

# **GUIDELINE ON INDIVIDUAL VARIABLE INSURANCE CONTRACTS RELATING TO SEGREGATED FUNDS**

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## Preamble

The *Autorité des marchés financiers* ("AMF") establishes guidelines setting out its expectations with respect to financial institutions' legal requirement to follow sound and prudent management practices and sound commercial practices. These guidelines therefore cover the execution, interpretation and application of this requirement.

The AMF favours a principles-based approach rather than a specific rules-based approach. As such, the guidelines provide financial institutions with the necessary latitude to determine the requisite strategies, policies and procedures for implementation of such management principles and to apply sound practices based on the nature, size and complexity of their activities. However, this Guideline differs from other published guidelines in that it further stresses the execution, rather than the interpretation, of the legal requirement, with the purpose of ensuring harmonization of the rules developed by the industry and recognized by the Canadian Council of Insurance Regulators, of which the AMF is a member.

The AMF considers governance, integrated risk management and compliance (GRC) as the foundation stones for sound and prudent management and the sound business practices of financial institutions and, consequently, as the basis for the prudential framework provided by the AMF.

This Guideline is part of this approach and sets out the AMF's expectations regarding the sale of individual variable insurance contracts relating to segregated funds.

## Introduction

The AMF is committed to an optimal approach to the harmonization of prudential regulations that promotes a framework based on guidelines to foster the adoption of best practices by the financial services industry. This approach is possible primarily as a result of the amendments to the laws and regulations administered by the AMF in recent years. This has enabled the AMF to substitute certain legislative and regulatory restrictions with this particular type of framework, which is better adapted to the development of the financial sector.

*An Act respecting insurance*<sup>1</sup> empowers the AMF to give this Guideline to life and health insurers (insurers of persons), explicitly setting out its expectations about the type of information to be disclosed to future contractholders and the method and timing of such disclosure.

The AMF's expectations set out in this Guideline are harmonized with the segregated fund rules approved by the Canadian Council of Insurance Regulators. In addition to the information to be disclosed prior to sale, the Guideline covers different aspects, including continuous disclosure, disclosure in advertising and contractholder rights. It also discusses certain specific expectations, such as administration of funds, investments, or accounting and audit requirements.

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<sup>1</sup> R.S.Q., c. A-32, sections 325.0.1 and 325.0.2

## Scope

This Guideline on Individual Variable Insurance Contracts Relating to Segregated Funds is intended for insurers of persons governed by *An Act respecting insurance*.

It applies to insurers of persons operating independently as well as to insurers of persons operating as members of a financial group.<sup>2</sup>

This Guideline applies to individual variable insurance contracts relating to all segregated funds that remain available or not for new amounts allocated.

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<sup>2</sup> For purposes of this guideline, "financial group" refers to any group of legal persons composed of a parent company (financial institution or holding company) and legal persons affiliated therewith.

## **Coming into effect and updating**

This Guideline on Individual Variable Insurance Contracts Relating to Segregated Funds will come into effect on January 1, 2011.

With respect to the legal requirement of financial institutions to follow sound and prudent management practices and sound commercial practices, the AMF expects each insurer to adopt and implement the expectations set out in this Guideline as soon as it becomes effective. The AMF further expects insurers offering segregated fund units to have already implemented such a framework since it is based on the revision of industry standards completed in November 2009 by Canadian Council of Insurance Regulators (CCIR) in co-operation with the Canadian Life and Health Insurance Association (CLHIA).

This Guideline will be updated based on developments in commercial and management practices. It will also be updated in light of changes in Canada-wide benchmarks and the AMF's observations in the course of its supervision of insurers.

## **Definitions:**

**In this Guideline**, unless the context indicates otherwise

### **“advisor”**

Means a person or company engaging in or holding themselves out as engaging in the business of advising another (e.g., an investment fund) with respect to investment in or the purchase or sale of securities.

### **“counterparty”**

Means the party(ies) other than the insurer, on behalf of a segregated fund, to a contract respecting derivatives.

### **“derivative” or “derivatives instrument”**

Means an agreement, financial option, instrument or any series or combination thereof:

- (i) to make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or
- (ii) which has a price, performance value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.

Derivatives include financial options, warrants, caps, floors, collars, swaps, forwards, futures, and any other agreements, options or instruments substantially similar thereto, or any series or combination thereof.

### **“fee option”**

means any option available to a contractholder under an IVIC which results in there being several sets of fees and charges applicable in respect of a particular segregated fund.

### **“fees and charges”**

means any sales charges, distribution fees, management fees, administrative fees, account set-up or closing charges, surrender charges, transfer 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 redemption of units of a segregated fund credited to the contract.

### **“financial highlights”**

means the following information as of the financial year-end of the fund, as described in paragraph 9.2(f): fund allocations or distributions, net assets of the fund, net asset value per unit, number of units outstanding, management expense ratio and portfolio turnover rate.



## **“fund facts”**

means a disclosure document which forms part of the information folder detailing the particulars of the segregated fund offered under an individual variable insurance contract;

## **“fundamental investment objectives”**

means those characteristics that distinguish one segregated fund from another on the basis of parameters such as:

- the investment fund category (e.g., equity, fixed income);
- country or region where the segregated fund primarily invests;
- type of capitalization, if equity (e.g.: large cap, small cap); and
- whether the fixed income investments, if applicable, are government, high-grade corporate, or junk investment grade status.

## **“independent qualified appraiser”**

means a qualified appraiser who:

- (i) has no direct or indirect interest, financial or otherwise, in the real property subject to appraisal or with the party to the real estate-related transaction with whom the insurer is dealing; and
- (ii) is not in the full-time employment of the insurer whose segregated fund is being valued, or any associated or affiliated companies of the insurer.

## **“individual variable insurance contract” (IVIC)**

means an individual contract of life insurance, including an annuity, or an undertaking to provide an annuity, under which the liabilities vary in amount depending upon the market value of a segregated fund in which amounts are deposited by the contractholder, and includes a provision in an individual contract of life insurance under which policy dividends are deposited in such a fund.

## **“information folder”**

means a disclosure document in respect of an IVIC, prepared by an insurer in compliance with the provisions described in section 10 of this Guideline, which includes Fund Facts.

## **“key facts”**

means a disclosure document describing the key features of an individual variable insurance contract which forms part of the information folder;

## **“manager”**

means a person or company who has the power or responsibility to direct the affairs of the segregated fund and whose duties include the management of the investment portfolio of the segregated fund and the provision of investment advice in connection therewith.

## **“market value”**

In section 6 on Investments, means:

- (i) as to cash, the amount; and
- (ii) as to a security held by a segregated fund, the current price obtained from a generally recognized source, the most recent bid quotation from a generally recognized source, or if no generally recognized source exists, the price for the security as determined by data and assumptions documented by the parties to a transaction, and accrued but unpaid income on the security.

## **“performance data”**

means any rating, ranking, quotation, discussion or analysis regarding rate of return, yield, volatility or other measurement or description of the investment performance of a segregated fund.

## **“qualified appraiser”**

means an appraiser who has the knowledge, ability, experience and integrity required to complete the assignment competently. Although not requiring the selection of an appraiser with a designated professional qualification, insurers must use appraisers that have the necessary attributes set out below.

An insurer's appraiser selection criteria should ensure that appraisers used to perform an appraisal for the segregated fund are, at a minimum:

- (i) experienced, competent and knowledgeable regarding the real estate market within the area to which the appraisal relates and the type of real estate being appraised; and
- (ii) independent of the real estate being appraised and of the person whom the insurer is dealing with in respect to the real estate-related transaction.

## **“rating” or “ranking”**

means the performance rating or ranking of a segregated fund, prepared by an independent organization and standard performance data that must be provided for any segregated fund whose rating or ranking is quoted when referred to in an advertisement.

**“secondary fund”**

means a segregated fund, a mutual fund or other investment fund, limited partnership or income trust, including an index participation fund, in which a segregated fund may invest, pursuant to subsection 6.3 of this Guideline.

**“segregated fund”**

means a separate and distinct group of assets maintained by an insurer in respect of which the non-guaranteed benefits of a variable insurance contract are provided.

**“unit”**

means a unit of a segregated fund, attributed to an IVIC to measure the participation and corresponding benefits under the contract.

## 1. General Disclosure Requirements:

The AMF expects insurers to take the measures necessary to implement an appropriate disclosure regime that enables all clients to make sound decisions.

### 1.1. Contract Disclosure:

The AMF expects that the documents evidencing an IVIC shall:

- a) on the cover or face page of the contract, include a warning statement in bold, print in substantially the following words:

**“Any amount that is allocated to a segregated fund is invested at the risk of the contractholder and may increase or decrease in value.”**

- b) describe the benefits under the contract and indicate which benefits are guaranteed and which benefits are not guaranteed;
- c) state the method of determining the benefits related to the market value of the segregated fund and the amount of the surrender value of these benefits, and where provision is made for part of the premium to be allocated to provide the benefits related to the market value of the segregated fund, the percentage of the premium so allocated;
- d) state the times, which shall not be less than once monthly, at which the segregated fund shall be valued and at which the value of the benefits related to the market value of the segregated fund may be determined;
- e) describe the fees and charges, or basis for calculating the fees and charges, against the segregated fund; and
- f) describe the fundamental change rights applicable including the nature, notice requirements and rights and obligations set out in subsection 8.3 of this Guideline.
- g) state that:
- (i) the following information forms part of the IVIC:
- Name of the IVIC and the segregated fund (Section 10, Part H, Item 1)
  - Management Expense Ratio (Section 10, Part H, Item 2)
  - Risk disclosure (Section 10, Part H, Item 5)
  - Fees and expenses (Section 10, Part H, Item 8)
  - Right to cancel (Section 10, Part H, Item 9)

- (ii) the Fund Facts information is accurate and complies, as of the date of the establishment of the fund, with the requirements of section 10, Part H of this Guideline;
  - (iii) where the information indicated in (g)(i) and (ii) above contains an error, the insurer shall take all reasonable measures to correct the error pursuant to the *Civil Code of Québec* or any other Québec law that may be applicable to it;
- h) state that,
- (i) a contractholder may cancel the contract and any subscription made at the time the contract was entered into by sending written notice requesting the cancellation to the insurer within two business days from the date the contractholder received the trade confirmation;
  - (ii) for any subsequent subscription to a segregated fund under the contract, the cancellation right will only apply to additional subscriptions allocated and the contractholder must send written notice requesting the cancellation to the insurer within two business days from the date the contractholder received the trade confirmation;
  - (iii) the contractholder will be refunded the lesser of the following amount: the amount invested and the value of the fund units attributed to him on the valuation day following the day the insurer received the cancellation request, plus any fees or charges associated with the transaction;  
and
  - (iv) the contractholder will be deemed to have received the trade confirmation five business days after it was mailed by the insurer.

## **1.2 Information Folder Disclosure:**

The AMF expects that the information folder relating to an IVIC shall present in clear and plain language the information set out in section 10 of this Guideline.

## **1.3 Annual Statement to Contractholder:**

The AMF expects that the insurer shall provide to the contractholder, within four months of each successive fiscal year-end of the fund, a statement showing the following:

- a) the value of the benefits under the contractholder's IVIC related to the market value of the segregated fund at the end of the period covered by the statement;
- b) the amount, if any, allocated under the contractholder's IVIC to a segregated fund during the period covered by the statement;

- c) a statement that annual audited financial statements and semi-annual unaudited financial statements are available upon request together with contact information about how to obtain the statements;
- d) a statement that information regarding the current management fee, management expense ratio and the overall rate of return, calculated on a net basis for the segregated fund for the last 1, 3, 5 and 10 year periods, if applicable, are available upon request, together with contact information about how to obtain the statements;
- e) if the insurer specifies an insurance fee limit pursuant to subparagraph 8.3(d)(ii), the changes to the insurance fee in accordance with subparagraph 8.3(d)(ii); and
- f) a statement that current Fund Facts information is available upon request together with contact information about how to obtain current Fund Facts information.

## **2. Delivery of Documents:**

### **2.1 Delivery of Information Folder:**

Under *An Act respecting the distribution of financial products and services* and the regulations made thereunder,<sup>3</sup> it is a representative's responsibility to:

- a) deliver a copy of the most current information folder<sup>4</sup> including any applicable addenda<sup>5</sup> to a prospective contractholder before the prospective contractholder signs an application for an IVIC;<sup>6</sup> and
- b) present and explain the contents of the information folder including Fund Facts to the prospective contractholder so that he has a proper understanding thereof.<sup>7</sup>

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<sup>3</sup> R.S.Q., c. D-9.2. This Guideline substantially refers to the requirements imposed on representatives under Regulation to amend the Regulation respecting information to be provided to consumers.

