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Submitted by email to: [huston.loke@fsrao.ca](mailto:huston.loke@fsrao.ca)

Dear Huston,

Thank you for the opportunity to provide feedback on FSRA's proposed Total Cost Reporting Rule ('Proposed TCR Rule'). Overall, the CLHIA supports the Proposed TCR Rule and shares FSRA's commitment to enhancing transparency around cost reporting. We appreciate the opportunity to provide feedback on the Proposed TCR Rule and highlight the implementation challenges we would encounter without certain amendments.

In line with the project timelines, insurers have already begun the systems design work to implement the expectations from the CSA and CCIR's April 2023 guidance for Total Cost Reporting ('TCR') for Investment Funds and Segregated Funds ('2023 CSA CCIR TCR Enhancements').

### Overview of CLHIA Feedback

The industry is strongly supportive of the goals for TCR including ensuring consumers have enhanced cost information about their investments. This improved awareness will lead consumers to make better investment decisions and improve their financial security.

To achieve the goals of the CSA/CCIR TCR project and improve customer outcomes, it is critical that the FSRA Rule is **harmonized with**:

- 1) **the investment fund industry requirements for total cost and performance reporting;**
- 2) the provincial and territorial jurisdictions including the Autorité de marchés financiers which is currently holding its own consultation; and
- 3) with current individual variable insurance contracts (IVICs) best practices and guidance.

Departure from these principles will create significant confusion for clients and implementation challenges for the industry and its service providers which will add disproportionate costs and delay TCR delivery.

## **Harmonizing insurance and securities requirements to avoid customer confusion**

A harmonized approach to enhanced disclosures is a fundamental goal of this project and will provide consumers with easily and meaningfully comparable information about their investments. To accomplish this, the insurance and securities industries are working together to ensure there is an agreed and aligned basis for calculating, transmitting and disclosing cost information. This collaboration has produced the pan-association '*TCR – Operational and Technological Implementation Framework*', which was provided to the CSA and CCIR in February 2024.

Continued alignment is also crucial when developing disclosure requirements for customers on how their IVICs perform relative to other investments. With harmonized performance reporting for both investment funds and IVICs, customers will be more informed about their investment choices, while advisors will be better able to respond to questions and better serve their clients.

Harmonized performance reporting with investment funds is the current method by which IVIC customers receive their statements. This well-understood approach has been in place for 20 to 30 years. Any alteration to the basis or timeline of performance reporting calculated is likely to cause customer confusion.

It is also critically important that the insurance industry adopts a harmonized approach with the securities industry for TCR processes and system development. Given that IVICs comprise only about 6% of the total investment fund industry, aligning these practices ensures that implementation and compliance costs can be shared, reducing the added cost for those who currently own or plan to own IVICs.

## **Harmonized provincial implementation for insurance regulators**

It is critical that transfer event scenarios are accommodated first, with subsequent harmonization across provincial and territorial jurisdictions to ensure alignment of performance reporting requirements. Any misalignment will impact overall timelines, accessibility to products within a jurisdiction, and most importantly a customer's ability to compare costs and performance. Without harmonization, products with the same attributes from different jurisdictions would have inconsistent reporting.

Investors from all across Canada buy IVICs and should be able to expect the same information wherever they reside.

## **Project goals and how they can be achieved**

The stated objective of the 2023 CSA CCIR TCR Enhancements is to improve transparency of the underlying costs of owning IVICs and investment funds, allowing consumers to better understand and compare IVICs and investment funds. Therefore, harmonization of all facets of

reporting, to the extent possible, is key to the success of this joint industry effort. This project goal is well reflected in the Proposed TCR Rule. However, there is one very notable departure that, if adopted by FSRA or any other insurance regulators in Canada, would cause significant implementation challenges for the industry. This is, the requirement to report performance for the IVIC, 'since the IVIC began' in all circumstances.

Currently, the securities sector reports performance 'since the account began' which is reflected in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and its Companion Policy. There are many events within the lifecycle of an investment that result in a new account within the securities sector, and thus a reset of the reporting requirements, but that may be managed within the same IVIC. In those instances, given the differences between an IVIC and a securities account, and taking into account that in most cases the investment will remain in the same IVIC after the event, insurers create a new set of policy records with a new policy number within their administration systems to mirror how the reporting works within the securities industry.

The CLHIA appreciates that FSRA is considering additional instances where insurers are not required to provide all of the otherwise required performance information (for example, when the tax status or ownership/nominee changed) which would align with existing investment fund reporting.

It is important to note that with the changes to the IVIC that we are discussing, any guarantees as well as beneficiary designations in place before the change would carry forward and continue to be reflected within the IVIC.

It is also important to again note that insurers have been providing customers with performance reporting in this manner for a lengthy period of time (two to three decades). If reporting "since IVIC began" was to be implemented, these customers would experience a noticeable change in what they are accustomed to receiving resulting in confusion.

