	$22,500.00	2.04%
Totals	$42,601.43	$0.00	$1,666.67	$1,065.24	$42,000.00	
			Total annual rate of return	2.5%		

[2] Your fund has a deferred sales charge. You can withdraw all the money in this fund, but you may be charged a fee to do so if you are withdrawing those funds before the end of the 7-year deferred sales charge period.

[3] Total charges deducted from your return are detailed in the following section.

[4] The fund's expenses are made up of the management fee, operating expenses, and trading costs.. You don't pay these expenses directly. We periodically deduct them from the value of your investments to manage and operate the funds. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total fund's value. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments. The dollar amount of the expense calculated from the funds expenses ratio is included in the costs described below in the following section.

Your Contract Number: 78902314

Details of charges for the year 2020

Important: Review Your Costs

This part of the report shows the total cost of owning your contracts last year. These costs impact your returns. This does not include fees billed directly by your representative, if applicable.

Your cost of investing is impacted by your choices.

Your total cost of investing was $760 last year

Withdrawal fees on deferred sales charge investments[5]	$50.00
Transfer fee	$20.00
Investment fund expenses (Fund expenses) [6]	$645.00
Insurance cost for your guarantees[7]	$45.00
Total	**$760.00**

[5] You paid this cost to us because you withdrew money from a fund before the end of the deferred sales charge period, and it was more than your contract said you could withdraw without paying a deferred sales charge. You paid this cost directly from money withdrawn from your contract and it reduced the amount you received when you withdrew money.

[6] This is what you paid us to manage and operate the funds in which you have invested. Different funds charge different levels of fees. These fees are deducted from the value of your investments – you do not pay these fees directly. They reduce the value of each unit in the funds you hold, and therefore reduced your return on investment. These costs are already reflected in the market values reported for your fund investments.

[7] This is what you paid us this year for the insurance guarantees under your contract: the Maturity Guarantee, the Death Guarantee and the guaranteed withdrawal amount. You paid this cost by withdrawing investments in your contract.

Your Contract Number: 78902314

Your contract's guarantees

Your contract contains an insurance portion that offers you protection against negative market movements. You have a death guarantee and a maturity guarantee that protect a portion of your investment.

When you decide to withdraw money from your contract, you also have a guarantee that you will be able to withdraw a certain amount for a certain period of time or for the remainder of your life. The guaranteed withdrawal amount will be payable to you even if the net asset value of the guaranteed seg funds in the contract is less than this amount.

The chart below shows the actual value of those guarantees.

Guarantee 75/100[8]	
Market value of your segregated funds:	$42,000.00
Maturity date of the guarantee:	January 12, 2084
Value of 75% guarantee at maturity:	$27,428.42
Value of 100% guarantee on death:	$36,571.22
Date of the next automatic reset of your guarantees[9]	March 30, 2024

Accumulation phase		
Guaranteed lifetime annual withdrawal amount, if taken:[10]		
	At age 55	$575.50
	At age 65	$893.65
	At age 70	$1,353.20

[8] On withdrawal, the value of your guarantees is adjusted proportionally to the market value of your contract at the time of withdrawal. For example, if someone withdraws $1,200 when the market value of the segregated fund contract is $6,000, the withdrawal will reduce the market value of the segregated funds by 20 per cent ($1,200/$6,000). The maturity and death benefit guarantee amounts will be reduced proportionally by the same 20 per cent.
[9] You may make discretionary resets up to 3 times per year subject to certain conditions, as stipulated in your contract. Kindly contact your representative for additional information on the subject.
[10] Guaranteed withdrawal amounts have been calculated assuming no bonus, no deposit or withdrawal, no future return and no reset of guarantees between now and the start of annual periodic withdrawals.

DEFINITIONS

- Accumulation Phase: This phase starts when you begin making deposits into the contract and continues until you notify us you would like to trigger the Withdrawal Phase to start taking scheduled withdrawals.
- Deposit: Amount you paid to us for the purchase of segregated fund units.
- Market value: This is the value of your investments, calculated by taking the number of fund units and multiplying it by the market value per unit.
- Net Growth / Loss: This is the amount your investments have increased or decreased other than due to deposits, withdrawals or transfers in or out.
- Reset: Option enabling the contract holder to revaluate the guaranteed values applicable to his or her contract.
- Segregated Fund: A separate and distinct group of assets maintained by an insurer in respect of which the benefits of a variable insurance contract are provided.
- Total annual personal rate of return: This is how your investments have performed over time. This is calculated using an industry-standard method known as the “money weighted method” which factors in the time of your deposits and withdrawals (net of all charged fees) and does not take income tax into account. Your actual returns will depend on your personal tax situation. Since most benchmarks do not consider funds’ management fees and operating fees, your personal rate of return cannot be directly compared with an index.
- Transfer: Sometimes called a switch, this is the withdrawal of units in a fund for the purpose of purchasing units in another fund.
- Withdrawal: Withdrawals out of the contract from specific segregated fund units.