<sup>4</sup> Any change in a fact to be disclosed in the information folder, other than a change in the investments of a segregated fund, that could reasonably influence or change a decision by a prospective contractholder, must be included in the contents of the amended information folder expeditiously.

<sup>5</sup> Information folder amendments which involve revisions to the information presented in the information folder may be made by the insertion of a supplemental information page or information folder addendum. Any supplemental information page or addendum should reference the applicable information folder, state the purpose of the addendum and provide the insurer's address and contact information. Such information folder amendments should be incorporated into the amended information folder expeditiously. All information must be presented in clear and plain language.

<sup>6</sup> These provisions apply also where a contract is not an IVIC at issue but is subsequently amended to become an IVIC upon application by the contractholder for such amendment.

<sup>7</sup> See footnote 5.

The AMF expects insurers to take the necessary measures to ensure:

- a) that the information intended for the prospective contractholder is made available to him in a timely manner either physically (in person, by regular mail or by fax) or electronically (e-mail or viewed by consumer on-line);
- b) that the representative is acquainted with and has an understanding of the documents and is able to respond adequately to the prospective contractholder's questions.

## **2.2 Acknowledgement of Receipt of Information Folder:**

Pursuant to the regulation made under *An Act respecting the distribution of financial products and services*,<sup>8</sup> the AMF expects, at the time of delivery, the representative to obtain an acknowledgement in written, electronic or recorded oral form from any person to whom the documents mentioned in subsection 2.1 are delivered.

## **2.3 Continuous Availability of Fund Facts:**

The AMF expects insurers to take the necessary measures to ensure that Fund Facts for any fund that remains available for additional deposits is continuously available to contractholders on their website and in print upon request without charge.

Where a fund has been closed to new deposits but is still available for existing contractholders, the AMF expects the insurer to take the necessary measures to ensure that the Fund Facts documents continue to be updated.

## **3. Administration**

The AMF expects every insurer that establishes and maintains a segregated fund as a fund for investment under IVICs to:

- a) prepare the segregated fund's financial statements, described in section 9 of this Guideline, annually;
- b) appoint an auditor to make such audits as the auditor considers necessary to enable the auditor to report on the segregated fund's financial statements;
- c) monitor the quality of internal controls in place for the segregated fund;
- d) ensure that the segregated fund has an investment policy in accordance with section 6 of this Guideline, and monitor the segregated fund for compliance with that policy;
- e) review any partitions or mergers of segregated funds as described in sections 7 and 8 of this Guideline;

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<sup>8</sup> See footnote 3.

- f) make available explanatory materials to representatives; and
- g) plan for the informational and training needs of representatives in order to ensure they are adequately acquainted with, and have sufficient understanding of, IVICs, and are able to identify all relevant information to be provided to consumers.

## **4. Advertising:**

For any advertising relating to an IVIC, the AMF expects insurers to develop practices and take all reasonable measures to ensure that their advertising complies with Québec legislation and with the conditions in this section of the Guideline.

### **4.1 Unfair and Deceptive Acts and Practices:**

Insurers may not engage in any unfair or deceptive acts or practices including the doing of any activity that does not comply with Québec legislation or the applicable legislation of a particular jurisdiction or the failure to do an act required by Québec legislation or the applicable legislation of a particular jurisdiction.

### **4.2 Advantages and Limitations of an IVIC**

When an advertisement mentions any specific advantage, such as the nature of the coverage, the benefits payable or any other advantage attached to the IVIC or to one of its provisions, it must also fairly disclose, in close proximity, and in the same manner, any limitations, exceptions or reductions which affect, in particular, the nature of the coverage.

### **4.3 Advertisement Not to be Misleading:**

No advertisement shall be untrue, misleading, unclear or include a statement that conflicts with information that is contained in an information folder.

### **4.4 Source of Statistics:**

No advertisement shall use statistics without clearly identifying their source.

### **4.5 Testimonials:**

Testimonials used in an advertisement must be of a general nature, be authentic and express the current opinion of the author of the testimony at that time. Where a testimonial or a recommendation is paid for directly or indirectly by the insurer, or someone on its behalf, the advertisement shall so state. When using a testimonial, the insurer shall be deemed to assume as its own all of the statements contained therein.



## 4.6 Insurer's Corporate Name:

The insurer's corporate name shall be displayed in a conspicuous manner and printed in full in an advertisement and must be shown in a conspicuous manner on any material accompanying an IVIC. If the segregated fund involves investment in another fund or if the name of the segregated fund includes the name of the entity associated with the secondary fund, additional disclosure should be provided to clearly indicate that the IVIC is issued by the insurer.

## 4.7 Text Requirements and Warnings:

All text in a written advertisement shall be at least 10-point type. Disclaimers or asterisked information in a written advertisement should be clearly visible.

All warnings and disclaimers shall be clearly displayed and audible or visible for a reasonable period of time if delivered by way of an electronic medium.

## 4.8 Performance Data:

Advertisement containing performance data must comply with the following:

- a) the segregated fund has been available for investment for at least 12 months;
- b) if the segregated fund invests<sup>9</sup> in secondary funds, at least 80% of the number of secondary funds in which it invests have been available for investment for at least 12 months, provided that where all of the underlying funds have not been so available the advertisement clearly states that the indicated performance does not represent all of the underlying funds for the period and indicates which funds are not included; or
- c) a segregated fund for which there are different classes or series of units available pursuant to an information folder shall not contain performance data unless:
  - (i) the advertisement clearly specifies the class or series of units to which any performance data contained in the advertisement relates; and
  - (ii) if the advertisement relates to more than one class or series of units and provides performance data, then the advertisement provides performance data for each class or series of units and clearly explains the reasons for different performance data among the classes or series.
- d) an advertisement for a new class or series of units of a segregated fund that pertains to the same investment portfolio as an existing class or series of units shall not contain performance data relating to the existing class or series unless the advertisement clearly explains any differences between the new class or series and the existing class or series that could affect performance;

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<sup>9</sup> In this Guideline, reference to the acts by a segregated fund in fact refers to the acts by the insurer or the insurer's agents or mandataries on behalf of the fund.

- e) the fees and charges applicable in the context of the performance data are disclosed.
- f) if there have been any changes during the performance measurement period in the fundamental investment objectives, characterization as a money market fund, or in any advisor or in the ownership of the insurer or in fees or charges, including the waiving or absorbing of fees or charges, that would or could reasonably be expected to materially affect the segregated fund's performance, the advertisement shall contain:
  - (i) summary disclosure of the change or a statement to the effect that the segregated fund has undergone changes during the performance measurement period which would or could have affected either positively or negatively the segregated fund's performance had those changes been in effect throughout the period; and
  - (ii) for a money market fund which during the performance measurement period did not pay or accrue the full amount of fees and charges payable by the segregated fund, or any recurring fees and charges that are payable by all contractholders, disclosure of the difference between such full amounts and the amounts actually charged, expressed as an annualized percentage on a basis comparable to current yield; or
  - (iii) for other than a money market fund, a description of the method used in calculating the performance data during the performance measurement period and a statement that the calculation has been performed on a net basis and indicating any fees and charges that have been deducted in performing the calculation;
- g) where the advertisement is not a report to contractholders and relates to a money market fund, the standard performance data which is given shall be calculated for the most recent 7 day period for which it is practicable to calculate the standard performance data taking into account publication deadlines, provided that this 7 day period is not more than 3 months prior to the date of the appearance or use of the advertisement in which it is included and not more than 3 months prior to the date of first publication of any other advertisement in which it is used;
- h) for other than a money market fund, the indicated rate of return shall be the historical annual compound total return including changes in unit value and reinvestment of all dividends or distributions but not taking into account sales, redemption, distribution or optional charges payable by any contractholder which would have reduced returns;
- i) where performance data is advertised, include the prescribed warning set out in paragraph 1.1(a), and indicate:
  - (i) where an illustration of growth rates of a segregated fund is based upon the past performance of a segregated fund itself or of similar funds or of one or more indices, it shall also be made clear that such past results should not be construed as being indicative of the future performance of the segregated fund;

- (ii) performance data must be reported, at a minimum, on a 1, 3, 5 and 10 year basis. Where a segregated fund has not been in existence for 10 years, then its performance data should be reported, at minimum, on a 1, 3 and 5 year basis, and since inception, or as is applicable; and
  - (iii) performance data which is provided must, at a minimum, be for the 1, 3, 5, and 10 year periods, or as is applicable, ending on a calendar month not more than 12 months prior to the date of first publication;
- j) where performance data is advertised with respect to investments over a stipulated period of time, indicate also any qualification which would prevent redemptions prior to expiry of such period;
  - k) where withdrawal privileges for investments in a segregated fund are advertised, indicate any qualification preventing withdrawal of the redemption request;
  - l) indicate all applicable fees or charges, and:
    - (i) where costs or commissions on sales of IVICs are referred to as applying or not applying, include a statement listing all fees and charges applicable to those sales. Where a withdrawal charge is applicable, include a statement listing the charge
    - (ii) where performance data is provided for a period of less than one year, indicate the full amount of fees and charges should be disclosed on a comparable basis to the calculation of the performance number in the period.

#### **4.9 Performance Comparisons for Segregated Funds:**

An advertisement that compares the performance of one or more segregated funds to a consumer price index, any stock, bond or other index, average, or any guaranteed investment certificate or other certificate or deposit, real estate or any other investment of any kind or nature, including another segregated fund, shall:

- a) include all facts that, if disclosed, would likely materially alter conclusions reasonably drawn or implied by the comparison;
- b) present data for each subject of comparison for the same period(s); and
- c) where the performance of an index or average is compared, if appropriate in view of the nature of the comparison, describe the index or average, point out any material differences between the composition or calculation of the performance of the index or average and the investment portfolio of the segregated fund. State any other factors required to make the comparison fair and not misleading.

## 4.10 Standard Performance Measurement Presentation:

The standard performance data of a segregated fund shall be calculated and disclosed in accordance with industry-recognized practices.

## 5. Management Expense Ratio

The AMF expects insurers to develop practices and take all reasonable measures to ensure that the management expense ratios of a segregated fund comply with the conditions set out in this section of the Guideline.

### 5.1 Calculation of Management Expense Ratio:

The management expense ratio of a segregated fund applicable to a particular fee option under an IVIC for any financial year shall be obtained by dividing:

- (i) the aggregate of all fees and charges and other expenses paid or payable by the segregated fund during or in respect of the financial year in question which relate to that particular fee option, by
- (ii) the amount of the average net asset value of the segregated fund attributable to the particular fee option for the financial year in question and multiplying the quotient by 100.

For the purpose of making this calculation:

- a) The expression "the average net asset value of the segregated fund attributable to the particular fee option for a financial year" means the result obtained by:
  - (i) adding together the amounts determined to be the net asset value of the segregated fund attributable to the particular fee option as at the close of business of the segregated fund on each day during the financial year in question on which the net asset value of the segregated fund has been determined in the manner from time to time as described in section 10, Part E; and
  - (ii) dividing the amount resulting from the addition provided for in clause (i) by the number of days during the financial year in question on which the net asset value has been determined;
- b) The expression "all fees and charges and other expenses" means all fees and charges paid or payable by the segregated fund and all expenses incurred in the ordinary course of business relating to the organization, management and operation of the segregated fund including interest charges (if any) and all taxes other than income taxes, but excluding commissions and brokerage fees on the purchase and sale of portfolio securities;

- c) If any fees and expenses otherwise payable by a segregated fund in a financial year were waived or otherwise absorbed by the insurer, the insurer shall disclose in a note to the disclosure of the management expense ratio, details of:
  - (i) what the management expense ratio would have been without any waivers or absorptions;
  - (ii) the length of time that the waiver or absorption is expected to continue;
  - (iii) whether the waiver or absorption can be terminated at any time by the insurer; and
  - (iv) any other material arrangements concerning the waiver or absorption;
- d) If the segregated fund has separate classes or series of units, the management expense ratio shall be calculated for each class or series, in the manner required by this section, modified as appropriate; and
- e) The management expense ratio of a segregated fund for a financial year of less than 12 months shall be annualized.

## **5.2 Change in Basis of the Calculation of Fees and Charges:**

Where the basis of the calculation of fees and charges and other expenses that are charged to a segregated fund are changed or proposed to be changed and where such change would have a material effect on the management expense ratio for the last completed financial year of the segregated fund if such change had been in effect for such year, the information folder shall disclose the effect of such change.