### **Why comparable performance reporting is so important**

It is critical that investors in IVICs experience similar reporting standards as investors in investment funds to avoid confusion and allow for comparability. Without this alignment, investors with both products would see differing information, or data calculated on different bases.

Reporting performance since the IVIC began would also mean IVIC statements provided by insurers would be different to the statements customers receive from their CIRO dealer about the same IVIC holdings. This would result in customer confusion.

A single performance standard based on how investors structure their accounts will be more easily understood by customers and aligns better with the TCR project's goals. Requiring

different starting points for performance reporting will cause unnecessary complexity, cause significant confusion for consumers and is a departure from the TCR guiding principles.

Systems for back-office functions like calculating performance are shared between the insurance sector and securities sector. Any unique builds to accommodate IVICs may need to be a lower priority for service providers/third parties that need to build the infrastructure to be shared by both the insurance and securities sector, impacting overall project timelines.

The cost of any unique build (for example the functionality to link archived records for performance reporting purposes) would be disproportionately borne by the relatively smaller number of IVIC investors.

Overall, it is not in a customer's best interest to increase their cost unless there is an important reason for doing so. In the case of the transfer events, most insurers already provide year-end statements for the past policy record meaning there is no additional information that would be provided that would justify the cost increase. Customers will still have access to the information about historical performance prior to the transfer event by referring to prior statements. Those insurers who don't already do this as a best practice have confirmed that they are prepared to commit to meet such a requirement. In Appendix A, we expand on why comparable performance reporting is so important.

Adjustments are needed to the proposed approach to reflect that IVIC performance reporting should continue to maintain harmonization with the securities industry approach.

We recommend the addition of a new section 2(3) and 2(4) to FSRA's Rule to add instances where insurers are not required to provide all the otherwise required performance information, enabling them to continue to report in a manner that is harmonized with the securities industry.

This response includes detailed information in the following appendices:

Appendix A – Responses to FSRA's Consultation Questions

Appendix B – Description of Transfer Event Scenarios

Appendix C – Recommended Approach to Revision of Rule Wording

Thank you again for the opportunity to collaborate on this important initiative. We would be pleased to discuss any questions you may have on the topics we have outlined.

Yours sincerely,



Lyne Duhaime, President Quebec Affairs and SVP, Market Conduct Policy and Regulation

## Appendix A – Responses to FSRA Consultation Questions

*1) Identify the different circumstances where full compliance with the Proposed Rule would not be in the customer's best interest and in particular, how it would result in costs to customers that would exceed the benefit to the same customers.*

### Full compliance will not benefit customers during transfer events

Full compliance with the Proposed TCR Rule would not be in the customer's best interest when a transfer event takes place for the following reasons.

1. Investor experience should be harmonized for customers who own both mutual funds and IVICs and those who own IVICs through CIRO dealers

The requirement in the 2023 CSA CCIR TCR Enhancements (see page 95, Schedule A – Minimum Content of Annual Statement, section 2) for insurers to report performance 'since the IVIC began', is a significant challenge for the industry as this requires transaction history since IVIC inception. This differs from the securities industry where the requirement is to report performance since 'account' inception in accordance with NI 31-103 *Registration Requirements Exemptions and Ongoing Registered Obligations*. On a new account opening, the advisor is required to conduct a KYC and Suitability assessment (see section 13.2 and 13.3 of NI 31-103) to satisfy themselves that the client's investments are suitable. Coincident with the new account opening, there is a re-start of account performance reporting.

To harmonize with this process, some insurers issue a new contract, while others create a new set of policy records with a new policy number within their administration systems to mirror how the reporting works within the securities industry while taking into account that the investment will remain in the same IVIC after the event.

There is a critical need to harmonize the reporting approach with the securities industry. It is not in a customer's best interest for a different approach to performance reporting to be taken in the situation of transfer events.

It will be difficult for a consumer that holds both investment funds and IVICs to compare performance.

Different methodologies being applied by insurers and CIRO dealers will result in confusing information being provided to customers. For customers who own IVICs through CIRO dealers, the client receives a statement from both the dealer and the insurer. Without the exception for clients for nominee account changes, client statements received from the insurer would look considerably different to what they are receiving from their dealer.

One insurer has estimated that approximately 7% of their customers own both IVICs and mutual funds. The number of IVICs owned through CIRO dealers is approximately 3% of the total number of contracts, though the percentage of AUM this number of contracts represents may be higher than 3% as we understand the value of IVICs owned through CIRO dealers to be higher on average.

The reasonable expectation of the client would be that performance reporting and total cost reporting would be approached in a harmonized way with that for investment funds.

## 2. Aligning with Fundserv functionality to enable electronic processing

There is a business need to coordinate processes for the sale of insurance by CIRO dealers and not further complicate it.

As explained in the Process Flow Chart for Nominee IVIC In-kind Transfers in Appendix B, Fundserv processing protocols require a new account or policy number to be assigned upon a dealer to dealer transfer. The industry needs to align with Fundserv processing requirements to facilitate electronic processing via Fundserv which is how CIRO dealers transact business.