Your annual statement
As at December 31, 2020

ABC Insurer Inc.

1234 West Street,
Toronto, Ontario

1 800 567 8901
abcinsurerinc.ca

This statement provides you with information on how your contract has performed this year, including the rate of return and value of guarantees. It provides you with all charges and fees associated with your contract. It will help you track your financial goals. We recommend that you read it carefully. The Fund Fact documents and annual audited financial statements for segregated funds are available upon request. Please contact your representative or us if you require additional information.

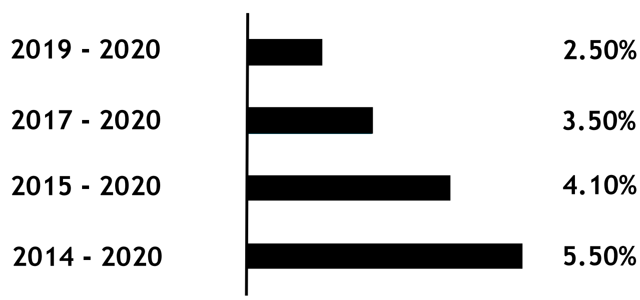
Information on your contract

Contract name:	ABC RetirementPlus
Contract tax status:	Registered
Contract no.:	78902314
Issue date:	March 20, 2014
Owner:	John Smith
Annuitant:	John Smith
Designated beneficiary:	Jane Smith
Your representative:	George Advisor
Your representative's telephone no.:	1 416 444 5353
Your representative's e-mail address:	gadvisor@advisor.ca

As at December 31, 2020			
Segregated funds	Number of units	Market value per unit ($)	Market value ($)
ABC Management Monthly Income Fund, Standard Series, DSC			
Guarantee 75/100	250.00	$78.00	$19,500.00
ABC Management Canadian Equity Fund, Standard Series, FEL			
Guarantee 75/100	450.00	$50.00	$22,500.00
Total[1]			$42,000.00

Your total annual personal rate of return (net of charges)

The following graph shows your total annual personal rate of return net of charges for different periods. Note that this rate of return may be different than the rate of return realized by the segregated funds because it takes into account the timing of your deposits and withdrawals.



[1] This is not necessarily the amount you would receive if you made a withdrawal. As an example, deferred sales charges or withdrawal fees may change the withdrawal value. You can contact us to learn the actual amount you can receive.

Your Contract Number: 78902314

Holdings in your Contract
On December 31, 2020

Contract values since issue on March 30, 2014

Segregated funds	Deposits	Withdrawals	Net Growth or Loss[3]	Market value at end of 2020
ABC Management Monthly Income Fund, Standard Series 75/100, DSC[2]	$18,666.67	$1,666.67	$2,500.00	$19,500.00
ABC Management Canadian Equity, Standard Series 75/100, FEL	$19,500.00	$0.00	$3,000.00	$22,500.00
Totals	$38,166.67	$1,666.67	$5,500.00	$42,000.00

Contract values since December 31, 2019

Segregated funds	Market value at end of 2019	Deposits	Withdrawals	Net Growth or Loss[3]	Market value at end of 2020	Fund expenses[4]
ABC Management Monthly Income Fund, Standard Series 75/100, DSC[2]	$20,650.21	$0.00	$1,666.67	$516.46	$19,500.00	1.18%
ABC Management Canadian Equity, Standard Series 75/100, FEL	$21,951.22	$0.00	$0.00	$548.78	$22,500.00	2.04%
Totals	$42,601.43	$0.00	$1,666.67	$1,065.24	$42,000.00	
			Total annual rate of return	2.5%		

[2] Your fund has a deferred sales charge. You can withdraw all the money in this fund, but you may be charged a fee to do so if you are withdrawing those funds before the end of the 7-year deferred sales charge period.

[3] Total charges deducted from your return are detailed in the following section.

[4] The fund's expenses are made up of the management fee, operating expenses, and trading costs. You don't pay these expenses directly. We periodically deduct them from the value of your investments to manage and operate the funds. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total fund's value. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments. The dollar amount of the expense calculated from the Fund expenses ratio is included in the costs described below in the following section.

