

Total Cost Reporting Rule

For segregated fund contracts

Webinar

The logo for the Financial Services Regulatory Authority of Ontario (FSRA) consists of the letters "FSRA" in a large, bold, blue, sans-serif font.

Financial Services Regulatory
Authority of Ontario

Date: Wednesday, June 19, 2024 @ 11:00am – 12:00pm

Speakers:

Tim Miflin, Senior Manager – Insurance Policy, FSRA

Mike Winter, Senior Policy and Technical Lead – Insurance Policy, FSRA



Ontario

Land Acknowledgement

We acknowledge the land we are on is the traditional territory of many nations including the Mississaugas of the Credit, the Anishnabeg, the Chippewa, the Haudenosaunee and the Wendat peoples and is now home to many diverse First Nations, Inuit and Métis peoples. We acknowledge that Toronto is covered by Treaty 13 with the Mississaugas of the Credit and the Williams Treaties signed with multiple Mississaugas and Chippewa bands.

- Background
- Reasons for Proposed Rule
- Targeted Outcomes
- Sample Statement
- Implementation Challenges
- Public Consultation
- Q&A



FSRA

Financial Services Regulatory
Authority of Ontario



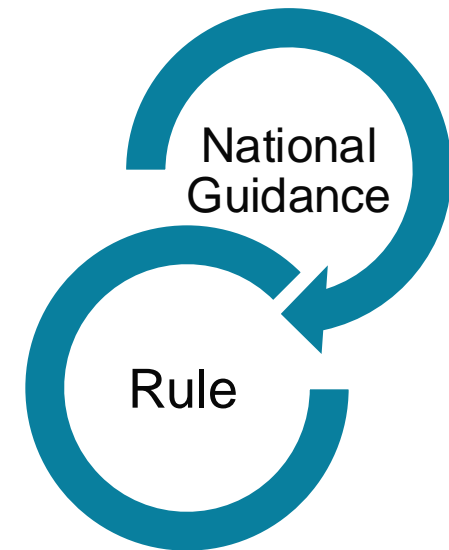
Ontario

Background: Information Provided to Customers Now

- Insurers are already required to provide annual statements to customers owning segregated fund contracts.
- The proposed TCR rule would increase the amount of information provided to customers.
- Some insurers already provide enhanced information on a voluntary basis.
- There may be inconsistent reporting for any information that is not currently required.
- Information about costs of a segregated fund contract are not currently required, so customers cannot easily access and compare cost information.



- **National Guidance Published April 2023**
 - Canada's investment and insurance regulators worked jointly to align ongoing reporting to investors and policy holders on the costs they pay for their investment and insurance products.
 - Aim: enhance and harmonize how performance and fees are disclosed for investment and segregated funds.
- **FSRA's Total Cost Reporting Rule**
 - Would adopt the national guidance into Ontario's regulatory framework, with legal modifications.
 - Would make the annual statement enhancements legal requirements in Ontario.



What are the key outcomes FSRA aims to achieve with the Rule?



Customers able to make informed decisions



Enable customers to better compare segregated fund contract statements with other products



Enforceable requirements are in place

The Rule would increase the information insurers will be required to provide.

The enhanced annual statements would:

- inform customers of the total cost of investing, including ongoing embedded fees such as management expenses and trading expenses
- improve customer awareness of their segregated fund investment performance
- advise customers of how certain actions might affect guarantees under the segregated fund contracts
- allow customers to more easily compare the cost of owning segregated funds with the cost of owning other investments





ABC Insurer Inc.

1234 West Street,
Toronto, Ontario1 800 567 8901
abcinsurerinc.ca

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

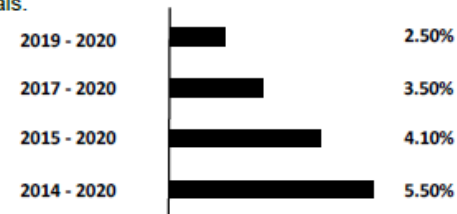
Information on your contract

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

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

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

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



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

Your Contract Number: 78902314

Holdings in your Contract

On December 31, 2020

Contract values since issue on March 20, 2014

Deposits	\$38,166.67
Withdrawals	(\$1,666.67)
Net Growth or Loss ²	\$5,500.00
Market value at end of 2020	\$42,000.00

Contract values since December 31, 2019

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

² Total charges deducted from your return are detailed in the following section.

³ The fund's expenses are made up of the management fee, operating expenses, trading costs, applicable sales taxes and the insurance costs for your maturity and death benefit guarantees. You don't pay these expenses directly. We periodically deduct them from the value of your investments to manage and operate the funds. Different funds charge different levels of fees. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total fund's value. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments. The dollar amount of the expense calculated from the fund expense ratio is included in the costs described below in the following section.