There will likely be less availability of IVIC products in the market if reporting requirements are too complicated for dealers. Some dealers may decide to make IVICs less available if they are continually responding to client inquiries on why their statement and the insurer's statement show different performance.

The number of IVIC products being sold would not justify the cost of complicated system adjustments. Ultimately, if the processing of IVICs cannot align with the Fundserv processing protocols, it may result in them not being available on Fundserv.

## 3. Privacy concerns related to nominee dealer changes and ownership changes

Also, there are privacy concerns if historical transaction information is not removed from the performance reporting. The concern with performance reporting back to inception is that there is a need to report the deposits, withdrawals and rates of return (which take into consideration the amounts and timing of deposits and withdrawals). It is possible that the client might not want the transaction information shared with different firms, or in the case where there is an ownership change, it is possible that the original owner might not want that information shared with the new owner.

## 4. Current performance reporting aligns with how customers think about their investments

It's in the customer's best interest for insurers to start the performance history at the same time as the policy number changes because it coincides with changes to the customer's investment strategy to reflect the transition from the accumulation phase to the decumulation phase. It

provides simplified information to customers focusing on performance from the date of the transfer.

It's important to note again that this is how performance reporting for IVIC customers is done today, which is well received by customers. Any change to the basis or timeline on which performance is calculated is likely to cause confusion.

5. System challenges related to complex integration issues and potential errors could push out project timelines

To comply with the Proposed TCR Rule as-is, insurers or their service providers will need to undertake significantly complex system scoping and builds. To link inactive policy records to the current active policy record to allow for the consolidation of transaction history and performance reporting since the IVIC began would be very difficult or in some cases impossible.

Some IVICs have experienced multiple transfer events over the duration of the policy 'since the IVIC began'. Currently, there is no automated method to link and import all the previous policy records (that would now be inactivated) to the current active policy records and reporting. This means that for these cases, there will be material complexity or impossibility to develop the required system changes to link the previous policy records to the active policy number and owner/annuitant.

Without other core inflow system changes to uniquely identify IVIC transfers, transactions are difficult to define in the system and may be prone to error.

Some members of the industry have commented that in some cases, an RSP may be converted to a RIF onto a separate administration system. System development would be very complex to track, identify and link policy numbers across multiple systems to provide performance reporting.

The timelines to accommodate this change together with other planned regulatory and client work could push out the ability to comply for first reporting periods. Service providers will focus their resources on developing solutions that are applicable to both the insurance and securities industries. The system build that is only necessary for 'since the IVIC began' reporting will not be prioritized and it does not appear that it will be possible before the effective date of the TCR rules, or in some cases not at all.

This means that implementing the reporting requirements for 'since the IVIC began' reporting (where possible) may not be finalized until after the combined TCR project is finalized (e.g. until after 2027).

## Exemption for Legacy Contracts on Old Systems and Small Closed Blocks of Business

We agree with the approach taken by FSRA in the Proposed TCR Rule that there be an allowed exception when prior system changes result in not allowing for reporting performance information for time periods prior to a transfer event because complete historical transaction information is not available.

However, in the absence of having the regulatory authority to adopt the *Schedule B – Modified Compliance and Exemptions* – process in the 2023 CSA CCIR TCR Enhancements, the Proposed TCR Rule also must provide a clear exemption for legacy contracts on old systems and small closed blocks of business.

While in some situations it may be possible for insurers to rely on the exemption criteria in section 2(2), this will not necessarily always be the case.

Legacy system issues also extend to old systems that cannot report all the data that is required, which is not necessarily because of a system change. In these cases, the cost to either upgrade that system or move the block to a new system is prohibitive, and in some cases, the data would not be available in any event.

The number and percentage of contracts administered on old systems continues to decline, currently representing about 1% of all contracts and is projected continue to decline to about 0.1% of all contracts by 2032.

For small, closed blocks of business, whether administered on old or new systems, it is also generally not cost efficient to update systems to include the total cost reporting requirements. Creating exemptions for closed blocks of business means contract-holders will not be paying greater fees to cover the costs. In all situations the cost would outweigh the benefit. Fair treatment of customers is achieved because contract-holders will be provided with sufficient accurate and clear information to allow them to make informed decisions. This amounts to about 1% of all contracts, and, as the blocks are closed to new contracts, continues to decline.

The clearest way to address this matter is to include an exemption for legacy contracts on old systems and small closed blocks of business in the Proposed TCR Rule.

Without a clear exemption for legacy contracts and small closed blocks of business in the Proposed TCR Rule, we would like confirmation that FSRA is willing to individually enter into forbearance agreements with insurers with respect to those reporting requirements.



2) For each circumstance identified, provide information and supporting evidence to the following questions:

a) What are the anticipated the costs and challenges for full compliance with the Proposed Rule?

Full compliance with the Proposed TCR Rule related to performance reporting would differ from the originally understood scope of the TCR project, which is that the insurance industry would take a harmonized approach with the investment industry.