Your Contract Number: 78902314

Details of charges for the year 2020

Important: Review Your Costs

This part of the report shows the total cost of owning your contracts last year. These costs impact your returns. This does not include fees billed directly by your representative, if applicable.

Your cost of investing is impacted by your choices.

Your total cost of investing was $760 last year

Withdrawal fees on deferred sales charge investments[5]	$50.00
Transfer fee	$20.00
Investment fund expenses (Fund expenses) [6]	$645.00
Insurance cost for your guarantees[7]	$45.00
Total	**$760.00**

[5] You paid this cost to us because you withdrew money from a fund before the end of the deferred sales charge period, and it was more than your contract said you could withdraw without paying a deferred sales charge. You paid this cost directly from money withdrawn from your contract and it reduced the amount you received when you withdrew money.
[6] This is what you paid us to manage and operate the funds in which you have invested. Different funds charge different levels of fees. These fees are deducted from the value of your investments – you do not pay these fees directly. They reduce the value of each unit in the funds you hold, and therefore reduced your return on investment. These costs are already reflected in the market values reported for your fund investments.
[7] This is what you paid us this year for the insurance guarantees under your contract: the Maturity Guarantee, the Death Guarantee and the guaranteed withdrawal amount. You paid this cost by withdrawing investments in your contract.

Your Contract Number: 78902314

Your contract's guarantees

Your contract contains an insurance portion that offers you protection against negative market movements. You have a death guarantee and a maturity guarantee that protect a portion of your investment.

When you decide to withdraw money from your contract, you also have a guarantee that you will be able to withdraw a certain amount for a certain period of time or for the remainder of your life. The guaranteed withdrawal amount will be payable to you even if the net asset value of the guaranteed seg funds in the contract is less than this amount.

The chart below shows the actual value of those guarantees.

Guarantee 75/100[8]	
Market value of your segregated funds:	$42,000.00
Maturity date of the guarantee:	January 12, 2065
Value of 75% guarantee at maturity:	$27,428.42
Value of 100% guarantee on death:	$36,571.22

Withdrawal phase	
Guaranteed annual withdrawal amount:	$1,470.00
Annual withdrawal amount you have chosen to receive:[9]	$1,500.00
Income payable until	Until the Annuitant's death
RRIF/LIF/LRIF/RLIF minimum withdrawal amount	$1,400.00
LIF/LRIF/RLIF maximum withdrawal amount	No maximum

[8] On withdrawal, the value of your guarantees is adjusted proportionally to the market value of your contract at the time of withdrawal. For example, if someone withdraws $1,200 when the market value of the segregated fund contract is $6,000, the withdrawal will reduce the market value of the segregated funds by 20 per cent ($1,200/$6,000). The maturity and death benefit guarantee amounts will be reduced proportionally by the same 20 per cent.

[9] Any withdrawals that exceed the guaranteed annual withdrawal amount will decrease future guaranteed withdrawal amounts except if required in respect of a RRIF/LIF/LRIF/RLIF minimum withdrawal amount.

DEFINITIONS

- Deposit: Amount you paid to us for the purchase of segregated fund units.

- Market value: This is the value of your investments, calculated by taking the number of fund units and multiplying it by the market value per unit.

- Net Growth / Loss: This is the amount your investments have increased or decreased other than due to deposits, withdrawals or transfers in or out.

- Reset: Option enabling the contract holder to revaluate the guaranteed values applicable to his or her contract.

- Segregated Fund: A separate and distinct group of assets maintained by an insurer in respect of which the benefits of a variable insurance contract are provided.

- Total annual personal rate of return: This is how your investments have performed over time. This is calculated using an industry-standard method known as the “money weighted method” which factors in the time of your deposits and withdrawals (net of all charged fees) and does not take income tax into account. Your actual returns will depend on your personal tax situation. Since most benchmarks do not consider funds’ management fees and operating fees, your personal rate of return cannot be directly compared with an index.

- Transfer: Sometimes called a switch, this is the withdrawal of units in a fund for the purpose of purchasing units in another fund.

- Withdrawal: Withdrawals out of the contract from specific segregated fund units.

- Withdrawal Phase: This phase starts when you trigger your guaranteed withdrawal benefit and start taking the scheduled withdrawals. It continues while the contract continues enough invested money to pay each scheduled withdrawal. When there is no longer any money invested in the contract, the contract transitions to the benefit payment phase where you will continue to receive your guaranteed withdrawal amounts

Your annual statement
As at December 31, 2020

ABC Insurer Inc.