## **5.3 Audited Financial Statements:**

The audited financial statements of the segregated fund shall set out in appropriate detail the amounts of all fees and charges and other expenses, if any, which have been charged to the segregated fund during the period covered by the financial statements.

## **6. Investments**

### **6.1 Investment Information:**

- a) The AMF expects insurers to include a brief statement in the information folder addressing each of the following matters with respect to each segregated fund:
  - (i) the fundamental investment objective(s) of the segregated fund;

- (ii) the principal investment strategies that the advisor intends to use in achieving the segregated fund's fundamental investment objectives which may include any investment approach, philosophy, practice or technique used by the advisor or any particular style of portfolio management that the adviser intends to follow;
  - (iii) the principal risks applicable to the segregated fund; and
  - (iv) where the segregated fund is an index fund, a statement that as a result of investment decisions for the segregated fund being based on one or more permitted indices, the segregated fund may have more of the net assets of the segregated fund invested in one or more issuers than is usually permitted for segregated funds, and disclose the risks associated with that fact, including the possible effect of that fact on the liquidity and diversification of the segregated fund, the ability to satisfy redemption requests and on the volatility of the segregated fund.
- b) The AMF expects insurers to abide by all of the following limits and considerations:
- (i) the sum of the segregated fund's exposures to any one issuer at the time of purchase may not exceed 10% of the book value of the fund. Exposure may take the form of securities issued by the entity, loans to the entity recorded on the face of the financial statements or credit exposure (expressed as "credit equivalent amount") to the entity;
  - (ii) Subsection 6.1(b)(i) above shall not apply to:
    - a. investments in any corporate issue of, or a security guaranteed by, any government authority in Canada; or
    - b. investments held in cash.
  - (iii) Subsection 6.1(b)(i) above shall not apply to a segregated fund:
    - a. that is an index fund;
    - b. that includes the word 'index' in the name of the fund; and
    - c. where the insurer discloses the derivative investment strategy to match the index.

- (iv) the percentage of securities of any one corporate issue that may be acquired is limited to 10% of each class of securities of any one corporate issuer except for any corporate issue of, or a government security guaranteed by, any government authority in Canada;<sup>10</sup>
  - (v) at the time of making an investment, an insurer shall not seek to invest in the securities of a company in order to exercise control or management of it. However, should an insurer ultimately gain control or management of a company due to market forces, such as through realization procedures, such a circumstance is not prohibited;
  - (vi) where more than 10% of the market value of the segregated fund is or will be invested in mortgages, state the method used to determine the market value of the mortgages. This method must provide for the categorization of mortgages based on risk, and within each category, mortgages are to be valued at a principal amount based on the following: the prevailing rate of return; the duration; the relationship between the current interest rates and the interest rate of the mortgage for that category; and, the statutory requirements relating to wrap-around mortgages, where applicable; and
  - (vii) where more than 10% of the market value of the fund is or will be invested in real estate for the production of income, state the method used to determine the market value of the real estate. This method must include the following: the initial market value shall be equal to the cost of acquiring the real estate including professional fees and other costs; each parcel of real estate must be appraised by an independent qualified appraiser at least once every 3 years; each parcel of real estate must be appraised at least once a year by a qualified appraiser and may include an updating of previous appraisals; for dates where no appraisal is available, the insurer must provide a monthly market value; all appraisals in any one year must be scheduled at regular intervals over the year; where a material change in the condition of any real estate held in the segregated fund occurs that could materially affect the fund's market value, the insurer must immediately arrange for an appraisal by an independent qualified appraiser of such real estate and adjust the valuation of it at the next monthly valuation date after the appraisal is made.
- c) Paragraph (b) above shall not apply where a segregated fund invests in a secondary fund that is subject to other regulation. The rules of the underlying secondary fund shall be applicable.

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<sup>10</sup> The federal, provincial or territorial governments of Canada or an agency thereof.

**6.2 Derivatives****a) Use of Derivatives Instruments in an Unlevered Portfolio:**

Where the investment policy of a segregated fund states that leverage will not be used, the AMF expects that the notional amount of derivatives used by the segregated fund shall not exceed 100% of the value of the net assets of the segregated fund, subject to a short-term 2% variation depending on movements in the foreign exchange value of the currency in which the units of the fund are offered. In those instances where derivatives add to the market exposure of the segregated fund (e.g., through a long position in a futures contract, swaps, call financial options, or a short position in a put financial option), the segregated fund will hold cash which together with any margin on account are equal to the notional value of any derivative instrument held. Where the derivatives provide negative market exposures to the segregated fund (e.g., a short position in a futures contract, swap, call financial option or a long position in a put financial option), the segregated fund must hold a position in the underlying instrument in the portfolio or an equivalent long position equal to the notional value of the derivatives instrument held.

Derivatives may be used in hedging positions recorded on the face of the financial statements and positions disclosed in the notes to the financial statements, to generate income (by sale of covered calls) or for replication of an index.

For segregated funds using derivatives to change the asset exposure and currency exposure, the notional value of the derivatives relating to assets shall be measured independently of those relating to currency so that the currency positions do not independently exceed the net assets of the segregated fund.

**b) Use of Derivatives Instruments in a Levered Portfolio:**

Where the investment policy of a segregated fund specifically states that leverage will be or may be used, the AMF expects that derivatives may be used to create this leverage if all of the following conditions are met:

- (i) no more than 20% of the net assets of the segregated fund will be invested in any particular trading strategy or approach using leverage;
- (ii) each levered trading strategy or approach in limited liability secondary funds must be isolated in order to protect the segregated fund from losing more than 20% of the net assets of the segregated fund on that strategy;
- (iii) on a quarterly basis, the manager of the segregated fund will make such risk management studies as it deems prudent to ensure that each of the levered strategies anticipated for a segregated fund is relatively independent of other such strategies (low correlation, etc.); and



- (iv) where leverage is being used, the contractholder shall be informed in the information folder of the historical and anticipated risk level of the segregated fund with such measures as standard deviation.

c) Over-the-Counter Derivatives Instruments:

Where over-the-counter derivatives instruments are used, the AMF expects the following conditions shall be met:

- (i) a calculation of the counterparty exposure amount must be made at least monthly for each counterparty and such exposure to any counterparty taken together with any exposures recorded on the face of the financial statements must not exceed 10% of the net assets of the segregated fund for any individual counterparty; and
- (ii) fund managers are prohibited from making derivative contracts on behalf of the segregated fund with the sponsoring insurer or any entity controlled by, or in control of, the sponsoring insurer, or in the control of an entity in control of the sponsoring insurer.

d) Valuation of Derivatives:

The AMF expects positions in derivative instruments to comply with the following conditions:

- (i) Positions in derivative instruments shall be valued at the current market value thereof.
- (ii) Where a covered clearing corporation financial option, financial option on futures or over-the-counter financial option is written, the amount received by the segregated fund shall be reflected as a deferred credit that shall be valued at an amount equal to the current market value of the clearing corporation financial option, financial option on futures or over-the-counter financial option that would have the effect of closing the position. Any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred debit or credit shall be included in determining the net asset value of the segregated fund. The securities, if any, which are the subject of a written clearing corporation financial option or over-the-counter financial option shall be valued at their current market value.
- (iii) The value of a futures contract, or a forward contract, shall be the gain or loss with respect thereto that would be realized if, on the valuation date, the position in the futures contract, or the forward contract, as the case may be, were to be closed out unless "daily limits" are in effect, in which case fair value shall be based on the current market value of the underlying asset.

- (iv) Margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin.
- (v) In accordance with subsection 9.2(d)(v), the value of clearing corporation financial options, positions in future contracts and positions in forward contracts determined in accordance with this paragraph shall be disclosed in the statement of investment portfolio of the segregated fund.

### **6.3 Investments in Another Fund:**

Notwithstanding subsection 6.1(b), the AMF expects an investment in a secondary fund to be permitted by a segregated fund (the "principal fund"), provided that the following conditions are met:

- (i) adequate disclosure of this practice is made in the information folder;
- (ii) the principal fund establishes a unit value;
- (iii) there are no management fees or sales charges payable by the segregated fund that would duplicate a fee or sales charge payable by the secondary fund for the same service; and
- (iv) the investment policy of the principal fund continues to be followed.

### **6.4 Illiquid Investments**

The AMF expects that where in the case of any investment there is no marketplace where such investment may normally be purchased and sold and public quotations in common use in respect thereof are not available, such investment will be considered to be an illiquid investment notwithstanding the fact that any party has agreed to purchase the investment. Examples of illiquid investment include, but are not limited to: limited partnership interests that are not listed; non-publicly traded securities; and, over-the-counter financial options entered into for non-hedging purposes. However, over-the-counter financial options entered into for hedging purposes in accordance with subsection 6.2(b) of this Guideline are not deemed to be illiquid investments. In addition, limited liability vehicles or secondary funds used to protect against excessive loss where leverage is being used, or where the units of a limited liability vehicle (other than those issued to the limited or general partner) are issued solely to a segregated fund, should not be deemed to be illiquid investments, provided that the underlying securities are themselves not illiquid investments.

## 6.5 Real Estate:

- a) Where a segregated fund invests in real estate, the AMF expects the investment policy of the segregated fund to outline the insurer's purchase and sale of real estate in respect of the fund over the last five years. In addition, the AMF expects the investment policy to state the following:
- (i) that no investment can be made in real estate except for the production of income;
  - (ii) that the segregated fund is not permitted to invest in raw or undeveloped land;
  - (iii) that an insurer shall not sell or transfer real estate investments from or to a segregated fund of the insurer, to or from another fund of the insurer at other than its fair value as determined by an independent qualified appraiser;
  - (iv) that the segregated fund is not permitted to invest more than 10% of its assets in real estate, unless the segregated fund is a real estate fund;
  - (v) that the segregated fund is not permitted to invest in real estate until its net assets are equal to or greater than \$10,000,000;
  - (vi) where more than 10% of the segregated fund's market value is invested or will be invested in real estate for the production of income, the policy shall state the methods used to determine the market value of the real estate, consistent with the following:
    - (a) the initial market value is the cost of acquiring the real estate including professional fees and other acquisition costs;
    - (b) an independent qualified appraiser must appraise each parcel of real estate at least once every three years;
    - (c) a qualified appraiser must appraise each parcel of real estate at least once a year and may include an updating of previous appraisals;
    - (d) the insurer must determine a monthly market value at dates for which an appraisal is not available based on the price the real estate would bring if sold on the open market after a reasonable time to a knowledgeable purchaser;
    - (e) all appraisals in any year must be arranged so that the valuations of the market value of individual parcels of real estate are made at regular intervals over the year;
    - (f) the insurer shall ensure that the contents of appraisal reports and the valuation methodologies used in appraisal reports meet the minimum standards of the Appraisal Institute of Canada, which are contained in the Uniform Standards of Professional Appraisal Practice with the Canadian Supplement, and the Handbook for Appraisal Guidelines, as amended from time to time;

- (g) in the event of a material change in the condition of any real estate held in the fund that may affect the market value of the segregated fund, the insurer must immediately arrange for the appraisal of it by an independent qualified appraiser, and adjust the valuation of the real estate at the next monthly valuation after the appraisal is made;
- (vii) where over 30% of the net asset value of a segregated fund is invested in real estate, there are minimum levels that must be met as a percentage or amount of the total net asset value of the segregated fund held in liquid assets, as follows:

| <b>Net Asset value of the Fund</b> | <b>Minimum Amount to be Maintained in Liquid Assets</b>              |
|------------------------------------|--|
| \$10,000,000 to \$20,000,000       | 10% of net asset value of the fund                                   |
| over \$20,000,000                  | \$2,000,000 plus 6% of net asset value of the fund over \$20,000,000 |

- b) The AMF expects that a segregated fund may invest in a joint venture arrangement in respect of real estate only if:
  - (i) the fund's interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first refusal, if any, in favour of the joint venturers;
  - (ii) the fund has a right of first refusal to buy the interests of joint ventures; and
  - (iii) the joint venture arrangement provides an appropriate buy-sell mechanism to enable the fund to cause the joint venturers to purchase the fund's interest or to sell their interests to the fund.
- c) The AMF expects that a segregated fund shall not lease or sublease to any person any real estate, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real estate, premises or space having a fair market value net of encumbrances in excess of 20% of the net asset value of the fund.
- d) The AMF expects that a segregated fund shall not enter into any transaction involving the purchase of real estate or real estate improvements thereon and the leasing thereof back to the vendor where the fair market value net of encumbrances on the real estate being leased to the vendor together with all other real estate being leased by the fund to the vendor and its affiliates is in excess of 20% of the net asset value of the fund.