If reporting of performance does not start from the date of transfer, an inordinate amount of system development work would be needed to link performance from the old policy records to the new policy records. The industry expects that a material amount of manual effort would be required to link and review transaction history and IVIC values across the inactive policy records and the active policy records to be able to ensure completeness and accuracy of 'since the IVIC began reporting. This level of manual effort is not feasible and should not be discounted or underestimated when considering the large blocks of in-force IVICs being administered by the industry.

A disharmonized approach to performance reporting or requirements that are excessively complicated could cause challenges including:

- excessive system changes which would be costly;
- disrupt business processes;
- delay implementation; and
- cause dis-harmonization with the mutual funds industry.

To reemphasize the earlier points, any inconsistency in approach to reporting with the securities industry would confuse customers.

CLHIA survey results show that the cost for redesigning systems to account for transfer event scenarios in order to be able to provide performance reporting from the date that the IVIC began is up to \$28 million (including up to \$14 Million for insurers and up to \$14 Million for third party service providers). Since the IVIC industry is only about 6% of the total size of the investment fund industry, there is a disproportionately high cost for any system changes that are not being made on a harmonized basis with the investment fund industry.

These are initial high-level estimates only, are forward looking, exclude system redesign costs related to conversions and are based solely on the limited scoping performed to date. Estimates are expected to exceed these amounts once draft rules have been formalized and buildout parameters are known.

It is important to note that this would be in addition to the costs required to comply with the rest of the requirements for TCR and other performance reporting requirements.

The costs identified by third-party service providers (including LTI and IFDS) also do not include any upstream or downstream impacted systems such as dealer/rep or Fundserv system change costs or print vendors.

The estimated third-party service provider costs do not include reporting for any historical policy records and are based upon a go forward basis for contracts with a transfer or change after enhanced TCR requirement are implemented.

Insurer costs to provide performance reporting 'since the IVIC began' would be in addition to third-party service providers and include costs associated with a modified approach to statement design, communication systems with distributors, communications with contract holders and Fundserv costs.

All of these costs ultimately get passed on to customers.

It is important to understand that the transfer events represent a very small percentage of the overall number of contracts meaning that the cost is disproportionately high. CLHIA survey results identify that transfer events related to tax status changes represented approximately 1.3% of contracts in 2022 (31,100 contract), ownership changes represented approximately 0.1% of contracts (2,740 contracts) and transfers to a different CIRO dealer represented less than 0.1% of contracts (1,500 contracts).

*b) How would full compliance with the Proposed Rule impact different of types of customers (e.g., customers with only IVICs, customers with both IVIC and mutual funds)?*

We have provided an answer to this under question 1) mentioned above.

*c) What is the anticipated frequency of each circumstance occurring?*

We are not able to anticipate the go forward frequency but can provide historical information as an indication of the likely frequency of each circumstance occurring in the future.

The following data is based on 10 insurer responses to a CLHIA survey. These insurers represent approximately 90% of the IVIC market.

## Section 1: Total Number of Tax Status and Ownership Change Events

| All Contracts               | # Contracts Year-end 2021 | AUM in \$B Year-end 2021 | Tax Status Change # Contracts 2022 | Tax Status Change # Contracts 2023 | Ownership Change # Contracts 2022 | Ownership Change # Contracts 2023 |
|-----------------------------|---------------------------|--------------------------|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| RRSP/LIRA/RLSP              | 1,100,000                 | \$ 53.0                  | 21,000                             | 24,000                             | 150                               | 110                               |
| RRIF/LIF/PRIF/RLIF/LRIF     | 340,000                   | \$ 27.0                  | 7,100                              | 7,600                              | 1,200                             | 1,300                             |
| Other Registered            | 700,000                   | \$ 13.9                  | 1,600                              | 2,000                              | 190                               | 240                               |
| <b>Total Registered</b>     | <b>2,140,000</b>          | <b>\$ 93.9</b>           | <b>29,700</b>                      | <b>33,600</b>                      | <b>1,540</b>                      | <b>1,650</b>                      |
| <b>Total Non-Registered</b> | <b>290,000</b>            | <b>\$ 38.7</b>           | <b>1,400</b>                       | <b>1,300</b>                       | <b>1,200</b>                      | <b>1,400</b>                      |
| <b>Total</b>                | <b>2,430,000</b>          | <b>\$ 132.6</b>          | <b>31,100</b>                      | <b>34,900</b>                      | <b>2,740</b>                      | <b>3,050</b>                      |

| All Contracts               | % of Contracts         |                        |                       |                       |
|-----------------------------|------------------------|------------------------|-----------------------|-----------------------|
|                             | Tax Status Change 2022 | Tax Status Change 2023 | Ownership Change 2022 | Ownership Change 2023 |
| RRSP/LIRA/RLSP              | 1.9%                   | 2.2%                   | <0.1%                 | <0.1%                 |
| RRIF/LIF/PRIF/RLIF/LRIF     | 2.1%                   | 2.2%                   | 0.4%                  | 0.4%                  |
| Other Registered            | 0.2%                   | 0.3%                   | <0.1%                 | <0.1%                 |
| <b>Total Registered</b>     | <b>1.4%</b>            | <b>1.6%</b>            | <b>0.1%</b>           | <b>0.1%</b>           |
| <b>Total Non-Registered</b> | <b>0.5%</b>            | <b>0.4%</b>            | <b>0.4%</b>           | <b>0.5%</b>           |
| <b>Total</b>                | <b>1.3%</b>            | <b>1.4%</b>            | <b>0.1%</b>           | <b>0.1%</b>           |