1234 West Street,
Toronto, Ontario

1 800 567 8901
abcinsurerinc.ca

This statement provides you with information on your contract, including the value of guarantees. It will help you track your financial goals. We recommend that you read it carefully. Please contact your representative or us if you require additional information.

Information on your contract

Contract name:	ABC RetirementPlus
Contract tax status:	Non-Registered
Contract no.:	78902314
Issue date:	March 20, 2014
Owner:	John Smith
Annuitant:	John Smith
Your representative:	George Advisor
Your representative's telephone no:	1 416 444 5353
Your representative's e-mail address:	gadvisor@advisor.ca

Your contract's guarantees

Your contract no longer has any active investments. However, it contains an insurance portion which provides guaranteed income payments for a certain period of time. The chart below shows the value of those payments.

Benefit Payments Phase	
Guaranteed annual withdrawal amount:	$7,000
Income payable until:	Until the Annuitant's death

ANNEX I

LOCAL MATTERS

SUBSTANCE AND PURPOSE

Further to their Total Cost Reporting project (**TCR**), the CSA, including the Ontario Securities Commission (the **Commission** or **we**) are are publishing for a 90-day comment period, proposals for enhanced disclosure to clients regarding the embedded fees associated with investment funds that they own (the **Proposed Amendments**).

The Proposed Amendments would amend National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) and add related guidance in Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

The Proposed Amendments are being published in conjunction with proposals by the CCIR regarding segregated fund contracts.

PROPOSED AMENDMENTS

The Proposed Amendments would add the following new elements to client reporting under NI 31-103:

- in the account statement (s.14.14) or additional statement (s.14.14.1), as appropriate, the fund expense ratio, stated as a percentage for each investment fund held by the client;
- in the annual report on charges and other compensation (s.14.17) for the account as a whole, calculated using a prescribed methodology (s.14.17.1):
  - the aggregate amount of fund expenses, in dollars, for all investment funds held during the year; and
  - the aggregate amount of any direct investment fund fees (e.g., short-term trading fees or redemption fees), in dollars;
- the duties of registered investment fund managers to provide information to assist registered dealers and advisers (s.14.1.1) would be expanded to include providing the dealers and advisers with some of the information needed for them to meet the enhanced client reporting requirements; and
- certain defined terms will be added (s.1.1).

Please refer to the main body and Annex C of this Notice for further details.

REGULATORY IMPACT ASSESSMENT

1. Purpose

The Proposed Amendments would amend NI 31-103 to rectify information asymmetry between investors and registrants concerning the ongoing costs of owning investment funds.

By enhancing existing client reporting to include information about embedded fees, we seek to make investors more aware of the ongoing costs of owning investment funds.

2. Rationale for the Proposed Amendments

Investment funds are widely held by retail investors. Embedded fees, which typically consist of the Management Expense Ratio (**MER**) and Trading Expense Ratio (**TER**), are an ongoing cost of owning investment funds but by their nature, can easily be overlooked after the initial purchase is made.

General information about embedded fees is included in offering documents such as the Fund Facts, and in continuous disclosure reports such as the Management Report of Fund Performance. But account statements and annual cost reports that registered dealers and advisers must send their clients on an ongoing basis are not required to include information about the embedded fees associated with the investment funds that they own.

Research has established that retail investors wrongly assume that the cost and compensation reports that they receive from their dealer or adviser include all fees, contributing to an inadequate understanding of the embedded fees they are paying. We believe investors should be aware of and understand these costs because of the impact they have on investment returns.

The Proposed Amendments draw on behavioural insights and the results of testing sample documents with investors to determine what information about embedded fees is likely to be the most useful to the typical retail investor.

3. Current Client Reporting Requirements

Currently, registered dealers and registered advisers are required to deliver to each of their clients an annual report on the amounts the client paid to them for their services (e.g., trading fees and account operating charges) as well as any additional compensation paid to the firm by third parties in relation to the client's account (e.g., trailing commissions). These are aggregate amounts for the whole account, reported in dollars. Dealers and advisers must also send their clients account statements during the year (typically, each quarter). The required information includes the book cost and current market value of each security in the account and the total book cost and market value of all securities in the account, as well as any cash balance and a notification on any security that might be subject to a deferred sales charge if sold. There are exemptions relating to reporting to institutional investors ("non-individual permitted clients").

