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# Frequently Asked Questions About Form 3.2.1

## FAQs about Form 3.2.1 Supplemental disclosure for retail investor in a high-risk syndicated mortgage and supervisor approach

### 1) When do I need to start using the new disclosure form 3.2.1?

Form 3.2.1 is effective on **November 12, 2019**.

### 2) Who should complete the form 3.2.1?

The mortgage broker must complete Form 3.2.1 for each investor that is not part of the **designated class of investors**, who is considering or actually investing in high-risk syndicated mortgage.

The designated classes of investors are generally knowledgeable and experienced with complex investments, and include classes for individuals who have net income before taxes and net financial assets above a defined limit. The classes are defined in section 2 of [Ontario Regulation 188/08](#) under the *Mortgage Brokerages, Lenders and Administrators Act*, 2006, S.O. 2006, c. 29.

FSRA requires that mortgage brokers present form 3.2.1 to retail investors involved in high-risk syndicated mortgage transactions that have one or more of the following risk factors:

- **High Loan-to-value Ratio** - In transactions where the loan-to-value is greater than 100%, there is a risk that the mortgage security may not be enough to cover the





syndicated mortgage if the investment project fails.

- **Subordination** – If the priority or order of repayment of the syndicated mortgage may be lowered ('subordinated') behind other debt.
- **Conflicts of Interest** – In transactions where the borrower or developer is related to the mortgage administrator, there is the risk that the administrator is not independent and may favour the interests of the borrower/developer over those of the investors.

The investor must review and acknowledge receipt of the form 3.2.1 by initialling and signing the form, as indicated. It is also strongly recommended that the investor obtain appropriate independent legal advice while completing form 3.2.1.

The broker must also sign Form 3.2.1, acknowledging that he/she presented the form to the investor. Form 3.2.1 must be completed before finalizing the investor's purchase of a syndicated mortgage that may be a high-risk transaction.

Form 3.2.1 must be completed, in addition to all the other forms required for syndicated mortgages that were introduced on July 1, 2018.

### **3) How often should Form 3.2.1 be completed?**

The mortgage brokerage must complete form 3.2.1 for each investor that is not part of the designated class, and who is considering or is actually investing in a high-risk syndicated mortgage that may have one or more of the three risk factors.

### **4) When is a mortgage brokerage not required to complete the form 3.2.1?**

A mortgage brokerage is not required to complete form 3.2.1 when it is dealing with a designated class of investors, or if the transaction does not meet one or more of the three risk factors.

### **5) Does the mortgage brokerage need to submit to FSRA a copy of form 3.2.1 for disclosure that is provided to each potential or actual investor.**

**No.** Brokerages only needs to submit form 3.2.1 to FSRA for the **first** potential or actual investor in a high-risk syndicated mortgage.





Form 3.2.1 must be submitted within five (5) calendar days of providing it to the **first** potential or actual investor.

The form can be sent electronically to [SMI@fsrao.ca](mailto:SMI@fsrao.ca).

Filing of the form with FSRA is not required for each subsequent potential or actual investor in the syndicated mortgage.

## 6) Do I need to pay the \$200 fee when submitting form 3.2.1 to FSRA?

**The filing of the form 3.2.1 does not require payment of an extra \$200, if the fee has already been paid with the filing of a form 3.2 for the syndicated mortgage.**

Effective June 8, 2019, [FSRA Rule 2019-001](#) (“Assessments and Fees”) requires that mortgage brokerages must:

- File with FSRA investor disclosure form 3.2 within five (5) days of providing it to the **first** potential or actual investor in a non-qualified syndicated mortgage.
- Pay a \$200 [fee](#) to defray FSRA’s costs.

The filing of disclosure form 3.2 and the \$200 fee is required for **each non-qualified syndicated mortgage**. When a non-qualified syndicated mortgage is identified as being high-risk, the brokerage may end up submitting to FSRA forms 3.2.1 and 3.2 together along with the \$200 fee.

The fee is payable by cheque to: *Financial Services Regulatory Authority of Ontario* or *FSRA*.

All forms and any applicable documentation should be sent to [SMI@fsrao.ca](mailto:SMI@fsrao.ca).

A scanned copy of the cheque should accompany the electronic submission of the Form 3.2 prior to it being mailed to FSRA’s attention at:

Financial Services Regulatory Authority of Ontario  
Market Conduct, 16th floor  
5160 Yonge St





Toronto, ON, M2N 6L9

Please note that the submission will **NOT** be considered complete up until the related cheque has been received via mail.

## **7) Who did FSRA consult with to develop the form?**

Key stakeholders such as industry associations, as well as the general public, were given the opportunity to submit written comments to FSRA's consultation document, [Proposed Supervision Approach for High-risk Syndicated Mortgage Investments](#) that was posted on the FSRA website from August 7 to September 6, 2019.

FSRA requested that stakeholders provide their feedback on the proposed supervision approach and the supplemental disclosure Form 3.2.1. Stakeholders' submissions and a [summary of their comments/feedback](#) can be found on the FSRA website.

## **8) Why did FSRA create form 3.2.1, and how will the information collected on form 3.2.1 support its supervision approach?**

FSRA wanted to promote greater consumer awareness that syndicated mortgages can be high-risk investments, and that they should understand these risks before making a decision to invest their money in these products.

Filing form 3.2.1 with FSRA will enable FSRA to quickly assess the level of risk of the syndicated mortgage in real-time, to identify when high-risk transactions are being marketed, and then take action where necessary. Actions could include suspension or revocation of a brokerage's licence and/or requiring the payment of an Administrative Monetary Penalty if the required disclosures or filings are not completed on a timely basis or if such transactions do not otherwise comply with applicable law.

Real-time data collected through the filing of disclosure forms will provide FSRA with an enhanced understanding of the syndicated mortgage market overall and the role of high-risk transactions.





This initiative supports increased confidence in the syndicated mortgage market by clearly identifying high-risk transactions.

**9) What should I do if I have a question about form 3.2.1 or relating to non-qualified syndicated mortgage transactions?**

Mortgage brokers should seek direction from their Principal Broker.

Investors/lenders can ask their mortgage brokerage for assistance and/ or seek independent legal advice to better their investment.

All parties can also [contact FSRA](#).

**10) What will be the consequences if a mortgage brokerage does not submit form 3.2.1 as required to FSRA, on time or incorrectly completes the form?**

Failure to submit the form or submitting an incomplete, altered or unsigned form may result in disciplinary action by FSRA against the mortgage brokerage and its Principal Broker, as well as the mortgage broker or agent who sold the investment.