- e) The AMF expects that no units of a real estate segregated fund shall be issued under an IVIC unless the amount subscribed under the contract is fully paid for in cash. The AMF expects that no individual variable insurance contract shall be issued, directly or indirectly, as consideration for real estate or services. The AMF further expects that no acquisition of real estate shall be made by a segregated fund on the condition or understanding that the vendor of the real estate subscribe for individual variable insurance contracts held in the segregated fund.
- f) The AMF expects that no investments can be made in any one parcel of real estate to an extent of more than 10% of the market value of the segregated fund's assets at the time of making the investments, except for the amount transferred by an insurer to establish a segregated fund, and no more than 25% of the transferred amount can be invested in any one parcel of real estate.
- g) Unless a segregated fund has either reserved the right in its discretion to purchase real estate in its information folder or is a real estate fund, the AMF expects that it shall not participate in the purchase of real estate, other than real estate acquired from foreclosure of mortgages held by the segregated fund.
- h) If on redemption date a real estate segregated fund is unable to redeem all IVICs in respect of which redemption has been requested, the AMF expects that redemptions shall be made "pro rata."

## **6.6 Mortgages:**

- a) Where a segregated fund invests in mortgages, the AMF expects the investment policy of the segregated fund to state the following:
  - (i) that no investments can be made in any one mortgage to an extent of more than 5% of the market value of the segregated fund's assets at the time of making the investments, except for the amount transferred by an insurer to establish a segregated fund, and that no more than 25% of the transferred amount can be invested in any one mortgage;
  - (ii) except for a mortgage approved or insured under the *National Housing Act* (Canada)<sup>11</sup> (NHA), which must be transferred at market value, state that the insurer cannot sell or transfer mortgage investments from or to a segregated fund of the insurer, to or from another fund of the insurer. A sale or transfer of a mortgage investment to a segregated fund from another fund of the insurer within 60 days of the first advance under the mortgage shall not be considered as a sale or transfer where there has been no material change in value since the date of the first advance. However, a sale or transfer may be made provided that such sale or transfer is effected at fair value as determined by an independent qualified appraiser;

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<sup>11</sup> R.S.C. 1985, C. N-11

- (iii) where more than 10% of the segregated fund's market value is invested in mortgages or will be invested in mortgages, state the methods used to determine the market value of the mortgages, consistent with the following:
  - a. all mortgages must be divided into categories of similar risk characteristics. Certain mortgages must be placed in their own category, such as: leasehold mortgages; participation mortgages; mortgages on land only; construction mortgages and mortgages in default over 6 months;
  - b. mortgages in each category must be valued at a principal amount that will produce the prevailing rate of return of new mortgage loans in that category and for an assumed duration. Refer to the remaining term to maturity, the period remaining until the date the mortgage can be repaid, and the relationship between the interest rate of the mortgage and the current existing market interest rates for that category of mortgages; and
  - c. to calculate the value of a wrap-around mortgage, the wrap-around mortgage and the original mortgage shall each be valued separately, as set out in subsection 6.2(a)(ii), and the value of the mortgage or mortgages must be deducted from the value of the wrap-around mortgage; and
- (iv) where over 30% of the net asset value of a segregated fund is invested in mortgages, there are minimum levels that must be met as a percentage or amount of the net asset value of the segregated fund held in liquid assets, as follows:

| <b>Net Asset Value<br/>of the Fund</b> | <b>Minimum Amount to<br/>to be in Liquid Assets</b>                       |
|--|---|
| Less than \$5,000,000                  | 15% of net asset value of the fund or \$250,000 whichever is greater      |
| \$5,000,000 or greater                 | 10% of the net asset value of the fund or \$750,000, whichever is greater |

- b) The AMF expects the net assets of a segregated fund to be equal to or greater than \$350,000 before the insurer invests in mortgages on behalf of the fund.
- c) The AMF expects that a segregated fund shall not invest more than 10% of its assets in mortgages, unless the segregated fund is a mortgage fund. Only mortgages, representing up to 75% of the fair market value of the real estate as appraised by a qualified appraiser, unless insured, on real estate situated within Canada are permissible investments.

d) The AMF expects that in addition to the general requirements set out in this Guideline, a segregated fund held as a mortgage fund shall comply with the following additional requirements:

(i) if the mortgage fund invests less than or equal to 30% of the net asset value of the fund in mortgages it shall maintain the following liquidity levels:

|                            |  |
|----------------------------|--|
| below \$1 million .....    | \$100,000                                    |
| \$1 to \$2 million .....   | 10%  |
| \$2 to \$5 million .....   | \$200,000 + 9% on the next \$3 million       |
| \$5 to \$10 million .....  | \$470,000 + 8% on the next \$5 million       |
| \$10 to \$20 million ..... | \$870,000 + 7% on the next \$10 million      |
| \$20 to \$30 million ..... | \$1.52 million + 6% on the next \$10 million |
| over \$30 million .....    | \$2.17 million + 5% on the excess            |

A mortgage fund that is invested in mortgages over 30% of the net asset value of the fund shall meet the minimum liquidity levels set out in subparagraph 6.6(a)(iv).

(ii) The mortgage fund shall not invest in commercial, industrial or residential properties of more than 8 units until the mortgage fund has net assets totalling more than \$15,000,000.

e) For purposes of subsection 6.6, "liquid" or "liquidity" means,

a. cash and treasury bills or other evidences of indebtedness issued, or fully guaranteed as to principal and interest, by:

- i. any of the federal, provincial or territorial governments of Canada or an agency thereof,
- ii. the Government of the United States or any political subdivision thereof, the government of any sovereign state or any supernatural agency, provided that such treasury bills or other evidences of indebtedness have an approved credit rating; or
- iii. any Canadian financial institution as that term is defined under the *Insurance Companies Act* (Canada)<sup>12</sup>, provided that such treasury bills or other evidences of indebtedness have an approved credit rating; and

b. an NHA or provincially insured mortgage-backed security.

f) If on a redemption date a mortgage segregated fund is unable to redeem all individual variable insurance contracts in respect of which redemption has been requested, the AMF expects that redemptions shall be made "pro rata."

<sup>12</sup> S.C. 1991, c. 47 (R.S.C., c. I-11.8).

**6.7 Borrowing:**

- a) Except as otherwise permitted by applicable insurance legislation, the AMF expects that an insurer shall not, on behalf of a segregated fund, pledge, mortgage or hypothecate its assets, except: (i) as a temporary measure for the purpose of accommodating requests for the redemption of units of the segregated fund while effecting an orderly liquidation of portfolio securities, and then only if after giving effect to such borrowing the outstanding amount of all such borrowings does not exceed 5% of the net assets of the segregated fund taken at market value at the time of such borrowing; or (ii) in accordance with subsections 6.7(b), (c) and (d) below.
- b) The AMF expects that a real estate segregated fund shall not assume or incur any indebtedness under a mortgage on the security of real property unless, at the date of the proposed assumption or incurring of indebtedness:
  - (i) the aggregate of (i) the amount of all indebtedness secured on such real property and (ii) the amount of additional indebtedness proposed to be assumed or incurred does not exceed 75% of the market value of such real property; and
  - (ii) the aggregate of (i) the total indebtedness of the segregated fund under mortgages on the security of real property and (ii) the amount of additional indebtedness proposed to be assumed does not exceed 50% of the total asset value of the segregated fund.
- c) The AMF expects that an insurer shall not on behalf of a real estate segregated fund directly or indirectly guarantee any indebtedness or liabilities of any kind except indebtedness assumed or incurred under a mortgage on the security of real property by a corporation wholly-owned by the insurer and operated solely for the purpose of holding a particular real property or properties on behalf of the segregated fund where such mortgage, if granted directly, would not cause the segregated fund to contravene subsection 6.7(b) above.
- d) Notwithstanding subsection 6.7(a), the AMF expects that a segregated fund may borrow cash or provide a security interest over any of its portfolio assets if the security interest is required to enable the segregated fund to effect a derivative transaction permitted by subsection 6.2 of this Guideline and is made in accordance with industry practice for that type of transaction and relates only to obligations arising under that particular specified derivative transaction.

**6.8 Non-Arm's Length Transactions:**

The AMF expects that a segregated fund shall purchase an investment based on its prevailing market price, or where an investment is purchased other than through normal market facilities, based on what would have been its reasonably negotiated price with an arm's length party.



## **7. Partitioning of Assets Held in Segregated Funds:**

Where assets are partitioned within a segregated fund, other than as a routine internal accounting practice performed in the ordinary course of business, in order to effect a merger or other reorganization of a segregated fund, the AMF expects insurers to:

- a) ensure that the allocation of assets is equitable to all IVIC contractholders whether or not their variable insurance contracts are registered or non-registered, or were purchased by way of individual or group contracts.
- b) send to each contractholder written notice by regular mail to their last known address of such a partitioning of assets within a segregated fund at least 60 days prior to its occurrence. If the partitioning of assets occurs in conjunction with a merger of segregated funds, then the notice shall describe both events, and comply with the expectations set out in section 8 of this Guideline. If the partitioning of assets is not done in conjunction with a merger of segregated funds, then the notice shall explain why the insurer is partitioning the assets of the fund.
- c) ensure that any partitioning of assets within a segregated fund complies with the terms of the individual and group variable insurance contracts that it has issued with respect to such a segregated fund.

## **8. Merger with Another Segregated Fund, Closing of a Segregated Fund and Other Fundamental Changes:**

### **8.1 Merger with Another Segregated Fund of the Same Insurer:**

Where an insurer offering segregated funds as an investment under IVICs wishes to merge one of its segregated funds with another one (or more) of its segregated funds, the AMF's expectations are as follows:

- a) The insurer shall send a written notice to all contractholders of the fund proposed to be merged (the "terminating funds") by regular mail to their last known addresses not less than 60 days prior to the date of the proposed merger.
- b) The notice referred to in paragraph (a) above shall include an option permitting the affected contractholders to "cash-out" their IVICs, without being charged any exit fees, provided that they give written notice of this election to their insurer at least 5 business days prior to the date of the proposed merger.
- c) The notice referred to in paragraph (a) above shall clearly state that if the contractholder chooses the "cash-out" option, rather than proceed with the merger, that the contractholder will receive the fair market value of the terminating fund held under the IVIC, but will not receive the guarantee benefit, unless the IVIC has reached maturity, or it coincides with the death benefit.

**8.2 Merger with Another Segregated Fund of a Different Insurer:**

Where two or more insurers wish to merge their segregated funds (the "terminating funds") into a "continuing fund" arising from the merger of the insurers themselves, or as part of the sale of a block of insurance business, the AMF's expectations are as follows:

- a) The insurer assuming the continuing fund shall assume all guarantees and maturity dates in the continuing fund and shall disclose to the contractholders any significant income tax implications resulting from the proposed merger.
- b) Written notice of the proposed merger shall be sent by regular mail to the affected contractholders of the terminating funds by each respective insurer to each contractholder's last known address at least 60 days prior to the date of the proposed merger.
- c) The notice referred to in paragraph (b) above shall include an option permitting the contractholders to "cash out" their IVICs, without being charged any exit fees, provided that they give written notice of this election to their insurer at least 5 business days prior to the date of the proposed merger.
- d) The notice required in paragraph (b) above shall clearly state that if the contractholder chooses the "cash-out" option, rather than proceed with the merger, the contractholder will receive the fair market value of the terminating fund held under the IVIC, but will not receive the guarantee benefit, unless the individual variable insurance contract has reached maturity, or it coincides with the death benefit.

**8.3 Closing of a Segregated Fund and Other Fundamental Changes:**

The AMF expects insurers to notify the contractholder in writing at least 60 days before intending to close any of their segregated funds or making any of the following changes:

- an increase in the management fee which may be charged against the assets of the segregated fund;
- a change in the fundamental investment objectives of a segregated fund;
- a decrease in the frequency with which units of a segregated fund are valued; or
- an increase in the insurance fee limit specified pursuant to subparagraph 8.3(d)(ii).

The AMF's expectations with respect to this notice are as follows:

- a) The notice shall be sent to the affected contractholders by regular mail to their last known addresses as shown on the records of the insurer.