4. The Proposed Amendments

Under the Proposed Amendments, the annual cost report would be expanded to include the total of fund expenses (MER + TER) paid by the client during the year. This would be a whole-account figure, in dollars, consistent with the other information in the report. Account statements would add the percentage fund expense ratio for each of the investment funds that the client owns, alongside other the information already provided on a per-investment basis. Explanatory notes, substantially in a prescribed form tested with investors, would be included as appropriate. Existing exemptions for reporting to institutional investors would continue to apply. SRO rules would be amended to be uniform in substance with final amendments to NI 31-103.

Investment fund managers would be required to assist dealers and advisers by providing them with some of the information needed for the enhanced client reporting requirements.

The Proposed Amendments would apply to all investment funds with embedded fees, not only publicly traded mutual funds and ETFs. This approach would extend the amendments to pooled funds and other exempt market instruments as well as scholarship plans and labour sponsored funds. We believe this is necessary in order to provide consistent information to investors and a level playing field for industry participants.

5. Affected Stakeholders

The stakeholders who will be impacted by the Proposed Amendments are retail investors, registered dealers and registered advisers, and investment fund managers/investment fund issuers.

(a) Investors

We estimate that about 39% of investors in Ontario own mutual funds and/or ETFs[1] and as such would be impacted by the proposed amendment. There are also other kinds of investment fund not included in this data set.

(b) Registrants

There are 951 registered firms for which Ontario is the principal regulator. This includes 364 investment fund managers, 228 adviser firms and 347 dealer firms. The dealers are registered in 4 principal categories: 115 Investment Dealers (IIROC Members), 54 Mutual Fund Dealers (MFDA Members), 172 Exempt Market Dealers and 4 Scholarship Plan Dealers.[2]

The enhanced reporting requirements would apply to all registrants to which the requirements to file an account statement/additional statement or annual cost and compensation report currently apply. This includes all registered dealers and all registered advisers that provide ongoing services to retail clients. In practical terms, this means that any dealer or adviser firm that includes any form of investment fund in retail clients' portfolios will be affected, unless the firm has a purely transactional relationship with its clients (typical of many EMDs).

All investment fund managers whose funds are distributed to retail investors would be required to provide the dealers and advisers who distribute them with certain information that the dealers and advisers require to prepare TCR-enhanced statements and reports for their clients.

[1] Estimate based on OSC analysis of household financial wealth data in the 2021 Investor Economics Household Balance Sheet Report and investment fund asset data in Investor Economics' October 2021 Insight Report. These households own an estimated $960 billion in mutual fund and ETF assets as at September 2021. Estimate based on OSC analysis of data in Investor Economics' October 2021 Insight Report.

[2] There are also 14 firms in other registration categories. These statistics are for firms where Ontario is the principal regulator as of December 31, 2021, and are derived from the National Registration Database.

6. Qualitative and Quantitative Analysis of Anticipated Costs and Benefits

(a) Benefits of the Proposed Amendments

The anticipated benefits of the Proposed Amendments include the following:

- Increased awareness of embedded fees and easy access to relevant information about them will make investors better equipped to assess the recommendations and decisions that their registered dealers and registered advisers make for them.
- A large proportion of dealers and advisers align their profitability directly with their clients' success by basing their fees on assets under management. Those firms stand to benefit when their clients are better equipped to make good investment choices, leading to better returns.
- Greater awareness among investors of the costs of investment funds will present a competitive opportunity for investment fund companies that are prepared to lower their embedded fees. Investors would benefit from such increased price competition.
- A less tangible benefit will be increased confidence in Ontario's capital markets, since access to good information about the costs of products and services is a basic component of a well-functioning market.

(b) Costs of the Proposed Amendments

The anticipated costs of the Proposed Amendments include the following:

- Direct costs to investors would involve the time to read and understand the new line items in their statements and reports, and the time to discuss them with their dealers or advisers.
- Investment fund companies or, possibly, dealers and advisers, may seek to pass implementation costs on to investors by increasing management fees or introducing some kind of new fee.
- The Proposed Amendments would impose both implementation and ongoing costs on registrants. Dealers and advisers would have to undertake systems changes to add the required information to their current account statements and annual reports. For the annual reports, this will involve calculating the aggregate fund expense at the account level for each client. Investment fund managers would have to develop systems to report the required information to dealers and advisers. Notably, the required information is derived from information that is already prepared for purposes of the fund facts/ETF facts and MRFP. All affected registrants will also have to develop and implement compliance and staff training procedures. Some registrants may choose to outsource some or all of the initial implementation work while others may choose to carry out the implementation work in-house.