| External Contracts                 | # Contracts Year-end 2021 | AUM in \$B Year-end 2021 | Tax Status Change # Contracts 2022 | Tax Status Change # Contracts 2023 | Ownership Change # Contracts 2022 | Ownership Change # Contracts 2023 |
|------------------------------------|---------------------------|--------------------------|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| RRSP/LIRA/RLSP                     | 12,000                    | \$ 1.3                   | 1,100                              | 1,000                              | <10                               | 20                                |
| RRIF/LIF/PRIF/RLIF/LRIF            | 15,000                    | \$ 1.7                   | 650                                | 900                                | 330                               | 340                               |
| Other Registered                   | 1,200                     | \$ 0.1                   | 40                                 | 80                                 | <10                               | -                                 |
| <b>Total Registered</b>            | <b>28,200</b>             | <b>\$ 3.1</b>            | <b>1,790</b>                       | <b>1,980</b>                       | <b>340</b>                        | <b>360</b>                        |
| <b>Total Non-Registered</b>        | <b>26,000</b>             | <b>\$ 4.4</b>            | <b>300</b>                         | <b>420</b>                         | <b>180</b>                        | <b>300</b>                        |
| <b>Total External</b>              | <b>54,200</b>             | <b>\$ 7.5</b>            | <b>2,090</b>                       | <b>2,400</b>                       | <b>520</b>                        | <b>660</b>                        |
| <b>External % of All Contracts</b> | <b>2%</b>                 | <b>6%</b>                | <b>7%</b>                          | <b>7%</b>                          | <b>19%</b>                        | <b>22%</b>                        |

As an example of how to read this data, in 2022, approximately 29,700 registered contracts and 1,400 non-registered contracts had a tax status change representing 1.4% and 0.5% of total contracts respectively. Also, in 2022, 1,540 registered contracts and 1,200 non-registered contracts had an ownership change representing 0.1% and 0.4% of total contracts respectively.

Also in 2022, approximately 2,090 external contracts (i.e. contracts owned through CIRO dealers) had a tax status change representing 7% of all contracts that experienced a tax status change.

## Section 2: Number of Dealer to Dealer transfers

|   | Registered | Non-Registered | Total  |
|---|------------|----------------|--------|
| Number of nominee contracts.                                  | 25,000     | 17,000         | 42,000 |
| Number of client name contracts serviced by CIRO dealers.     | 44,000     | 17,000         | 61,000 |
| Percentage of client name contracts serviced by CIRO dealers. | 2%         | 6%             | 3%     |

|  |                              |
|--|------------------------------|
| Number of contracts that have been transferred to a different CIRO dealer during 2022.   | 1,500                        |
| Percentage of contracts that have been transferred to a different CIRO dealer during 2022.   | 2%                           |
| When there is a change in dealer can this result in a tax status change?<br>(e.g., can there be a change of registered trust?)     | - 3 Yes<br>- 4 No<br>- 3 N/A |
| Percentage of registered and non-registered contracts where the insurer reports client statement reporting directly to the client. | - 7 are 90+%<br>- 3 N/A      |

There are over 100,000 contracts serviced by CIRO licensed dealers which represents approximately 2% of registered contracts and 6% of non-registered contracts. Of these, approximately 1500 transferred to a different CIRO dealer in 2022.

Please note that CLHIA did not obtain statistics about other types of transfer events. We believe the number to be relatively small. Please see attached Appendix B for a listing of transfer event types.

### *d) How would full compliance with the Proposed Rule result in outcomes that are not in the best interest of the customer?*

We have addressed this in our answer to 2) a) above.

Otherwise, it's not in the best interest of the customer to make IVIC products more expensive. IVICs should be offered in the market without creating any additional cost disadvantages to other investment funds. A competitive price facilitates consumer choice to access the important features of an IVIC contract such as guarantees and naming beneficiaries.

### *e) How would an exception be consistent with the fair treatment of customers?*

An exception is consistent with the fair treatment of customers because it will facilitate comparability between IVICs and investment funds and will result in limiting additional costs which are passed on to the customer. Adopting a harmonized approach coincides with the reasonable expectation of the customer. From a customer service perspective, harmonization

will allow the advisor the ability to support questions from their clients on performance for both mutual funds and IVICs as well as IVICs owned through CIRO dealers.

It is appropriate for insurers to take a principles-based approach to the application of reporting requirements with the goal of providing helpful information to clients regarding cost and performance. This is consistent with a fair treatment of customers approach.