- b) The notice shall provide the contractholder with the right to:
- (i) transfer within the individual variable insurance contract, and without affecting any other rights or obligations of the contractholder under the terms of that contract, to a similar<sup>13</sup> segregated fund offered by the insurer that is not subject to the fundamental change for which the notice is being delivered without incurring any deferred sales charges or similar fees, provided that the contractholder's election is received by the insurer at least 5 days prior to the expiry of the 60-day notice period; or
  - (ii) if the insurer does not offer a similar fund, redeem the units of the segregated fund without incurring any deferred sales charges or similar fees, provided that the contractholder's election is received by the insurer at least 5 days prior to the expiry of the 60-day notice period.
- c) During the 60-day notice period, the notice may provide that a contractholder not be permitted to transfer to the fund subject to the change, unless the contractholder agrees to waive the right to redeem set out in subparagraph 8.3(b)(ii).
- d) Change to insurance fees
- (i) The insurer may include an insurance fee<sup>14</sup> as part of the management fee charged against the assets of the segregated fund or may separate it from the management fee.
  - (ii) If an insurer separates the insurance fee from the management fee charged against the fund, the AMF expects the insurer to state in its information folder both the current insurance fee to be charged to each segregated fund and an insurance fee limit for each segregated fund. The insurance fee limit should be the highest insurance fee that can be charged by the insurer before triggering the notification required by subsection 8.3(a). The insurance fee limit shall not exceed the current insurance fee plus the greater of 50 basis points and 50% of the current insurance fee.
  - (iii) The AMF expects that any change to the insurance fee up to the maximum specified pursuant to paragraph 8.3(d)(ii) shall be disclosed to the contractholder in the annual statement to contractholder pursuant to subsection 1.3.

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<sup>13</sup> For the purposes hereof, a 'similar' segregated fund means a segregated fund that has comparable fundamental investment objectives, is in the same investment fund category (in accordance with fund categories published in a financial publication with broad distribution) and has the same or a lower management fee and insurance fee than the management fee and insurance fee of the segregated fund in effect at the time the notice is given.

<sup>14</sup> "Insurance fee" means an amount charged by the insurer with respect to the provision of insurance features of the IVIC.

## 9. Accounting and Audit Requirements:

The AMF expects insurers to comply with the accounting and audit requirements set out in section 9.

### 9.1 General:

#### a) Accounting Principles:

The financial statements of a segregated fund shall be prepared in accordance with Canadian generally accepted accounting principles, the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants.

#### b) Auditing Standards:

The auditor's examination of the financial statements of a segregated fund shall be conducted in accordance with Canadian auditing standards (CASs), the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants.

### 9.2 Financial Statement Requirements:

#### a) Statement of Operations:

(i) The AMF expects that every statement of operations of a segregated fund shall present fairly the results of the operations of the segregated fund for the period covered by the statement and the applicable comparative period and distinguish separately, if material, at least:

- a. dividend income;
- b. interest income;
- c. net rental income;
- d. unrealized and realized gains and losses on investments;
- e. every other item of income that is material to the total revenue;
- f. management fees including but not limited to the total fees paid by the segregated fund for portfolio management, investment advice, guarantee costs (if not otherwise disclosed in accordance with subparagraph g. ("other fees")) and other services;

- g. other fees, (including: audit fees, advisory fees, custodian's fees, legal fees, director fees, trailer fees, salaries, and guarantee costs, if not otherwise disclosed in accordance with subparagraph f. ("management fees")) where the amount is material to the total expenses;
  - h. the cost of the contractholder's information where the amount is material to the total expenses;
  - i. every other item of expenses where the amount is material to the total expenses;
  - j. other expenses; including the sum of those items of expense not named in subparagraph 9.2(a) that individually are not material to the total expenses and listed elsewhere; and
  - k. net income from operations for the period.
- b) Statement of Changes in Net Assets:
- (i) The AMF expects that every statement of changes in net assets of a segregated fund shall present fairly the information shown therein for the period covered by the statement and the applicable comparative period, and shall show separately, if material, at least:
    - a. net assets held at the beginning of the period;
    - b. premium or premium income;
    - c. net operating income (from the statement of operations);
    - d. less withdrawals; and
    - e. net assets at end of the period.
- c) Statement of Net Assets:
- (i) The AMF expects that every statement of net assets of a segregated fund shall present fairly the financial position of the fund as of the period end and the applicable comparative period, and distinguish separately, if material, at least:
    - a. cash, term deposits and, if not included in the statement of investment portfolio, short term debt instruments;
    - b. investments at market value with a notation of their cost;

- c. dividends and accrued interest receivable;
  - d. accounts receivable in respect of amounts due from contractholders;
  - e. accounts receivable in respect of portfolio securities sold;
  - f. every other class of assets that is material to the total assets;
  - g. other assets;
  - h. total assets;
  - i. accrued expenses;
  - j. accounts payable in respect of portfolio securities purchased;
  - k. amounts received from contractholders but not allocated;
  - l. every other liability that is material to the total liabilities;
  - m. other liabilities;
  - n. total liabilities;
  - o. total net assets held for the benefit of the contractholders; and
  - p. net asset value per unit as at the period end based on the number of units outstanding as at the period end, with prior year comparisons.
- (ii) In subsection 9.2(c), “other assets” or “other liabilities” means the sum of those classes of assets or liabilities, as the case may be, that as individual classes are not material to the total assets or total liabilities, as the case may be, of the segregated fund at the date reported upon.
- (iii) Any of the specified classes of assets or liabilities which accounts for less than the amount determined to be material to the total assets or total liabilities, as the case may be, of the segregated fund at the date reported upon, may be omitted and the relevant amount included in “other assets” or “other liabilities” with an appropriate explanation made by note.

d) Statement of Investment Portfolio:

- (i) The AMF expects that every statement of investment portfolio of a segregated fund shall present fairly the following information on the equities it holds, as of the period end:
  - a. the name of each issuer of securities held;
  - b. the class or designation of each security held;
  - c. the number or aggregate face value of each class or designation of securities held;
  - d. the market value of each class or designation of securities held;
  - e. the cost of each class or designation of securities held and, where the basis of computing cost is other than average cost, a statement of the basis of computing the cost; and
  - f. sub-total(s) of foreign equities.
- (ii) The AMF expects that every statement of investment portfolio of a segregated fund shall present fairly the following information on the fixed income securities it holds, as of the period end:
  - a. the name of each issuer of securities held;
  - b. the contractual rate of the issue;
  - c. the maturity date of the issue;
  - d. the face value, cost and market value; and
  - e. subtotal(s) of foreign fixed income securities, by investment grade, and percentage of each investment grade, where applicable, as part of total net assets. Where no investment grade exists, grade them as unrated.
- (iii) The AMF expects that every statement of investment portfolio of a segregated fund shall present fairly the following information on the mortgages it holds, as of the period end:
  - a. the total number of mortgages held, and their total market value;
  - b. the total number of mortgages held and their total market value by province;

- c. the total number of mortgages held and their total market value by type of mortgage, including distinguishing between: non-insured; residential, industrial or commercial; and maturity dates; and
  - d. the total number of mortgages held and their total market value by interest rate at 1/4% intervals.
- (iv) The AMF expects that every statement of investment portfolio of a segregated fund shall present fairly the following information on real property it holds as at the date to which it is prepared:
- a. the address;
  - b. a description of the type of property;
  - c. the date and cost of acquisition;
  - d. the appraised value and the date of appraisal value and the date of appraisal;
  - e. the area in square feet;
  - f. the percentage of leasable area actually leased;
  - g. the amount of any mortgage granted or assumed; and
  - h. the amount of pre-tax net income generated during the previous period.
- (v) The AMF expects that every statement of investment portfolio of a segregated fund shall disclose the following information with respect to derivatives that it holds as of the period end:
- a. for long positions in clearing corporation financial options disclose the underlying interest, the expiration month and year, and the market value;
  - b. for long positions in financial options on futures disclose the underlying interest, the expiration month and year of the financial option on futures, and the market value;
  - c. for written clearing corporation financial options disclose the particulars of the deferred credit account indicating the number of financial options, the underlying interest rate, the strike price, the expiration month and year, the premium received and the value as determined under paragraph 6.2(d);
  - d. for purchased over-the-counter financial options disclose the number of financial options, the credit rating of the issuer of the financial options, whether such rating has fallen below the approved credit rating, the underlying interest, the principal amount or quantity of the underlying interest, the strike price, the expiration date, the cost and the market value;



- e. for positions in future contracts disclose the underlying interest, the delivery month and year and the value as determined under paragraph 6.2(d);
  - f. for positions in forward contracts disclose the underlying interest, settlement date and the value as determined under paragraph 6.2(d); and
  - g. for swaps and forward contracts, the counterparty credit exposure determined as follows: the maximum credit exposure without taking into account the fair value of any collateral, in the event of counterparty default, plus potential exposure.
- (vi) Where a segregated fund invests in a secondary fund, the AMF expects that the statement of investment portfolio shall comply with paragraph 9.2(d) by disclosing the top 25 holdings of the secondary fund or, if there is more than one secondary fund, by disclosing the top 5 holdings of each of the secondary funds.
- e) Notes to the Audited Financial Statements:
- (i) The AMF expects that the notes to a statement of operations of a segregated fund shall include:
    - a. the basis for calculating the management fee;
    - b. the composition of other expenses and other revenue, unless otherwise disclosed in the material of which the income statement forms a part or which it accompanies;
    - c. the services rendered in consideration of the management fee;
    - d. the services provided to the segregated fund by those to whom salaries or other remuneration were paid;
    - e. where an unusual change in expenses from period to period is not adequately explained by changes in net assets of the segregated fund, a description and explanation of the unusual change;
    - f. a description of the nature and extent of transactions with, and amount due to and from, related parties, such as the insurer offering the segregated fund; and
    - g. a description of the accounting policies used to determine how investment income is accrued, how it is realized, how unrealized gains and losses are calculated and how foreign currency transactions are accounted for.
  - (ii) The AMF expects that the notes to a statement of net assets of a segregated fund shall include:
    - a. where the basis of computing the cost of investments is other than average cost, a statement of the basis of computing the cost;

- b. the composition of other assets and other liabilities;
  - c. where market value is other than "quoted market value", the basis of determination; and
  - d. the accounting policies used with respect to the calculation and presentation of derivatives and the income derived therefrom.
- (iii) The AMF expects that the notes to the audited financial statements of a segregated fund shall include:
- a. the management expense ratio for each fee option under an IVIC for each of the last five completed financial years of the segregated fund, together with a brief description of the method of calculating the management expense ratio;
  - b. where any financial period is less than 12 months, the management expense ratio shall be shown on an annualized basis with reference to the period covered and to the fact that the management expense ratio for the period has been annualized.
- f) **Financial Highlights**
- (i) The AMF expects that the financial information about the segregated fund shall be provided under the heading "Financial Highlights", in the form of the following tables, appropriately completed, and introduced using substantially the following words:
- "The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past [insert number] years."
- (ii) Where the segregated fund does not provide for distributions (as opposed to allocations for tax purposes), the AMF expects the information to be provided in the following table:

*The Fund's Net Asset Value per Unit*

|  | [insert year] | [insert year] | [insert year] | [insert year] | [insert year] |
|--|---------------|---------------|---------------|---------------|---------------|
| Net asset value at [insert last day of financial year] of year shown | \$            | \$            | \$            | \$            | \$            |

- (iii) Where the segregated fund does provide for distributions of income and net capital gains, the AMF expects the information to be provided in the following table:

*The Fund's Distributions and Net Asset Value per Unit*

|  | [insert year] | [insert year] | [insert year] | [insert year] | [insert year] |
|--|---------------|---------------|---------------|---------------|---------------|
| Distributions:   | \$            | \$            | \$            | \$            | \$            |
| From net income  | \$            | \$            | \$            | \$            | \$            |
| From realized capital gains  | \$            | \$            | \$            | \$            | \$            |
| Return of capital  | \$            | \$            | \$            | \$            | \$            |
| Total Annual Distributions <sup>(1)</sup>                            | \$            | \$            | \$            | \$            | \$            |
| Net asset value at [insert last day of financial year] of year shown | \$            | \$            | \$            | \$            | \$            |

<sup>(1)</sup> Distributions were [paid in cash/reinvested in additional [units] of the Fund].

(iv) The AMF expects the following table to be provided for all segregated funds:

*Ratios and Supplemental Data*

|  | [insert year] | [insert year] | [insert year] | [insert year] | [insert year] |
|--|---------------|---------------|---------------|---------------|---------------|
| Net assets (000's) <sup>(1)</sup>          | \$            | \$            | \$            | \$            |               |
| Number of units outstanding <sup>(1)</sup> |               |               |               |               |               |
| Management expense ratio <sup>(2)</sup>    | %             | %             | %             | %             |               |
| Portfolio turnover rate <sup>(3)</sup>     | %             | %             | %             | %             |               |

<sup>(1)</sup> This information is provided as at [insert date of end of financial year] of the year shown.