RELIANCE ON UNPUBLISHED STUDIES

The OSC Investor Office Research and Behavioural Insights Team provided the joint project committee with a report, *Cost Disclosure Comprehension Experiment, Joint CSA – CCIR Total Cost Reporting Project* (October 29, 2021), regarding the results of the tests of prototype account statements and cost reports that was undertaken for the project.

We have not relied on any other unpublished study, report, or other written material in developing the Proposed Amendments.

ALTERNATIVES CONSIDERED

We considered maintaining the *status quo*. However, we think that it is important to propose changes for the reasons discussed in this Notice. The testing of alternative prototype statements and reports undertaken by IORBIT suggests that the Proposed Amendments will be an effective option for addressing the concerns we have identified.

RULE MAKING AUTHORITY

The following provisions of the *Securities Act* (Ontario) provide the Commission with authority to make the Proposed Amendments: paragraphs 2, 7 and 8 of subsection 143(1).

ANNEX J

PROPOSED INSURANCE GUIDANCE

This annex has been prepared by the Canadian Council of Insurance Regulators (CCIR). Please send comments relating to it to the CCIR National Regulatory Coordination Branch at the address indicated under "Comments on Proposed Insurance Guidance".

[Editor's Note: This annex is reproduced on the following separately numbered pages. Bulletin pagination resumes at the end of this annex.]

Definitions

[1.1] In this Guidance

a) "accumulation phase" is the time between the date the owner begins making deposits to an IVIC that provides a guaranteed withdrawal benefit and the date the owner notifies the insurer they want to begin receiving such guaranteed payments under the IVIC.

b) "Annuitant" means the person or people whose life or lives trigger any guarantee on death or any payment for life.

c) "benefits phase" under an IVIC that provides a guaranteed withdrawal benefit begins when the withdrawal phase ends for all or part of the IVIC and continues until the last date a guaranteed withdrawal benefit is payable.

d) "fees and charges" means any sales charges, distribution fees, management fees, administrative fees, account set-up or closing charges, surrender charges, transfer fees, insurance fees or any other fees, charges or expenses whether or not contingent or deferred which are or may be payable in connection with the acquisition, holding, transferring or withdrawal of units of a segregated fund credited to the contract.

e) "Fund Facts" means a disclosure document in respect of a segregated fund under an individual variable insurance contract; this document forms part of the information folder and includes information required by law or regulatory guidance in the relevant jurisdiction including information under the following headings:

   a. Quick Facts
   b. What does the fund invest in?
   c. How has the fund performed?
   d. How risky is it?
   e. Are there any guarantees?
   f. Who is the fund for?
   g. How much does it cost?
   h. What if I change my mind? and
   i. For More Information.

f) "individual variable insurance contract" or "IVIC" means an individual contract of life insurance under which the Insurer's liabilities vary in amount depending upon the market value of a specified group of assets in a segregated fund. IVIC includes a provision in an individual contract of life insurance under which policy dividends are deposited in a segregated fund.

g) "Insurer" means an insurer as defined under the laws of the applicable Canadian jurisdiction.

h) "Insurer's name" means an insurer's full legal name;

i) "Intermediary" means a Licensed Individual authorized to sell and service IVICs under the laws of relevant Canadian jurisdiction, or a Licensed Business.

j) "Licensed Business" means any person licensed under the laws of the relevant Canadian jurisdiction to sell IVICs, other than an Insurer or a Licensed Individual.

k) "Licensed Individual" means any of the following individuals:

    a. an insurance agent,

    b. an insurance broker, or

    c. an insurance representative authorized under the laws of the applicable Canadian jurisdiction.

l) "life insurance" means life insurance as defined under the laws of the applicable Canadian jurisdiction and includes an annuity or an undertaking to provide an annuity.

m) "owner" means a person who owns an IVIC.

n) "Segregated fund" means a specified and distinct group of assets the Insurer holds with respect to an IVIC, in which a Customer who owns an IVIC can invest by purchasing units of a segregated fund under the IVIC.

o) "withdrawal phase" begins the date the owner triggers their guaranteed withdrawal benefit under an IVIC that provides such a benefit, and continues as long as there is enough value under the IVIC to pay each scheduled withdrawal; the withdrawal phase ends when the relevant value under the IVIC reaches zero.

[1.2] With respect to the annual statement described in section [#.#.1] of this guidance:

a) "advisory service fee" means any fee payable by an owner to an Intermediary with respect to the IVIC, that is paid by the insurer to the Intermediary on direction of the owner from assets within the IVIC.

b) "market value" of the units of a segregated fund in an IVIC is the value of the investments in that segregated funds, calculated by taking the number of fund units within the IVIC and multiplying it by the market value per unit at the end the date for which the market value is calculated.

c) “Statement date” means the date of the last day of the period covered by the statement.