⁴ Your fund has a deferred sales charge. You can withdraw all the money in this fund, but you may be charged a fee to do so if you are withdrawing those funds before the end of the 7-year deferred sales charge period.

Your Contract Number: 78902314

Details of charges for the year 2020

Important: Review Your Costs

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

Your cost of investing is impacted by your choices.

You can refer to Fund Facts documents for more information about the fund expenses and its component parts.

Your total cost of investing was \$760 last year

Withdrawal fees on deferred sales charge investments ⁵	\$50.00
Transfer fee	\$20.00
Investment fund expenses (Fund expenses), including indirect insurance costs ⁶	\$645.00
Direct insurance cost for your guarantees ⁷	\$45.00
Total	\$760.00

What can I do with this information?

Take action by contacting your advisor to discuss the fees you pay, the impact the fees have on the long-term performance of your investments and contract, and the value you receive in return.

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

⁶ The number shown here is the estimated total dollar amount you paid in management fees, trading fees, operating expenses and insurance costs for your maturity and death benefit guarantees for all the segregated funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. These costs are already reflected in the market values reported for your fund investments.

⁷ This is what you paid us this year for the guaranteed withdrawal amount under your contract. You paid this cost by withdrawing investments in your contract.

Your Contract Number: 78902314

Your contract's guarantees

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

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

The chart below shows the actual value of those guarantees.

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

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

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

⁹ You may make discretionary resets up to 3 times per year subject to certain conditions, as stipulated in your contract. Kindly contact your representative for additional information on the subject. A reset will lock-in a new maturity or death benefit guarantee based on the current market value of the IVIC. A reset to the maturity guarantee will also restart the maturity guarantee period, delaying the maturity date of your IVIC.

¹⁰ Guaranteed withdrawal amounts have been calculated assuming no bonus, no deposit or withdrawal, no future return and no reset of guarantees between now and the start of annual periodic withdrawals.

Insurers may pass costs along to customers.

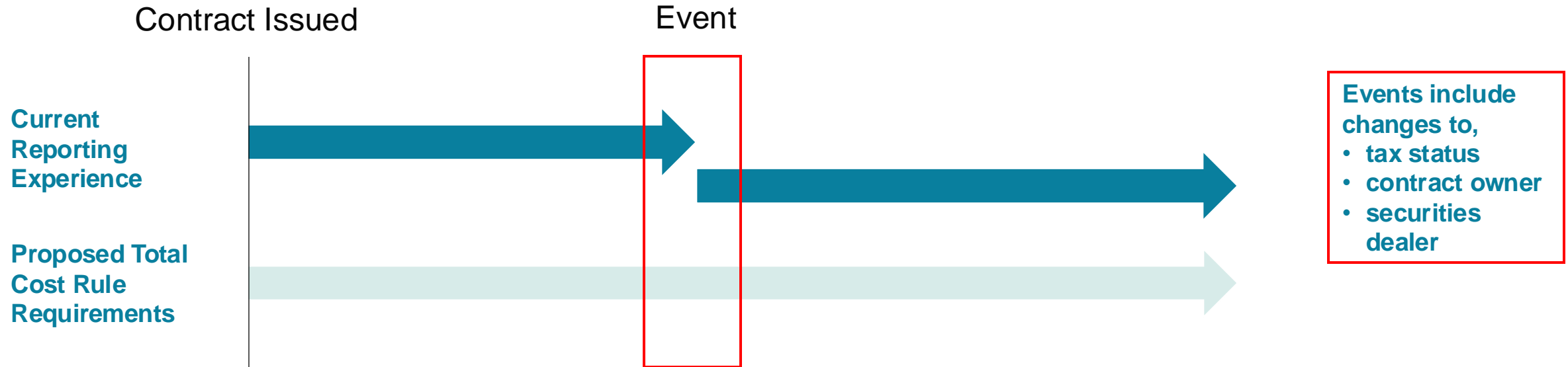
In implementing the TCR Rule, FSRA aims to the extent possible to:

- Harmonize mutual fund and segregated fund requirements and implementation timelines
- Enable insurers and mutual fund organizations to share the cost of system updates to minimize cost of compliance



- FSRA is aware that some insurers have identified specific circumstances where they believe complying with the proposed requirements would exceed the benefit to customers.
- Implementation challenges identified by the insurance sector include:
 - Missing historical data,
 - Expensive-to-update legacy systems,
 - Changes to reporting of performance data after certain transactions or events occur.
- The proposed TCR Rule includes an exception regarding missing historical data.
- As part of the consultation, FSRA is seeking further feedback and information on possible additional exceptions to address the other challenges noted above.