<sup>(2)</sup> The management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>(3)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund

- (v) Per unit amounts shall be provided to the nearest cent and percentage amounts to two decimal places.
- (vi) The selected financial information required by subparagraph 9.2(f)(iv) shall be provided in chronological order for each of the five most recently completed financial years of the segregated fund for which audited financial statements have been filed, with the information for the most recent financial year provided in the first column on the right of the table.
- (vii) If the segregated fund was not in existence or was not available pursuant to an IVIC for any year for which information would otherwise be required to be provided under subparagraph 9.2(f)(iv), the tables shall not include any information for that year and the segregated fund shall disclose by way of a note to the table that the information is unavailable because the segregated fund only came into existence or became available pursuant to an IVIC on a date specified in that note.
- (viii) The management expense ratio for any period less than a full financial year of a segregated fund shall be annualized.
- (ix) If the basis of the calculation of the management fees or of the other fees, charges or expenses that are charged to the segregated fund is changed or is proposed to be changed and if the change would have had an effect on the management expense ratio for the last completed financial year of the segregated fund if the change had been in effect throughout that financial year, the AMF expects that the effect of the change on the management expense ratio shall be disclosed in a note to the appropriate table.
- (x) The portfolio turnover rate for a money market fund should not be disclosed.

Instructions:

1. Calculate the segregated fund's portfolio turnover rate by dividing the lesser of amounts of the purchases and sales of portfolio securities for the financial year by the average of the value of the portfolio securities owned by the segregated fund in the financial year. Calculate the monthly average by totaling the values of portfolio securities as at the beginning and end of the first month of the financial year and as at the end of each of the succeeding 11 months and dividing the sum by 13. Exclude from both numerator and denominator amounts relating to all securities having a remaining term to maturity on the date of acquisition by the segregated fund of one year or less.
2. Calculate the management expense ratio of the segregated fund as required by subsection 5.1.

## 10. Description of Expected Contents of Information Folder, including Fund Facts

### GENERAL INSTRUCTIONS:

The AMF expects that:

- a) the information provided by the insurer in the information folder shall be stated in clear and plain language with minimal use of technical terminology;
- b) the information folder shall be presented in a format that assists in readability and comprehension;
- c) all print shall be clearly readable (and at least 10 point font in Arial script or equivalent).

### PART A: Information Folder Cover:

The AMF expects that the Information Folder cover shall:

- a) contain the title “Information Folder” on the cover or face page;
- b) include a separate statement that the information folder is not an insurance contract;
- c) contain the insurer’s corporate name printed in full on the front cover of the information folder in a conspicuous manner with a minimum 10 point font size;
- d) if a segregated fund involves investment in another fund or if the name of a segregated fund includes the name of the entity associated with the secondary fund, provide additional disclosure to clearly indicate that the IVIC is issued by the insurer.

### PART B: KEY FACTS EXECUTIVE SUMMARY

The Key Facts executive summary describes the key features of each IVIC. It is intended to be read with the Fund Facts for each investment option available under the IVIC. The AMF expects the Key Facts executive summary to be located at the beginning of the information folder on the first page immediately following the cover or face page.

The AMF expects the Key Facts to be brief and written in clear and plain language for the average retail consumer.

The AMF expects the sections in the Key Facts to be set out in the following prescribed order and use the following headings:

- “What am I purchasing?”
- “What guarantees are available?”

- “What investments are available?”
- “How much will this cost?”
- “What can I do after I purchase this contract?”
- “What information will I receive about my contract?”
- “Can I change my mind?”
- “Where can I get more information or help?”

An optional section describing “Other key features of the product” may be included.

The AMF expects each section to contain a reference stating where more information in the information folder can be found.

Set out below is a description of the contents the AMF expects for each section covering key facts.

## **Item 1 – Introduction**

At the top of the first page of Key Facts include the name of the segregated fund product.

Include an introductory statement with language substantially similar to the following:

*“This Key Facts executive summary provides a brief description of the basic things you should know before you apply for this individual variable insurance contract. This summary is not your contract. A full description of all the features and how they work is contained in this information folder and your contract. You should review these documents and discuss any questions you have with your representative.”*

## **Item 2 – What am I purchasing?**

Identify the name of the product and name of the insurer.

Briefly describe the nature of the product and its intended use including a discussion of the following elements:

- a statement that the product is an insurance contract;
- a statement that the contractholder instructs the insurer how to invest amounts subscribed under the contract;
- availability of guarantees;
- tax status (non-registered, RRSP, RRIF, TFSA, etc.); and
- right of the contractholder to designate a beneficiary.

Readers should be advised that there may be tax implications to the contract.

In this or the next section, insurers should include a warning statement in bold print in substantially the following words:

**“The value of your contract can go up or down subject to the guarantees.”**

### **Item 3 – What guarantees are available?**

Provide a general description of the guarantees available under the product including:

- a description of the maturity guarantees;
- death benefit guarantees;
- any other guarantees such as income guarantees; and
- any reset options available

Insurers should include a warning statement in substantially the following words:

*“Any withdrawals you make will reduce the guarantees. For full details please see sections XX in this information folder and the contract.”*

### ***Maturity Guarantees***

Describe maturity guarantees as they apply to both the contract and amounts paid out thereunder and the costs associated with these guarantees.

As may be applicable, insurers should include wording substantially similar to the following:

*“The contract maturity date establishes when the contract guarantee will come into effect.”*

### ***Death Benefit Guarantees***

Describe what types of guarantees are provided upon death of the insured.

As may be applicable, insurers should include wording substantially similar to the following:

*“If you die before the contract maturity date your designated beneficiary will receive a death benefit equal to (the greater of the market value of your investments or X% of the premiums you have paid).”*

### ***Other Guarantees***

Describe any income guarantees such as GMWB benefits or lifetime withdrawal benefits which are available.

## ***Reset Option***

Describe any options which the contractholder has to reset the guarantees and any additional fees associated with this option.

## **Item 4 – What investments are available?**

Describe the investment options which are available and any general restrictions. Refer readers to the Fund Facts for more details.

Insurers should include a warning statement in substantially the following words:

*“XX does not guarantee the performance of the segregated funds. You should carefully consider your tolerance for risk when you select an investment option.”*

## **Item 5 – How much will this cost?**

State that fees will be deducted from the fund to cover costs such as expenses, administration of the contract and management of the investment options. Describe any fees paid directly by the contractholder such as any fees associated with income guarantees.

Identify the factors which will vary the cost of the IVIC for the contractholder including any optional guarantees and any initial sales charges and deferred sales charges.

Identify other specific transactions which may trigger additional costs including any short-term trading fees, switch fee or change fee.

Readers should be referred to the Funds Facts for specific information regarding the different fees associated with each investment option.

Readers should be referred to the relevant section of contract regarding fees and charges.

## **Item 6 – What can I do after I purchase this contract?**

Describe a contractholder’s right to make changes under the contract including the right to switch investments from one fund to another, to withdraw money, to pay additional premiums into the contract and to receive annuity payments after maturity.

Insurers should include a general warning statement in substantially the following words:

*“Certain restrictions and other conditions may apply. You should review the contract for your rights and obligations and discuss any questions with your representative.”*



## Item 7 – What information will I receive about my contract?

State that the contractholder will receive information from the insurer at least once a year detailing the value of the investments under the contract including a listing of all transactions the contractholder has made.

Readers should be advised that the annual audited financial statements and semi-annual unaudited financial statements for each segregated fund are available upon request.

## Item 8 – Can I change my mind?

Insurers should include wording substantially similar to the following:

*“You can cancel your contract and any subscription made at the time the contract was entered into within two business days starting from the earlier of when you receive the trade confirmation or five business days after the trade confirmation is mailed. You must notify the insurer in writing of your intention to cancel the contract. You will get back the lesser of the following amounts: the amount you invested or the value of the fund units attributed to you, if this value has gone down. The amount returned to you will also include any sales charges and other fees you paid.”*

*“You can also cancel any subsequent subscription made under the contract under these same conditions.”*

## Item 9 – Where can I get more information or help?

Provide contact information for the insurer including address information, telephone numbers and e-mail address.

Insurers should include wording substantially similar to the following:

*“For information about handling issues you are unable to resolve with your insurer, contact the Information Centre of the Autorité des marchés financiers (AMF) at 1-877-525-0337 or at [information@lautorite.gc.ca](mailto:information@lautorite.gc.ca).”*

*“For information about additional protection that is available for all life insurance contractholders, contact Assuris, a company established by the Canadian life insurance industry. See [www.assuris.ca](http://www.assuris.ca) for details.”*

## Item 10 – Other key features of the product

In this optional section, which may be included as part of the Key Facts using a title and in an order which assists comprehension by the reader, describe any additional key features of the product which are not covered in other sections of the Key Facts executive summary.<sup>15</sup>

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<sup>15</sup> Insurers should ensure that the additional elements to include in Item 10 comply, in particular, with the provisions of sections 35 to 37 of the *Regulation under the Act respecting insurance* (R.S.Q., c A-32, r.1).

## **PART C: CONTRACT AND UNIT FEATURES:**

Set out below is a description of the contents the AMF expects for each section covering contract and unit features.

### **Item1 – Description of the Individual Variable Insurance Contract:**

Describe briefly the IVIC offered and describe the material provisions of such contract, including without limiting the generality of the foregoing, the following information:

#### **a) Guaranteed and Non-Guaranteed Benefits:**

- (i) the benefits under the contract which are guaranteed;
- (ii) the benefits under the contract which are not guaranteed but fluctuate with the market value of the assets of the segregated fund supporting them.

#### **b) Units Credited to the Contract:**

The method of determining the benefits related to the market value of the segregated fund and the amount of the surrender value of those benefits.

#### **c) Percentage of Premium Allocated to Benefits:**

The percentage of the premium allocated to provide the benefits related to the market value of the segregated fund, when provision is made for part of the premium to be so allocated.

#### **d) Redemption, Surrender and Maturity Options:**

Surrender, loan, non-forfeiture, conversion, maturity or other option provisions and any charges with respect thereto.

#### **e) Manner of Determining the Value of Units on Acquisition or Transfer:**

The manner of determining the value of units on acquisition or transfer, including any charges expressed in dollars or as a percentage of premiums, as of the end of each of the first, third, and fifth year that the contract is in effect, a description of how to acquire or transfer units credited to your contract, and the minimum dollar amount to make an acquisition, either in a lump sum, or periodically.

#### **f) Charges on Withdrawal:**

The manner in which the value of units on partial surrender and full surrender is calculated and the retention charges in the event of surrender of the contract clearly stated, and expressed in dollars and cents or as a percentage of premiums, as of the end of each of the first, third, and fifth year that the contract is in effect.

## **(g) Fundamental Change Rights:**

The nature, notice requirements and rights and obligations set out in subsection 8.3.

### **Instructions:**

The information folder should include the following details concerning fundamental change rights:

- (i) disclose that the rights depend upon the happening of four specified events;
- (ii) set out the notice requirements, as well as the transfer and exit rights;
- (iii) define 'similar' fund [see subsection 8.3];
- (iv) if the insurer specifies a separate insurance or guarantee charge, specify a maximum insurance fee up to the greater of the existing charge, plus 50% or 50 basis points; and
- (v) if the insurer specifies a separate insurance or guarantee charge, indicate that an increase to the maximum insurance fee is a fundamental change.

### **Notes:**

- (a) if the segregated fund invests in a secondary fund, indicate that an increase in the management fee of the underlying fund, which results in an increase in the management fee of the segregated fund, is a fundamental change.
- (b) if the segregated fund invests in a secondary fund, indicate if the fundamental investment objectives of the secondary fund can be changed if approved by the unitholders of the secondary fund, and that upon such approval, segregated fund contractholders will be given notice of such change.
- (c) if an insurer no longer offers for sale to the public any IVICs, the insurer's existing IVICs are still subject to the fundamental change rule in subsection 8.3.

## **Item 2 – Value of Units:**

- a) Describe briefly the method followed in determining the value of units to be credited to the IVIC, surrendered under the contract and to measure the benefits under the contract.

### **Instructions:**

State the frequency with which units are valued, the time when such value becomes effective and the length of time it remains in effect.

- b) Describe the basis for establishing the value of the segregated fund.
- c) Describe the charges or method of determining the charges, against the segregated fund for taxes, management, or any other expenses or charges on the basis actually charged and on an annual basis.