Please see our response to question 1) above for additional details.

*f) How could these circumstances be addressed in the Proposed Rule?*

Please refer to Appendix C for details regarding our recommended approach for revision of the Proposed TCR Rule wording.

## Appendix B – Description of the Transfer Event Scenarios

For IVICs, a number of transfer events may occur (e.g. RSP to RIF, contract holder to successor owner, and dealer to dealer) which insurers have historically treated as an amendment or conversion within the same contract, wherein transaction history from the old policy records is not transferred to the current policy records. It is important to understand that contractual features including guarantees and beneficiary designations continue to apply.

Examples of policy transfer events include where performance reporting starts over as of the date of transfer:

- **Tax Status Changes**
  - Retirement Savings Plan (RSP) to Retirement Income Fund (RIF) transfers
- **Ownership Changes**
  - Spousal transfers
  - Estate transfers
- **Nominee Account Changes**
  - External securities dealer changes
- **Other Changes**
  - First Home Savings Account (FHSA) transfer to an RRSP
  - Registered Education Savings Plan (RESP) transfer to an RRSP

Please see the end of this Appendix for a more complete list of transfer event scenarios.

Tax status changes (e.g. RRSP to RRIF, LIRA to LIF, LIRA to RSP, non-registered to registered, etc.)

From a tax perspective, reporting must be conducted separately when moving from one tax vehicle to another. For example, when a customer requests a full transfer from a RRSP to a RRIF, the RRSP ceases to exist. In almost all cases, a new policy record is set up under the same IVIC to administer the RRIF. It is consistent with customers expectations that the performance reporting for the RRIF would commence when the RRIF is created, not going back to when the RRSP was first opened.

Another example is multiple RRSPs feeding into one RIF (for consolidation purposes for example) where all are treated as separate deposits. Each of the RRSPs would be deactivated, but under the new rules, the insurer would potentially need to continue to report performance from multiple deactivated accounts where one of the sources is the IVIC that continues on. The multiple deposits to a RIF could be from internal/external transfers etc., involving a consolidation of multiple accounts into one RIF. Carrying over reporting could cause confusion for clients as the insurer would need to show the performance for each of the deactivated RRSPs in addition to the new RRIF if other IVICs were involved. Also, it important to note that in this scenario, there would be a lot of manual work to verify the accuracy of transactional data. Manual

processes increase the chance of errors, so it is difficult to guarantee the completeness and accuracy of since inception reporting from the start of the IVIC contract in these scenarios.

#### Ownership changes (e.g. dependent, spousal or estate transfers)

For non-registered contracts, the change often involves a transfer of ownership from parent to child, the passing of the original owner, or company owned IVICs where the annuitant (measuring life) remains the same. On the registered side, circumstances where there would be a new owner mainly involve a new spouse owner for the RIF.

Also, contracts may allow for appointment of a successor owner or joint life to be named. For example, this includes surviving spouses (successor annuitant or joint life contracts) designations on registered accounts (RSP and RIF) where a continuation of benefit to the spouse means there is a change of ownership to the new annuitant.

Since a change in ownership is deemed to result in a taxable disposition for non-registered contracts, and therefore a new adjusted cost base and market value is established, it is in the best interest of the new client for performance to be reported from the date of the change.

Furthermore, since performance reporting requires past transactions to be reported, and those transactions could be considered personal information of the owner at the time of the transaction, it is unreasonable and likely to raise privacy concerns for both registered and non-registered contracts to report on performance associated with a completely different owner. If the current owner is provided with performance reporting as of when the IVIC began, the insurers will be unable to provide the current owner with historical transaction information that occurred under the previous owner due to privacy restrictions. Furthermore, the current advisor will be unable to assist the current owner with questions on performance if there was a dealer change done previously due to privacy restrictions. Information on historical data can only be provided to the owner, dealer and advisor of record on the historical policy record(s).

#### Nominee Account Changes – (including client name to nominee and vice versa, nominee to nominee e.g. External securities dealer changes or from an MGA to a securities dealer)

When IVICs are sold through a CIRO dealer, they are treated for processing and reporting purposes in a similar manner as securities, which notably means that in any transfer situation within, into, or out of the CIRO dealer distribution network, a new policy record is created (and a new policy number is assigned to the existing IVIC) within the administration systems. Performance reporting would re-commence from the date of the new policy record. Insurer business practices and associated rules must align with the rules for the securities industry to facilitate distribution of IVICs in the securities channel (e.g. Fundserv requirements) and simplify administrative requirements by following existing processing rules for electronic transactions.

Insurer business practices and processes have been developed to harmonize with the securities process. Insurers have been reporting on this basis for IVICs in the securities distribution network for a lengthy period of time (20 or 30 years).

These transfer events that create new policy records and new policy numbers can be described as nominee dealer to nominee dealer transfers, client name to nominee dealer transfers or nominee dealer to client name transfers. In each case, insurers and securities dealers will share the same third-party fund administration systems, which operate with consistent concepts. This facilitates consistent transfer of information, systems maintenance and reporting when there are both IVICs and investment fund holdings.

