

Individual Variable Insurance Contract Ongoing Disclosure Guidance

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Part 1: Definitions

1.1 In this Guidance

“Accumulation Phase” means 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 the Owner wants to begin receiving such guaranteed payments under the IVIC.

“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.

“Annuitant” means a person whose life triggers any guarantee on death or contract maturity or any payment for life under an IVIC.

“Benefits Phase” means the time between the date when the Withdrawal Phase ends for all or part of an IVIC that provides a guaranteed withdrawal benefit and the last date a guaranteed withdrawal benefit is payable.

“CLHIA G2” means the Canadian Life and Health Insurance Association’s Guideline G2 *Individual Variable Insurance Contracts Relating To Segregated Funds*.

“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 IVIC.

“Fund Expense Ratio” or “FER” means the sum of a Segregated Fund’s Management Expense Ratio and Trading Expense Ratio, expressed as a percentage.

“Fund Expense Ratio For The Day” means the ratio, expressed as a percentage, of the amount of fund expenses of a class or series of Segregated Fund for the day to the fund’s net asset value for the day.

“Fund Expenses” means all the Segregated Fund’s expenses that are paid out of assets of the fund, including Management Expenses and Trading Expenses.

“Fund Facts” means a disclosure document in respect of a Segregated Fund under an IVIC; 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.

“Individual Variable Insurance Contract” or “IVIC” means an individual contract of Life Insurance, including an annuity contract, 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.

“Insurer” means an insurer as defined under the laws of the applicable Canadian jurisdiction.

“Insurer’s Name” means an Insurer’s full legal name.

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

“Investment Option” in connection with an IVIC means each Segregated Fund offered for investment under the IVIC and any other investment offered under the IVIC, including a guaranteed interest investment.

“IVIC Structure” with respect to an Owner’s IVIC means how the IVIC is structured, including the following:

- a. Ownership structure, including whether there is one Owner or more than one and, if more than one, any division of rights among the Owners while they are alive and the rights surviving Owners will have when one Owner dies, and designation of successor or contingent Owners if applicable,
- b. Beneficiaries, and successor Annuitants or successor holders if applicable,
- c. Annuitant or Annuitants upon whose death the IVIC will end, and
- d. Measuring life or lives where benefits under the IVIC are available as long as one of the measuring lives are alive, if applicable; under some IVICs a measuring life may be different from the Annuitant.

“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.

“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.

“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.

“Management Expense Ratio” or “MER” means the ratio, expressed as a percentage, of the Management Expenses of a Segregated Fund to the fund’s average daily net asset value for a financial year calculated in accordance with CLHIA G2.

“Management Expenses” means a Segregated Fund’s management fees, operating and other administration expenses, including those of any Secondary Fund, and all taxes other than income taxes but excluding Trading Expenses. Management fees are net of any fees or expenses waived.

“Market Value” of the units of a Segregated Fund in an IVIC is the value of the investments in that Segregated Fund, calculated by taking the number of fund units within the IVIC and multiplying it by the market value per unit at the end of the date for which the market value is calculated.

“Material Change to Customer Information” means a change in information about the Owner that could result in a change in the Owner’s needs or the recommendations or advice provided to the Owner, or should reasonably cause an Intermediary to question whether the Owner’s IVIC, as structured, including investments, continues to meet the needs of the Owner.

“Owner” means a person who owns an IVIC.

“Secondary Fund” means a secondary fund as defined in the CLHIA G2.

“Segregated Fund” means a specified and distinct group of assets the Insurer holds with respect to an IVIC, in which an Owner can invest by allocating deposits to units of a segregated fund under the IVIC.

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

“Trading Expense Ratio” or “TER” means the ratio, expressed as a percentage, of the Trading Expenses of a Segregated Fund to the fund’s average daily net asset value for the financial year, as calculated under Part 5: Calculation of Trading Expense Ratio.

“Trading Expenses” means the total commissions and other portfolio transaction costs paid or payable by the Insurer from the assets of the segregated fund on the purchase and sale of the fund’s assets, including those of any Secondary Fund.

“Withdrawal Phase” means the time between when the Owner triggers the guaranteed withdrawal benefit under an IVIC that provides such a benefit, and ends when there is no longer enough money held within the IVIC to pay a scheduled withdrawal.

Part 2: Scope

This Guidance sets out the expectations of the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organization (CISRO) for an enhanced disclosure framework for IVICs. This enhanced disclosure framework includes expectations to provide more transparency to Owners and covers:

- IVIC investment performance,
- cost reporting, and
- insurance guarantees.

This Guidance applies only to:

- IVICs, including, for greater certainty, IVICs issued and outstanding prior to the date of this Guidance unless otherwise indicated in this Guidance, and
- Insurers who design, distribute, issue, sell or administer IVICs in Canada.

This Guidance does not apply to group variable insurance products or any other non-IVIC insurance products.

This guidance is the first component of an intended CCIR/CISRO guidance for the design, distribution, issuance, sale, and administration of IVICs. Once the other components have been finalized, this standalone guidance may be discontinued and its expectations reproduced as part of the consolidated guidance.