**Instructions:**

Indicate briefly any charge imposed for:

- (i) the crediting of units to the IVIC;
  - (ii) the transfer of units in one segregated fund for units in another segregated fund;
  - (iii) the reinvestment of dividends and similar distributions;
  - (iv) service charges against the segregated fund including charges relating to such matters as cost of establishment of the IVIC;
  - (v) the cost of the continuing administration and maintenance of such contract; and
- d) When giving particulars of the charges, indicate when the charges will be deducted.
- e) Describe the application of the earnings of the segregated fund.
- f) Explain how the contractholder is notified of the number of units credited to or variable benefits available under the IVIC and state how often the contractholder will be notified.

**PART D: INFORMATION ON SEGREGATED FUND MANAGEMENT:**

Set out below is a description of the contents the AMF expects for each item covering information on segregated fund management.

**Item 1 - Description of the Insurer Issuing Individual Variable Insurance Contracts:**

Provide the full legal name and registered head office address of the insurer offering the IVIC for sale. State the jurisdiction in which the insurer is incorporated.

**Item 2 – Policies with respect to Investments for the Segregated Fund:**

- a) In accordance with subsection 6.1, include a brief statement in the information folder addressing each of the following matters with respect to each segregated fund:
- (i) the fundamental investment objective(s) of the segregated fund;
  - (ii) the principal investment strategies that the manager intends to use in achieving the segregated fund's fundamental investment objective(s) which may include any investment approach, philosophy, practices or techniques used by the manager or any particular style of portfolio management that the manager intends to follow;

- (iii) disclose and describe the principal risks applicable to the segregated fund;
  - (iv) state whether or not the segregated fund uses leverage, and if so, the manner by which it controls the risk related to this leverage (e.g., use of secondary funds, diversification); and
  - (iv) where the segregated fund is an index fund, disclose that as a result of investment decisions for the segregated fund being based on one or more permitted indices, the segregated fund may have more of the net assets of the segregated fund invested in one or more issuers than is usually permitted for segregated funds, and disclosure of the risks associated with that fact, including the possible effect of that fact on the liquidity and diversification of the segregated fund, the ability to satisfy redemption requests and on the volatility of the segregated fund.
- b)** State that a detailed description of the segregated fund's investment policy is available from the insurer with specific information as to how it can be accessed or obtained.
- If the segregated fund invests in a secondary fund, indicate that copies of the disclosure documents and financial statements of the secondary fund are available upon request.
- c)** The information folder should indicate that a change to the fundamental investment objective(s) of the segregated fund is a fundamental change.

### **Item 3 – Tax Status of the Segregated Fund:**

State any taxes that may be imposed on the insurer that would be payable by the insurer from or on behalf of the segregated fund which would constitute a charge upon, or deduction from, the segregated fund and explain the income tax position of the insurer with respect to its segregated fund.

### **Item 4 – Tax Status of Contractholders:**

State in general terms the income tax consequences to those contractholders who hold IVICs and whether or not an investment in the segregated fund may be a qualified investment for the purpose of a deferred income plan under the *Income Tax Act*.<sup>16</sup> Describe, if applicable, in clear and plain language, the tax status of the IVIC, which has a particular advantage under the *Income Tax Act* as a registered contract.

### **Item 5 – Segregated Fund Manager and Advisor:**

Where the manager or advisor is a person other than the insurer, state the name and address of the person who performs such function. Describe any relationship between such person and the insurer and the methods that have been established to deal with conflicts of interest.

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<sup>16</sup> R.S.C. 1985, c.1 (5th Supp.)

## **Item 6 – Interest of Management and Others in Material Transactions:**

Describe briefly any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three years prior to the date of the filing of the latest information folder, which has materially affected the insurer or any of its subsidiaries with respect to the segregated fund:

- a) the principal broker of the insurer;
- b) any director or executive officer of the insurer; or
- c) any associate or affiliate of the foregoing persons or companies.

## **Item 7 – Auditor**

Provide the name and address of the independent accountant who performed the audit of the segregated fund.

## **PART E: FEES AND SALES INCENTIVES:**

Set out below is a description of the contents the AMF expects for each item covering fees and sales incentives.

### **Item 1 – Management Fees and Other Expenses:**

State the current management fees expressed as a percentage of the net assets of the segregated fund and all other "expenses" which may be charged against the assets of the segregated fund under the IVIC. Explain how the management fee and other expenses are calculated and to whom they are paid.

#### **Specification:**

The term "other expenses" means all other expenses incurred in the ordinary course of business relating to the organization, management and operation of the segregated fund including interest charges (if any) and all taxes other than income taxes, with the exception of commissions and brokerage fees on the purchase and sale of portfolio securities.

### **Item 2 – Other Fees and Charges and “Trailer” or Service Fees:**

Describe, by type, all the other fees and charges which may be charged against the assets of the segregated fund under the IVIC, which do not fall under Item 1 of Part E. Specifically, describe any sales commissions, loads, trailer fees, deferred charges, exchange charges, early redemption charges, trustee fees, administrative fees, and any fees or charges paid by the manager of the fund, that are charged against the assets of the segregated fund.

Where a representative is entitled to receive “trailer” or service fees from the insurer or the manager of the segregated fund, and these fees are charged to the assets of the segregated fund, this fact shall be disclosed to prospective contractholders in the information folder.

## **PART F: RESTRICTIONS, RISK FACTORS AND SIGNIFICANT HOLDINGS IN OTHER ISSUERS:**

Set out below is a description of the contents the AMF expects for each item covering restrictions, risk factors and significant holdings in other issuers.

### **Item 1 – Investments in Mortgages, Real Estate and Derivatives:**

Where applicable, provide an overview as follows of all investments in mortgages, real estate and derivatives held by the segregated fund:

#### **a) Mortgage Disclosure:**

State briefly the segregated fund's investments in mortgages, including by the type of mortgage, by province, and by rates, at 1/4% intervals. Any investments made in mortgages must comply with the relevant provisions set out in section 6 of this Guideline.

#### **b) Real Estate Disclosure:**

State briefly the segregated fund's investments in real estate, and briefly state the segregated fund's policy on real estate acquisition, appraisals and valuations. Any investments made in real estate must comply with the relevant provisions set out in section 6 of this Guideline.

The information folder offering IVICs relating to a real estate segregated fund shall:

- (i) emphasize the long-term nature of an investment in a real estate segregated fund;
- (ii) state that such individual variable insurance contracts can be redeemed only on specified dates and only on a specified number of days prior notice as provided in the contracts and accordingly are not a suitable investment for contractholders who require ready convertibility of their funds into cash;
- (iii) state that redemption of IVICs may be suspended during any period that the segregated fund does not have sufficient cash or readily marketable securities to meet requests for redemptions;
- (iv) state that the net asset value at which IVICs are issued and redeemed is based upon appraisals of the real property; that for any given real property there is a range of market values; that an appraisal is an opinion only and that there can be no assurance that the appraised value will be equal to the price for which the property is ultimately sold; and

- (v) state that the net asset value per IVIC for the purchase or redemption of individual variable insurance contracts may differ from the amounts that would be paid to contractholders on dissolution of the fund.

**c) Derivatives Disclosure:**

State the purpose of the use of derivatives in the segregated fund; the type of derivatives used; whether they are exchange traded or over-the-counter; the degree of leverage involved; and, describe the markets that the derivatives provide the segregated fund with exposure to, or reduce exposure from. Any investments made in derivatives must comply with the relevant provisions set out in section 6 of this Guideline.

**Item 2 – Material Contracts:**

Give particulars of every material contract entered into by the insurer or any of its subsidiaries within two years prior to the date of the issuance<sup>17</sup> of the latest information folder and state a reasonable time and place at which the contract, or copy thereof, may be inspected.

The term "material contract" means any contract that can be reasonably regarded as presently material to the proposed contractholder with respect to the segregated fund and not in the ordinary and normal course of business.

**Item 3 – Other Material Facts:**

Give particulars of any other material facts relating to the IVIC proposed to be sold and not disclosed pursuant to the foregoing items.

## **PART G: INVESTMENTS IN ANOTHER FUND**

**Item 1 – Secondary Fund Disclosure Requirements**

The AMF expects that where there is investment in a secondary fund, the following conditions shall be met:

- a) there is disclosure in the information folder of any management fees or sales charges by the principal and the secondary fund. These fees or charges are to be included in the calculation of the management expense ratio of the principal fund;
- b) the information folder must state that the contractholder is purchasing an insurance contract and is not a unitholder of the secondary fund;
- c) disclosure of the fundamental investment objectives and policies of the secondary fund shall be included in the information folder;

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<sup>17</sup> Refer to footnote 4 of this Guideline.



- d) disclosure in the information folder shall be made that the fundamental investment objectives of the secondary fund cannot be changed unless approved by the unitholders of the secondary fund, and that upon such approval, segregated fund contractholders will be given notice of such change;
- e) contractholders must be advised, in the information folder, that copies of the simplified prospectus, annual information form, financial highlights and audited financial statements, or other disclosure documents required for the secondary fund, are available upon request;
- f) all contract charges should be described and distinguished from fund charges under one common heading in the information folder, and the individual elements of the management expense ratio (“MER”) of the principal fund shall be disclosed as either: (i) the MER and management fee of the principal fund (each including the corresponding MER and management fee of the secondary fund) or (ii) the MER of the secondary fund, plus the management fee and administrative expenses of the principal fund.

## **PART H: FUND FACTS**

The AMF expects insurers to develop a Fund Facts document describing the key features of each segregated fund offered under the IVIC.

The AMF expects the Fund Facts to be brief and written in clear and plain language for the average retail consumer. A grade of 6.0 on the Flesch-Kincaid or equivalent scale shall be used as a reference point for determining readability of the Fund Facts document.

The AMF expects the sections included in the Fund Facts to be set out in the following prescribed order and use the following headings:

- “Quick Facts”
- “What does the fund invest in?”
- “How has the fund performed?”
- “How risky is it?”
- “Are there any guarantees?”
- “Who is the fund for?”
- “How much does it cost?”
- “What if I change my mind?”
- “For More Information”

The AMF expects items 1 to 7 to appear on page 1 of the Fund Facts. Items 8 to 10 should appear on page 2. If required, any subsequent items may continue on a third page.

Set out below is a description of the AMF's expectations for each required item.

Attached as Appendix "A" is a sample layout for the required elements.

## **Item 1 – Identifying Information**

At the top of each Fund Facts page include:

- i) Full corporate name of the insurance company offering the segregated fund;
- ii) Name of the segregated fund;
- iii) Name of the segregated fund product; and
- iv) Date of information being included.

## **Item 2 – Quick Facts**

Using the sub-headings listed below, provide information regarding the following:

- i) Date fund created
- ii) Total value on (specify date)
- iii) Net Asset Value per Unit
- iv) Number of Units Outstanding
- v) Management expense ratio (MER)
- vi) Portfolio Turnover Rate
- vii) Portfolio manager
- viii) Minimum investment

A range for the MER should be shown including the lowest possible MER and highest possible MER depending on the guarantee option a consumer chooses.

## **Item 3 – What does the fund invest in?**

Include the following:

- i) a brief statement describing what the segregated fund invests in.

- ii) List the top 10 holdings of the segregated fund as at the end of the most recent fiscal year. Where a segregated fund invests in a secondary fund representing 50% or more of the assets of the segregated fund, disclose the top 10 holdings of the secondary fund. If a segregated fund invests in a secondary fund representing less than 50% of the assets of the segregated fund, name the secondary fund.
- iii) State the total number of investments.
- iv) State the percentage of the segregated fund which the top 10 investments make up.
- v) Include up to two pie charts showing the investment segmentation considered most appropriate by the fund manager. Each investment mix chart or table must show a breakdown of the fund's investment portfolio into appropriate subgroups and the percentage of the aggregate net asset value of the fund constituted by each subgroup. The names of the subgroups can include investment type, industry segment, or geographic location and use the most appropriate categories given the nature of the fund.

#### **Item 4 – How has the fund performed?**

Describe how the segregated fund has performed over the past 10 years. Information should be shown based on the most basic guarantee option available under the fund and performance should be reported after the MER has been deducted. Where a segregated fund has been in existence for less than 10 years, but greater than 1 year, include information for the years in which the fund has been in existence.