Where an account at dealer A is transferred to dealer B via Fundserv, the dealers are required to follow the Fundserv account transfer requirements. This is a user protocol that all Fundserv users sign and agree to. Fundserv can levy fines against system participants for non-compliance. Compliance with these protocols involves creation of a new account in the third-party fund administration system. IVICs follow this process, while taking into account that the investment will remain in the same IVIC after the event, by creating a new set of policy records with a new policy number within their administration systems.

If Fundserv is not involved, the third-party fund administration system in a transfer from a dealer to another dealer or from dealer to or from a client name account (e.g. an MGA) will still require a new account to be established which means the insurers create new policy records and assign a new policy number.

In all cases, the performance data from the old policy record is archived and currently there is no link between the old policy record and the newly created policy record. Historical information would however still be available upon request, subject to legacy system issues.

The portion of the IVIC markets that are within the securities distribution network to which this exemption would apply is expected to be less than 10%.

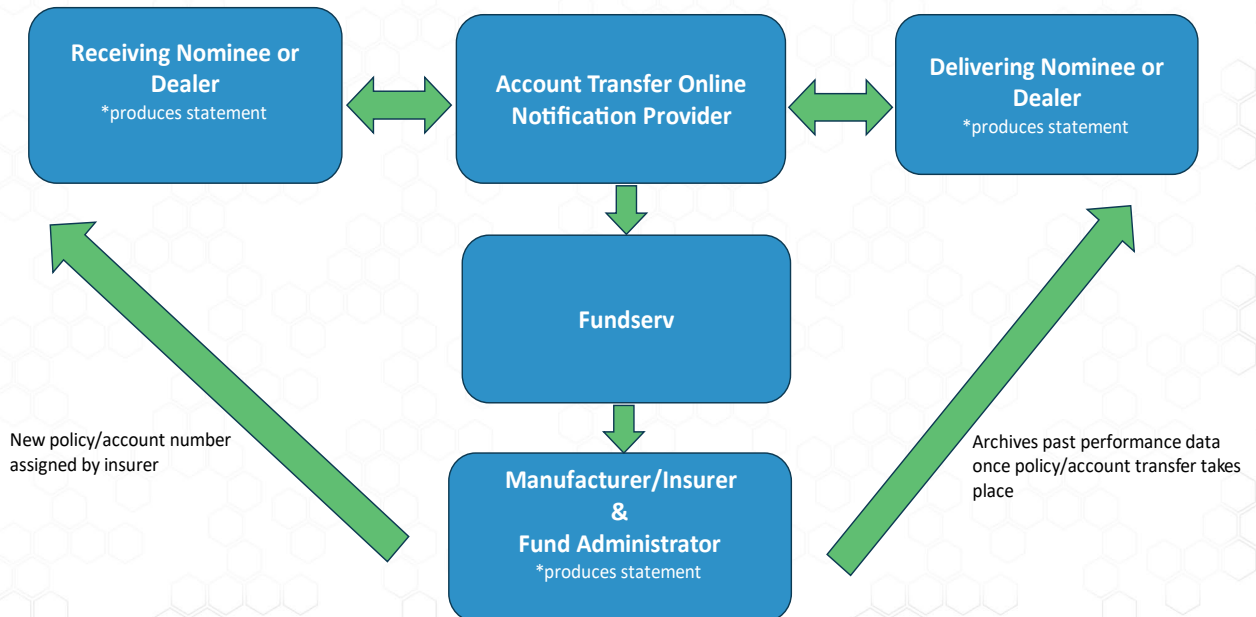
Please see the diagram below which illustrates the process flow for nominee name IVIC in-kind transfers.



## Process Flow Chart for Nominee IVIC In-kind Transfers



### Process Flow for Nominee Segregated Fund In-Kind Transfers



This diagram displays the following:

- The receiving Dealer enters the request for transfer through an account transfer online notification system to the Delivering Dealer. The message is automatically copied to Fundserv.
- Fundserv takes the message and moves it to the insurance company to say change Delivering Dealer to Receiving Dealer.
- Upon receipt of the Fundserv communication, the insurance company closes the policy/account of the Delivering Dealer in Fundserv and creates a new policy record with a new policy number for the new account at the Receiving Dealer.
- The benefits of the contract continue to be in force and are reflected in the new policy record/account (e.g., guarantees, beneficiaries), but the historical information for historical performance reporting is not carried forward, meaning that performance reporting starts fresh at the Receiving Dealer.
- Performance data starts at the Receiving Dealer from the date of the transfer since the new Dealer/ Nominee, who also sends client statements, can only report on assets for a period in which they have oversight of the assets.
- A change in nominee (at least for registered assets) means a change in trustee and therefore legal ownership. The receiving nominee cannot access the prior trustee's (i.e. prior legal owners) performance data. Beneficial ownership remains with the client.