Annual Statement to Contract Owner

[2.1] The Insurer shall provide to the owner of each IVIC, within four months of each successive fiscal year-end of the fund, a statement showing the information described in Schedule [X].

Schedule [X] – Minimum Content of Annual Statement

1) **General**
   a) Statement date,
   b) The following information about the Insurer:
      i) Insurer's name,
      ii) Insurer's phone number, and
      iii) Insurer's website,
   c) The following information about the IVIC:
      i) Contract name,
      ii) Contract tax status,
      iii) Contract number, and
      iv) Contract issue date,
   d) Owner(s),
   e) Annuitant(s),
   f) Designated beneficiary(ies),
   g) The following information about the Licensed individual responsible for servicing the IVIC:
      i) Licensed individual's name,
      ii) Licensed individual's phone number, and
      iii) Licensed individual's email address,
   h) A notice in plain language to
      i) Remind owners that the information contained in the statement will help them track their financial goals,
      ii) Remind owners they can obtain copies of the most recent Fund Facts associated with their contract and how to obtain them, and
      iii) Invite the owner to contact the Licensed individual or the Insurer if they need additional information, and
      iv) Remind owners they can obtain annual audited financial statements [and unaudited semi-annual financial statements] for each fund upon request and how to obtain them.

2) **Performance – Contract**
   a) For the overall IVIC, market value at the start of the year,
   b) For the overall IVIC, as of the statement date, total deposits
      i) Since the IVIC began, and
      ii) Since the start of the year,
   c) For the overall IVIC, as of the statement date, total withdrawals

    i) Since the IVIC began, and
    ii) Since the start of the year,
d) For the overall IVIC, as of the statement date, the change in value of investments in the IVIC for reasons other than deposit to or withdrawal from the IVIC
    i) Since the IVIC began, and
    ii) Since the start of the year,
e) For the overall IVIC, market value at the statement date,
f) Personal rate of return, as a percentage, calculated on the dollar-weighted method:
    i) Since the contract began, and
    ii) Where the contract has been in effect for the relevant time:
        (1) For the 10 years ending on the statement date,
        (2) For the 5 years ending on the statement date,
        (3) For the 3 years ending on the statement date, and
        (4) For the year ending on the statement date, and
g) A plain language explanation that the personal rate of return may be different than the rate realized by the segregated funds within the IVIC because calculation of personal rate of return depends on factors such as timing of premiums and withdrawals.

3) Costs – Contract

a) Where applicable, a notice in plain language:
    i) Explaining the total market value of the contract is not necessarily the amount the owner will receive if they end their contract,
    ii) Explaining how the owner can get more details about the amount of money they would receive if they ended their contract, and
    iii) If the costs the owner would incur if they withdrew the full market value of the IVIC are significant, explaining these costs in enough detail to allow the owner to understand the effect.

   For further clarity, deferred sales charges are considered to be significant costs, but the disclosure explicitly required under this guidance with respect to deferred sales charges is sufficient to address item 3 a) iii) regarding deferred sales charges.
b) For the overall IVIC, the dollar amount the owner incurred during the year for each of the following
    i) Front end load,
    ii) Deferred sales charges,
    iii) advisory service fee,
    iv) Transfer fees,
    v) Reset fees,
    vi) Early withdrawal and/or short term trading fee,

vii) Fees with respect to cheques returned due to insufficient funds,

viii) Small policy fee,

ix) Insurance fees,

x) Fund expenses, and

xi) Any other fees and charges.

For further clarity, the Insurer is not required to include one of these items if the dollar amount the owner incurred for that item in the year is zero.

c) For the overall IVIC, the dollar amount of the total of the items listed in 3 b),

d) Any changes to the insurance fee, where legally permitted,

e) A plain language explanation that any fees the owner pays directly to the Licensed individual and/or Licensed business, if applicable, are not included in the amount in 3 c), and

f) A plain language explanation of how costs affect returns

4) Fund details – Value, Fund Expense Ratio, Deferred Sales Charges

a) For each fund held within the IVIC during the year described by the statement:

i) The fund name,

ii) As of the statement date:

(1) Number of units held,

(2) Market value per unit, and

(3) Total market value of units held,

iii) The fund expense ratio for the fund,

iv) A plain language explanation of

(1) What the fund expense ratio is, and

(2) The fact that the dollar amount of the fund expenses allocated to the IVIC are included in the details of the charges for the IVIC for the year, and

v) The fact that a deferred sales charge applies, if applicable.