Part 3: Annual Statement to Contract Owner

- 3.1 The Insurer shall provide to the Owner of each IVIC, within four months of each fiscal year end of the Segregated Funds within the IVIC, a statement showing the information described in Schedule A.
- 3.2 Insurers may request exemptions from specific expectations in Schedule A from CCIR by submitting a request in accordance with Schedule B.

Part 4: Calculating Fund Expenses

- 4.1 Insurers must calculate and report the amount of a Segregated Fund's Fund Expenses allocated to an IVIC based on:
 - a. how many Segregated Fund units the Owner held in the IVIC, and
 - b. when the Owner held the Segregated Fund units during the reporting period.
- 4.2 Insurers must use the following formula to calculate the Fund Expenses of an applicable class or series of Segregated Fund for each day an Owner held units of the applicable class or series of the Segregated Fund during the reporting period, making any adjustments reasonably necessary to accurately determine an Owner's Fund Expenses.

$$A \times B \times C$$

- A = the Fund Expense Ratio For The Day of the applicable class or series of the Segregated Fund;
- B = the market value of a unit for the day of the applicable class or series of the Segregated Fund; and
- C = the number of Segregated Fund units within the Owner's IVIC for the day.

- 4.3 Insurers may use a reasonable approximation of the fund calculation inputs "A" and "B" for s. 4.2 provided the Insurer reasonably believes that doing so would not result in reporting misleading information to an Owner. For example, a reasonable approximation may include estimating the Fund Expense Ratio For The Day by dividing the Segregated Fund's FER in the most recent Fund Facts document or financial statement by the number of days in the year. It would be misleading to use this estimation if the Insurer knows there has been an event which resulted in a significant change to the FER since the document was published.
- 4.4 For reporting an Owner's Fund Expenses under Schedule A s. 3) a), Insurers must repeat the calculation under s. 4.2 for each class or series of Segregated Fund which the Owner held units of during the reporting period and aggregate the results.
- 4.5 Insurers are not required to calculate and report the Fund Expenses of a Segregated Fund which was established less than 12 months before the Statement Date.

Part 5: Calculation of Trading Expense Ratio

- 5.1 The Trading Expense Ratio of a Segregated Fund for any financial year shall be calculated by:
- a. dividing
 - i. the total commissions and other portfolio transaction costs before income taxes, for the financial year as shown on its statement of comprehensive income;
 - by
 - ii. the same denominator as is used to calculate the Management Expense Ratio
 - and
 - b. multiplying the result obtained under paragraph (a) by 100.

If a Segregated Fund invests in a Secondary Fund, the insurer must calculate the Trading Expense Ratio using the methodology required for the calculation of the Management Expense Ratio in section 8.1 of CLHIA G2 - Calculation of Management Expense Ratio, making reasonable assumptions or estimates when necessary.

Part 6: Reminder to Update Customer Information

- 6.1 Each Insurer must, on an annual basis, take reasonable steps to:
- a. invite each Owner to contact and update their Intermediary about any Material Change to Customer Information since the last time the Owner provided information to their Intermediary,
 - b. explain why it is important for the Owner's Intermediary to have up-to-date information, and
 - c. invite each Owner to review the IVIC, IVIC Structure and Investment Options they selected for each IVIC held and discuss proposed changes with their Intermediary.
- 6.2 For clarity, it is a reasonable step for an Insurer to include the elements of section 6.1 in its annual statement to an Owner.

Schedule A – 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) When the contract began,
- 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 Owner(s) that the information contained in the statement will help them track their financial goals,
 - ii) Remind Owner(s) they can obtain copies of the most recent Fund Facts associated with their contract, annual audited financial statements and semi-annual unaudited financial statements for each Segregated Fund and how to obtain them, and
 - iii) Invite Owner(s) to contact the Licensed Individual or the Insurer if the Owner needs additional information.

2) Performance – Contract

- a) For the IVIC as a whole, the Market Value at the start of the year and at the Statement Date
- b) For the IVIC as a whole, as of the Statement Date, the 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 deposits to or withdrawals from the IVIC
 - i) Since the IVIC began, and
 - ii) Since the start of the year,
- e) Personal rate of return, as a percentage, calculated on the dollar-weighted method:
 - i) Since the IVIC began, and
 - ii) Where the IVIC 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
- f) 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 deposits and withdrawals.