Annual Statements following specific events

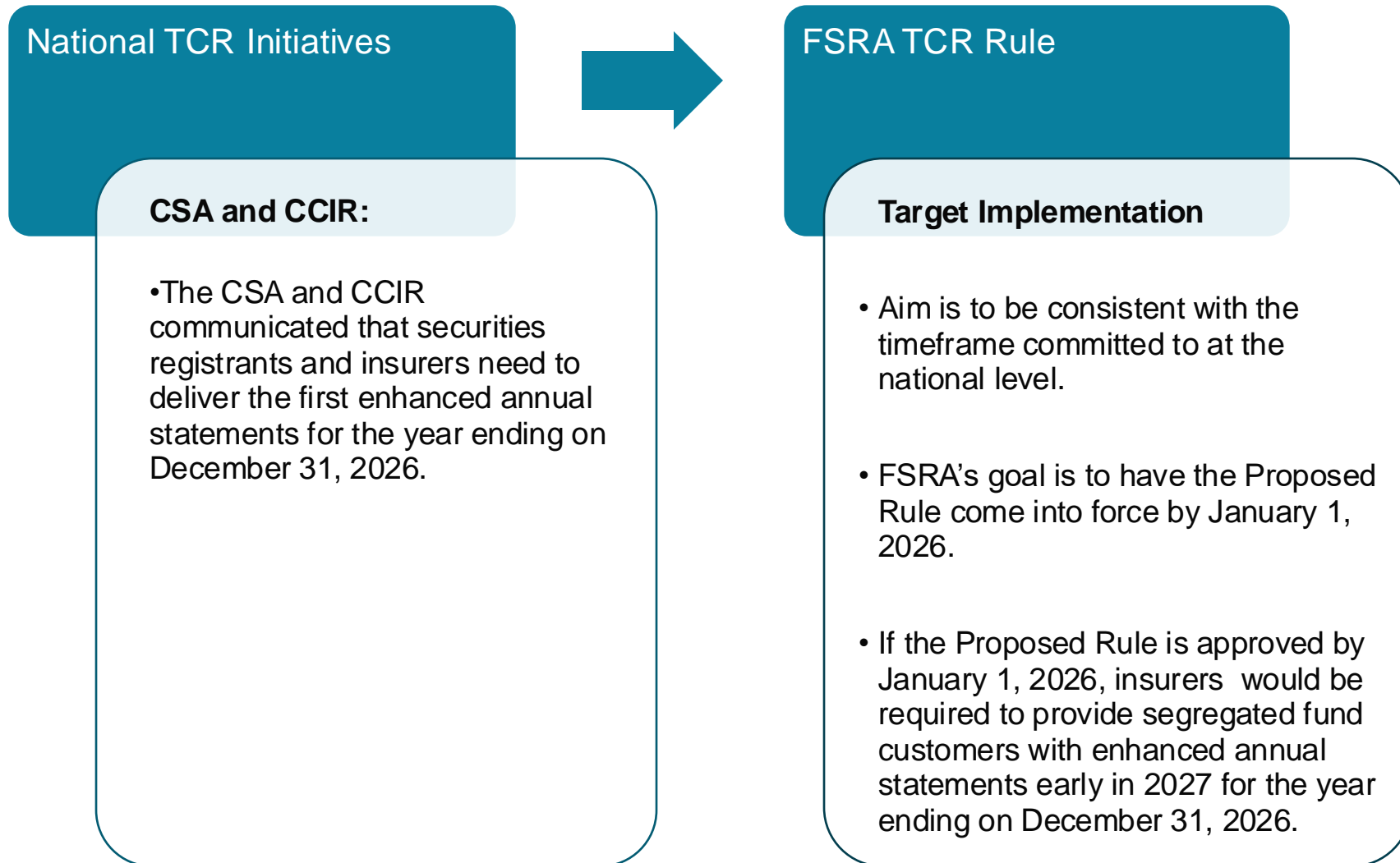


Policy considerations in relation to the above include:

- Implementation costs relating to compliance with new TCR requirements can be passed on to customers
- Additional system builds could impact implementation timing
- How mutual fund and segregated fund contracts deal with these situations
- Impact on amount of information provided to customers in annual statements

FSRA is seeking feedback and information to consider if additional exceptions are appropriate:

- Costs and challenges of full compliance
- How would compliance with the Proposed Rule lead to outcomes that are not in the best interests of customers?
- How would an exception be consistent with the fair treatment of customers?
- How could these circumstances be addressed in the Proposed Rule?



You have an opportunity to comment on the Proposed Rule

- **FSRA will be accepting submissions until Friday, July 26, 2024**
- We will publish stakeholder comments on our website
- FSRA will consider feedback and publish an update in due course.

Questions?