5) Guarantees

a) For the overall IVIC:

i) The market value of the funds subject to the guarantee under the contract

ii) The maturity date of the guarantee at the contract level

iii) The dollar value guaranteed on the contract maturity date

iv) The dollar value guaranteed on death of the Annuitant

b) For further clarity:

i) If the amount under 5 a) i) is the same as the total value of the contract, the insurer is not required to repeat this information, and

ii) If the contract has more than one maturity date, the insurer is only required to provide the information in items 5 a) i), ii) and iii) for the contract-level maturity guarantee, not for each separate deposit.

c) If the contract has an automatic reset provision, the date of the next automatic reset and an explanation of what will happen.

6) Guarantees – Contracts with guaranteed withdrawals

Accumulation Phase

a) If the IVIC provides a guaranteed withdrawal benefit and all or part of the contract is in the accumulation phase, the following information with respect to the assets in the accumulation phase

i) The guaranteed withdrawal amount for every withdrawal option available to the owner under that contract at:

(1) The earliest age at which the owner can begin receiving guaranteed withdrawals,

(2) Age 65, if applicable, and

(3) Age 70, if applicable,

ii) A notice in plain language that the guaranteed amounts have been calculated assuming

(1) the owner will make no further deposits to the IVIC,

(2) the owner will make no withdrawal from the IVIC, aside from the guaranteed withdrawals,

(3) the value of the units in the IVIC will not change between the date of calculation and the dates for which guaranteed withdrawal amounts are shown,

(4) that no bonuses will be credited to the IVIC, if applicable, between the date of calculation and the dates for which guaranteed withdrawal amounts are shown, and

(5) that the owner will not reset any guarantees under the IVIC, if applicable, between the date of calculation and the dates for which guaranteed withdrawal amounts are shown,

iii) A notice in plain language explaining how guarantees are affected by withdrawals, and

iv) If applicable, a notice in plain language to remind the owner of their ability to make discretionary resets of the guarantees under the contract.

Withdrawal Phase

b) If the IVIC provides a guaranteed withdrawal benefit and all or part of the contract is in the withdrawal phase, the following information with respect to the assets in the withdrawal phase

i) Guaranteed annual withdrawal amount,

ii) How long the guaranteed annual withdrawal amount will be payable, assuming the owner does not make any withdrawals other than the scheduled withdrawals,

iii) The amount the owner has chosen to receive annually, if different from the guaranteed annual withdrawal amount,

iv) If the IVIC is a RRIF, LIF, LRIF or RLIF, the minimum RRIF, LIF, LRIF or RLIF withdrawal for the year following the statement date,

v) If the IVIC is a LIF, LRIF or RLIF, the maximum LIF, LRIF or RLIF withdrawal for the year following the statement date,

vi) A notice that any withdrawals that exceed the guaranteed annual withdrawal amount will decrease future guaranteed withdrawal amounts, except if required with respect to RRIF/LIF/LRIF/RLI minimum withdrawals, and

vii) A notice in plain language explaining the guaranteed withdrawal amount will be payable to the client even if the net asset value of the relevant assets in the contract are less than this amount.

Benefits Phase

c) If the IVIC provides a guaranteed withdrawal benefit and all or part of the contract is in the benefits phase, the following information with respect to the assets in the benefits phase

i) Guaranteed annual withdrawal amount, and

ii) How long the withdrawal amount is guaranteed to be payable.

ANNEX K

SEGREGATED FUNDS AND INVESTMENT FUNDS: DIFFERENCES BETWEEN PRODUCTS, DISTRIBUTION CHANNELS AND REGULATION

The role of registrants/insurers in cost disclosure

Investment funds	Segregated funds
A registered dealer or adviser (i.e., an intermediary) provides disclosures to clients.	Cost and performance disclosure is provided by the insurer (i.e., the manufacturer) directly to the policy holder, typically on an annual basis.

Account statement frequency

Investment funds	Segregated funds
Clients receive monthly/quarterly account statements, an annual report on charges and other compensation and an annual investment performance report.	There is a single statement provided annually, although some insurers choose to provide statements more frequently.

Distribution channel

Investment funds	Segregated funds
The registered dealer or adviser has an ongoing relationship with the client.	There is no intermediary equivalent to the registered dealer in the insurance sector in most jurisdictions. Insurance advisers are not required to carry on an ongoing relationship with clients in the same way as advisor on securities side.

Product features

Investment funds	Segregated funds
No guarantees are provided.	Segregated funds are insurance contracts that provide guarantees.