3) Fees and Charges – Contract

- a) For the IVIC as a whole, the dollar amount the Owner incurred during the year for each of the following,
 - i) Fund Expenses
 - ii) Front end load charges,
 - iii) Deferred sales charges,
 - iv) Advisory Service Fee,
 - v) Withdrawals fees
 - vi) Transfer fees,
 - vii) Reset fees,
 - viii) Early withdrawal and/or short term trading fee,
 - ix) Fees with respect to cheques returned due to insufficient funds,
 - x) Small policy fee,
 - xi) Insurance fees not paid by the Insurer from the assets of a Segregated Fund, and
 - xii) Any other Fees and Charges deducted from the IVIC.
- b) For further clarity, the Insurer is not required to include one of the above Fees and Charges if the dollar amount the Owner incurred for that fee or charge in the year is zero.
- c) For the IVIC as a whole, the dollar amount of the total of the items listed in Schedule A s. 3) a),
- d) Any changes to the insurance fee, where legally permitted,

- e) A plain language explanation that any Fees and Charges the Owner pays directly to the Licensed Individual and/or Licensed Business, if applicable, are not included in the amount in Schedule A s. 3) c), and
- f) Plain language explanations of
 - i) How Fees and Charges affect returns,
 - ii) The actions an Owner can take regarding the Fees and Charges information in the statement,
 - iii) The fact approximations have been used when calculating Fund Expenses, if applicable,
 - iv) The fact an Owner can look at the Fund Facts document for more information about Fees and Charges, including Fund Expenses.
- g) Where applicable, a notice in plain language:
 - i) Explaining that 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 total Market Value of the IVIC are significant, explaining these costs in enough detail to allow the Owner to understand the effect of the costs.

For further clarity, the disclosure explicitly required under this guidance with respect to deferred sales charges is sufficient to address item Schedule A s. 3) g) iii) regarding deferred sales charges.

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

- a) For each Segregated Fund held within the IVIC during the year described by the statement:
 - i) The Segregated Fund name,
 - ii) Market Value of the Segregated Fund at start of year,
 - iii) Since the start of the year:
 - (1) Total deposits into the Segregated Fund,
 - (2) Total withdrawals from the Segregated Fund, and
 - (3) The change in value of investments in the Segregated Fund for reasons other than deposits or withdrawals,
 - iv) As of the Statement Date:
 - (1) Number of Segregated Fund units held,
 - (2) Market value per Segregated Fund unit, and
 - (3) Total Market Value of Segregated Fund units held,
 - v) The Fund Expense Ratio for the fund,

- vi) The fact that a deferred sales charge applies, if applicable, and
 - vii) The fact that no Fund Expense Ratio is provided for a Segregated Fund because the fund was established less than 12 months before the Statement Date, if applicable.
- b) A plain language explanation of:
- i) What the Fund Expense Ratio is, and
 - ii) 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.

5) Guarantees

- a) For the IVIC as a whole as of the Statement Date:
- i) The Market Value of the Segregated Funds subject to the guarantee under the contract,
 - ii) The maturity date of the guarantee of the contract as a whole,
 - iii) The dollar value guaranteed on the contract maturity date, and
 - iv) The dollar value guaranteed on death of the Annuitant(s).
- b) For further clarity, if the contract has more than one maturity date, the Insurer is only required to provide the information under Schedule A s. 5) a) i), ii) and iii) for the maturity guarantee of the contract as a whole, 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 the impacts of this reset on the values of the guarantees.

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 annual 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) The 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 registered retirement income fund ("RRIF"), life income fund ("LIF"), Locked-in Retirement Income Fund ("LRIF") or Restricted Life Income Fund ("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 or RLIF minimum withdrawals, and
 - vii) A notice in plain language explaining the guaranteed withdrawal amount will be payable to the Owner even if the Market Value of the relevant assets in the contract is less than the guaranteed withdrawal 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) The guaranteed annual withdrawal amount, and
- ii) How long the withdrawal amount is guaranteed to be payable.

Schedule B – Modified Compliance and Exemptions

It is CCIR's understanding that in some cases, given the long-term nature of IVICs, some products are housed on technical systems which are old. These systems were built at a time when different requirements were in place and the cost of upgrading these systems to comply with this guidance may be passed down to the Owners of the products administered on older systems.

To balance the overall benefit and costs Owners would receive from the expectations under this guidance, individual Insurers may submit a request to CCIR to be fully or partially exempt from specific expectations under this guidance or providing required information in a different format. The onus will be on the Insurer to identify how much information it can provide to Owners of specific IVICs before the cost to those Owners exceeds the benefits to those Owners.

At a minimum, Insurers need to provide answers and supporting evidence to the following questions:

- 1) Which expectations are the Insurer seeking exemption from?
- 2) Why can't the Insurer fully comply with the expectations?
- 3) How is a grant of an exemption consistent with fair treatment of customers?
- 4) What will be the costs to Owner where:
 - a) Insurers fully comply with the expectations?
 - b) Insurers receive the requested exemptions under question 1?
- 5) Which product(s) are Insurers seeking an exemption for and whether they use the same system(s)?
- 6) For each product:
 - a) Are these products still being sold?
 - b) If these products are not being sold, are Insurers still accepting new deposits?
 - c) How many contracts have been issued?
 - d) How many unique policyholders are there?
 - e) What are the total assets under management?
 - f) What is the estimated run-off time for products?

CCIR may request additional information. CCIR will then determine whether, in their view, the cost of complying with the expectation(s) would result in costs to Owners of specific IVICs that are higher than the benefit those Owners would receive from the expectation.