A warning statement including language substantially similar to the following should be included as an introduction to the section:

*“This section tells you how the fund has performed over the past 10 years for an investor who chooses the basic guarantee. Returns are after the MER has been deducted. It’s important to note that this doesn’t tell you how the fund will perform in the future. Also, your actual return will depend on the guarantee option you choose and on your personal tax situation.”*

- i) Average return

State:

- (a) the amount of money which a person who invested \$1,000 in the fund 10 years ago and chose the most basic guarantee available would now have.
- (b) the average per-cent return per year which investment in the fund for a 10 year period would work out to.

ii) Year-by-year returns

Include a bar chart showing how the fund has performed in each of the past 10 years. State the number of years, if any, during the past 10 year period when people who owned the fund at the start of the year would have lost money.

The following or similar language should be included as an introduction to the bar chart:

*“This chart shows how the fund has performed in each of the past 10 years for a contractholder who chooses the basic guarantee. In the last 10 years the fund was up in value x years and down in value x years of the 10.”*

Where a segregated fund invests in an underlying fund and historical performance information for the segregated fund does not exist, return information for the underlying fund may be presented provided that a note is included indicating that the information relates to the underlying fund.

### **Item 5 – How risky is it?**

State whether the insurance company has rated the fund’s risk as being: Very low, Low, Low to moderate, Moderate, Moderate to high or High and draw a colour coded bar chart to show which class the fund is in.

Include a warning statement in substantially the following words:

*“The value of your investments under your contract can go down. Please see Section XX for further details.”*

### **Item 6 – Are there any guarantees?**

State that guarantees are provided under the contract including language substantially similar to the following:

*“This segregated fund is being offered under an insurance contract. It comes with guarantees that may protect a contractholder’s investment if the markets go down. The Management Expense Ratio (MER) includes the insurance cost for the guarantee. For details please refer to the information folder and contract.”*

### **Item 7 – Who is this fund for?**

Provide details regarding the type of investor the segregated fund would be suitable for stating the advantages and any necessary cautions or warnings. Suitability should be tied to the fundamental investment objective of the fund and risk category assigned in Item 5 above.

## Item 8 – How much does it cost?

Include information which describes the fees and expenses a contractholder is required to pay to buy, own, and sell units of the fund.

Include wording substantially similar to the following as an introduction.

*“The following tables show the fees and expenses you could pay to buy, own and sell units of the fund.”*

i) Sales charges

Include a table showing the percentage amount of any initial sales charge and the percentage amount of any deferred sales charge and a description for each of how they work.

ii) Ongoing fund expenses

(a) Describe the MER for the fund including any different charges for different guarantee options.

Wording substantially similar to the following should be included:

*“The management expense ratio (MER) includes the management fee and operating expenses of the fund, as well as the insurance cost for the guarantee. You don’t pay these expenses directly. They affect you because they reduce the return you get on your investment. For details about how the guarantees work, see your insurance contract.”*

(b) Include a table showing the different guarantee options available and the MER for each option.

(c) Describe any trailing commissions.

iii) Other fees

Describe any other fees a contractholder may have to pay in order to sell or transfer units of the fund including any short-term trading fee, switch fee or change fee.

Describe any fees associated with guaranteed income benefits.

**Item 9 – What if I change my mind?**

Describe a contractholder’s right to cancel his decision to invest in the fund and provide details regarding the amount of money which will be returned to the investor if the investor exercises the option to cancel.

Wording substantially similar to the following should be included:

*“You can cancel your contract and any subscription made at the time the contract was entered into within two business days starting from the earlier of when you receive the trade confirmation or five business days after the trade confirmation is mailed. You must notify the insurer in writing of your intention to cancel the contract (e-mail, fax or regular mail). You will get back the lesser of the following amounts: the amount you invested or the value of the fund units attributed to you, if this value has gone down. The amount returned to you will also include any sales charges and other fees you paid.”*

*“You can also cancel any subsequent subscription made under the contract under these same conditions.”*

**Item 10 – For more information**

Include a warning statement that the Fund Facts summary may not contain all the information which a contractholder needs.

Wording substantially similar to the following should be included:

*“This summary may not contain all the information you need. Please read the contract and the information folder.”*

Include contact information for the insurer including address information, telephone numbers and e-mail address.


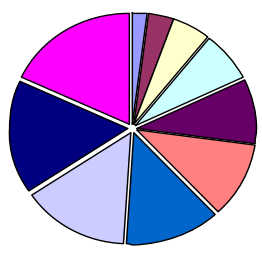
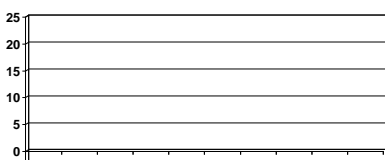
### **Supervision of management and commercial practices**

To foster the establishment of sound and prudent management practices and sound commercial practices within financial institutions, the AMF, acting within the scope of its supervisory activities, intends to assess the degree of compliance with the principles set forth in this Guideline in light of the specific attributes of each institution. Furthermore, it will examine the effectiveness and relevance of the strategies, policies and procedures adopted by financial institutions as well as the quality of oversight and control exercised by their board of directors and senior management.

Management practices involving segregated funds are numerous and constantly evolving. The AMF therefore expects decision makers at financial institutions to remain current with best practices and, to the extent that they address their needs, to adopt such practices.

APPENDIX

FUND FACTS

|  |  |  |                    |   |                                |                   |                           |                         |                              |                    |
|--|--|--|--------------------|---|--------------------------------|-------------------|---------------------------|-------------------------|------------------------------|--------------------|
| <p><b>Item 1</b></p>   |   | <p>Full Name of the Insurance Company<br/>                 Name of the Segregated Fund Product<br/>                 Name of the Segregated Fund<br/>                 Date of Information</p> |                    |   |                                |                   |                           |                         |                              |                    |
| <p><b>Item 2</b></p> <p><b>Key Facts</b></p>   | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Date fund created:</td> <td style="width: 50%;">Management expense ratio (MER): (include range)</td> </tr> <tr> <td>Total value on (specify date):</td> <td>Portfolio manager</td> </tr> <tr> <td>Net Asset Value per Unit:</td> <td>Portfolio Turnover Rate</td> </tr> <tr> <td>Number of units outstanding:</td> <td>Minimum Investment</td> </tr> </table>  |  | Date fund created: | Management expense ratio (MER): (include range) | Total value on (specify date): | Portfolio manager | Net Asset Value per Unit: | Portfolio Turnover Rate | Number of units outstanding: | Minimum Investment |
| Date fund created:   | Management expense ratio (MER): (include range)  |  |                    |   |                                |                   |                           |                         |                              |                    |
| Total value on (specify date):   | Portfolio manager  |  |                    |   |                                |                   |                           |                         |                              |                    |
| Net Asset Value per Unit:  | Portfolio Turnover Rate  |  |                    |   |                                |                   |                           |                         |                              |                    |
| Number of units outstanding:   | Minimum Investment   |  |                    |   |                                |                   |                           |                         |                              |                    |
| <p><b>Item 3</b></p> <p><b>What does this fund invest in?</b></p> <p><b>Top 10 investments</b></p> <ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> <li>4.</li> <li>5.</li> <li>6.</li> <li>7.</li> <li>8.</li> <li>9.</li> <li>10.</li> </ol> <p><b>Total investments</b></p> <p><b>The top 10 investments make up x% of the fund.</b></p>  | <p>Pie Chart showing <b>Investment Segmentation</b><br/>(specify date)</p> <div style="text-align: center;">  <p>Industry Sector %</p> </div>  |  |                    |   |                                |                   |                           |                         |                              |                    |
| <p><b>Item 4</b></p> <p><b>How has the fund performed?</b></p> <p>This section tells you how the fund has performed over the past 10 years for a contractholder who chooses the basic guarantee. Returns are after the MER has been deducted.</p> <p>It's important to note that this doesn't tell you how the fund will perform in the future. Also, your actual return will depend on the guarantee option you choose and on your personal tax situation.</p> <p><b>Average return</b></p> <p>A person who invested \$1,000 in the fund and chose the basic guarantee 10 years ago now has \$xxxx. This works out to an average of x % a year.</p> <p><b>Year-by-year returns</b></p> <p>This chart shows how the fund has performed in each of the past 10 years for a contractholder who chose the basic guarantee. In the last 10 years the fund was up in value x years and down in value x years of the 10.</p> <p style="text-align: center;">%</p> <div style="text-align: center;">  </div> | <p><b>Item 5</b></p> <p><b>How risky is it?</b></p> <p>The value of your investments can go down.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <tr> <td style="width: 16.6%;">Very low</td> <td style="width: 16.6%;">Low</td> <td style="width: 16.6%;">Low to moderate</td> <td style="width: 16.6%;">Moderate</td> <td style="width: 16.6%;">Moderate to high</td> <td style="width: 16.6%;">High</td> </tr> </table> <p><b>Item 6</b></p> <p><b>Are there any guarantees?</b></p> <p>This segregated fund is being offered under an insurance contract. It comes with guarantees that may protect a contractholder's investment if the markets go down. (The MER includes the insurance cost for the guarantee/or: A separate insurance fee is charged for the guarantee.) For details please refer to the information folder and contract.</p> <p><b>Item 7</b></p> <p><b>Who is this fund for?</b></p> |  | Very low           | Low   | Low to moderate                | Moderate          | Moderate to high          | High                    |                              |                    |
| Very low   | Low  | Low to moderate  | Moderate           | Moderate to high                                | High                           |                   |                           |                         |                              |                    |



**Item 8**

**How much does it cost?**

The following tables show the fees and expenses you could pay to buy, own and sell units of the fund. The ongoing fees and expenses are different for each guarantee option.

**1. Sales charges**

| Sales Charge Option   | What you Pay  |   | How it works  |
|-----------------------|---|---|---|
| Initial Sales Charge  | Up to X% of the amount you buy  |   | <ul style="list-style-type: none"> <li>You and your representative decide on the rate.</li> <li>The initial sales charge is deducted from the amount you buy. It goes to your (representative) as a commission.</li> </ul>  |
| Deferred Sales Charge | If you sell within:<br>1 year of buying<br>2 years of buying<br>3 years of buying<br>4 years of buying<br>5 years of buying<br>6 years of buying<br>After 6 years | X %<br>X %<br>X %<br>X %<br>X %<br>X %<br>0 % | <ul style="list-style-type: none"> <li>The deferred sales charge is a set rate. It is deducted from the amount you sell.</li> <li>When you buy the fund, XX pays your representative a commission of XX%. Any deferred sales charge you pay goes to XX.</li> <li>You can sell up to XX% of your units each year without paying a deferred sales charge.</li> <li>You can switch to units of other funds under the insurance contract at any time without paying a deferred sales charge as long as you do not change your guarantee option. The deferred sales charge schedule will be based on the date you bought your first fund.</li> </ul> |

**2. Ongoing fund expenses**

The management expense ratio (MER) includes the management fee and operating expenses of the fund.

(The MER includes the insurance cost for the guarantee/or: A separate insurance fee is charged for the guarantee. You don't pay these expenses directly. They affect you because they reduce the return you get on your investment. For details about how the guarantees work, see your insurance contract.

Guarantee Option                      MER (Annual rate as a % of the fund's value)

|       |         |    |
|-------|---------|----|
| Basic | 75/75   | X% |
| Full  | 100/100 | X% |

**Trailing commission**

XX pays your (representative) a trailing commission for as long as you own the fund. It is for the services and advice your (representative) provides to you. The trailing commission is paid out of the management fee. The rate depends on the sales charge option you choose:

- Initial sales charge – up to X% of the value of your investment each year
- Deferred sales charge – up to X% of the value of your investment each year

**3. Other fees**

Income Guarantee Fees (if applicable). The (income guarantee fee) of XX% is paid out of the contract.

You may have to pay other fees when you sell or transfer units of the fund.

| Fee                    | What you pay   |
|------------------------|--|
| Short term trading fee | X% of the value of units you sell or transfer within X days of buying them.<br>This fee goes to the fund |
| Change fee             | XX may charge you up to X% of the value of units you transfer to another guarantee option of the fund.   |

**Item 9**

**What if I change my mind?**

*"You can cancel your contract and any subscription made at the time the contract was entered into within two business days starting from the earlier of when you receive the trade confirmation or five business days after the trade confirmation is mailed. You must notify the insurer in writing of your intention to cancel the contract (e-mail, fax or regular mail). You will get back the lesser of the following amounts: the amount you invested or the value of the fund units attributed to you, if this value has gone down. The amount returned to you will also include any sales charges and other fees you paid."*  
*"You can also cancel any subsequent subscription made under the contract under these same conditions."*

**Item 10**

**For more information**

This summary may not contain all the information you need. Please read the contract and the information folder.

- Name of insurance company
- Address
- Telephone numbers
- E-mail.