## Internal Agent Changes

By contrast, if a directly contracted agent or agent contracted at an MGA changes, there is no change to the policy record or policy number change *generally speaking* [emphasis added], and the name of the new advisor is recorded in the system and there is no break in the record keeping.

## Other Changes

There are other transfer scenarios that result in a new policy number to be assigned to the IVIC, this could be due to administrative process, system functionality and product transfer rules. For example, when the IVIC transfers to a low fee platform for a high-net-worth client.

Please see the chart below for some examples of other changes.

| Transfer Event Scenarios Examples Chart   |   |
|---|---|
| Transfer Event Scenario   | Examples, but not limited to those listed   |
| <p>Tax Status Changes</p> <p>“A new tax registration status means a new plan for tax purposes”</p>  | <ul style="list-style-type: none"> <li>• RSP to RIF</li> <li>• LIRA to LIF</li> <li>• LIRA to RSP</li> <li>• LIRA to PRIF</li> <li>• LIRA to RRIF</li> <li>• RESP to RSP</li> <li>• RDSP to RSP</li> <li>• External non-registered to external registered</li> <li>• PRIF to TFSA</li> <li>• PRIF to RSP</li> <li>• Non-registered to TFSA</li> <li>• Non-registered to FHSA</li> <li>• Non-registered to RSP</li> <li>• Non-registered to RRSP</li> <li>• RIF to TFSA</li> <li>• RIF to RSP</li> <li>• RIF to RRSP</li> <li>• FHSA to RSP</li> <li>• FHSA to RIF</li> <li>• RLSP to RIF</li> <li>• RLSP to RLIF</li> <li>• LRSP to LIF</li> <li>• LRSP to RLIF</li> <li>• RLIF to RLSP</li> <li>• LIF to LIRA</li> <li>• LIF to RRSP</li> <li>• LIF to RLIF</li> <li>• LIF to RRIF</li> <li>• LIF to LRSP</li> <li>• TFSA to RRSP</li> <li>• TFSA to FHSA</li> </ul> |
| <p>Ownership Changes</p> <p>“Registered ownership changes mainly involve spousal transfer”</p> <p>“A larger number of ownership changes are for non-registered”</p> | <ul style="list-style-type: none"> <li>• RSP spousal changes</li> <li>• RIF spousal changes</li> <li>• TFSA spousal changes</li> <li>• RSP transfer to child on death</li> <li>• RIF transfer to child on death</li> </ul>  |

|   |   |
|---|---|
|   | <ul style="list-style-type: none"> <li>• Other beneficiary transfers for corporate owned non-registered</li> </ul>  |
| <p>Dealer Change</p> <p>“Transfer events that create new policy numbers when transferring between Nominee Dealer to Nominee Client and Client Name”</p> | <ul style="list-style-type: none"> <li>• Dealer to Dealer</li> <li>• MGA to Dealer</li> <li>• Dealer to MGA</li> <li>• Nominee to client name</li> <li>• Client name to Nominee</li> <li>• Dealer A Nominee to Dealer B Client Name</li> <li>• Dealer B Client Name to Dealer A Nominee</li> </ul>  |
| Other Changes   | <ul style="list-style-type: none"> <li>• A nominee assigns a new cross reference number and the insurer sets up the new policy (please note: nominee dealers request cross reference number changes for lots of reasons. Sometimes just to better align their books. In those instances, insurers would just change the number in a field on the system and no new policy record is generated. Other times, the nominee dealer may request this because of an actual change in ownership, or guarantees. In these instances, insurers would change the cross reference number and also generate a new policy record.</li> <li>• When the IVIC transfers to a low fee platform for a high-net-worth client.</li> </ul> |

## Appendix C – Recommended Approach to Revision of Rule Wording

For the most part, the Rule wording closely follows the CSA/CCIR framework and sets out a workable framework. However, to accommodate the various transfer event scenarios described in Appendix A, as well as other possible transfer situations that may arise, we recommend additional sections 2(3) and 2(4) be included in the Proposed TCR Rule to clarify the circumstances where exceptions are permitted. Please see the recommended wording below:

### 2 Annual Statement to Insured

.....

*2(3) - Despite 2(1), if the individual variable insurance contract is subject to a change, including, but not limited to:*

- a) a tax registration status change;*
- b) an individual variable insurance contract structure change;*
- c) a dealer account change, client name to or from nominee or nominee to nominee;*
- d) another change that can reasonably be considered similar to a), b) or c); or*
- e) a change to an individual variable insurance contract that, if the change were to occur within an investment fund account would trigger the set-up of a new account for that investment fund security;*

*the insurer may choose to provide the information listed in ss. 2(ii)(a), 2(iii)(a), 2(iv)(a) and 2(v) of Schedule A as if the individual variable insurance contract began on the date of the most recent change, provided that the insurer clearly indicates that the information is provided from that date.*

*2(4) For further clarity, tax registration status includes but is not limited to, whether the individual variable contract or a trust that owns an individual variable contract is,*

- 1. Unregistered,*
- 2. a registered retirement savings plan, or*
- 3. a registered retirement income fund.*