

Financial Services Regulatory Authority of Ontario (“FSRA”)

Publication of the Board Approved Rule on FSRA’s Website (the “Publication”)

Rule 2024 – 002 Total Cost Reporting (the “Board Approved Rule”)

Introduction

This Publication contains material to satisfy clauses (1)-(5) of s. 23(2) of the *Financial Services Regulatory Authority of Ontario Act, 2016* (the “**FSRA Act**”).

FSRA has created this Publication after a public consultation on Rule 2024 – 002 Total Cost Reporting (the “**Proposed Rule**”), which began on May 27, 2024, and ended on July 26, 2024.

After considering the submissions received during the public consultation, FSRA has made immaterial changes to the Proposed Rule. As FSRA is only proposing immaterial changes, FSRA is not required to conduct a second public consultation.

FSRA’s board of directors approved the Board Approved Rule on January 22, 2025.

Please refer to Appendix A for the Board Approved Rule.

Background

A joint committee of the Canadian Securities Administrators (“**CSA**”) and Canadian Council of Insurance Regulators (“**CCIR**”) has developed enhanced cost disclosure reporting requirements for investment funds (the “**Securities Amendments**”)¹ and new cost and performance reporting guidance (the “**Insurance Guidance**”) for individual variable insurance contracts (“**IVICs**”), also known as individual segregated fund contracts). Following public consultation, CCIR and CSA adopted these documents on April 20, 2023.

On June 20, 2023, Ontario’s Minister of Finance (the “**Minister**”) approved amendments to National Instrument 31-103 to implement the Securities Amendments, effective January 1, 2026. No similar law ensures the Insurance Guidance will be enforceable in Ontario. Considering this, FSRA published for consultation the Proposed Rule, with the aim of making the Insurance Guidance mandatory for IVICs in Ontario.

During the public consultation, FSRA sought feedback from stakeholders to determine if additional exceptions should be incorporated into the Proposed Rule to address scenarios where it would not be in customers’ best interest to require full compliance.

¹ The Securities Amendments are changes to National Instrument 31 – 103 *Registration, Exemptions and Ongoing Registrant Obligations* and Companion Policy 31 – 103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

FSRA requested that stakeholders identify these scenarios and provide relevant information and supporting evidence with respect to each identified scenario.

In their submissions, particular stakeholders commented upon additional circumstances where they believed complying with a proposed requirement would result in costs to owners² that would exceed the benefit to the same owners. One of these circumstances relates to insurer systems that are cost prohibitive to upgrade, and which administer IVICs that are no longer issued or offered for sale.

Stakeholders also commented that enabling insurers to restart reporting for deposits, withdrawals, growth/loss and personal rate of return on the most recent date when the IVICs tax status, owner and/or securities dealer changed would align with how reporting is done for investment funds. Consequently, restarting reporting in this manner would enable owners to more easily compare IVICs to investment funds and reduce the overall costs of compliance which minimizes costs passed onto owners.

Based on these submissions and FSRA's consequential analysis, FSRA has made immaterial changes to the Proposed Rule. The immaterial changes incorporate further exceptions to address the abovementioned situations, where it is not in customers' best interest to require the same form of disclosure.

Delivery to the Minister

FSRA delivered the Board Approved Rule, and the material required by s. 23(1) of the FSRA Act to the Minister on April 4, 2025.

No Action Taken by the Minister

If the Minister does not approve, reject or return the Board Approved Rule to FSRA for further consideration within 60 days after it is delivered to the Minister, then:

- If clause 11.1 of s. 121.0.1(1) of the *Insurance Act* (the "**Act**") is proclaimed into force 75 or more days after the Board Approved Rule is delivered to the Minister, then in accordance with s. 11(1) of the Board Approved Rule and s. 24(2)(a) of the FSRA Act, the Board Approved Rule will come into force on the date that clause 11.1 of s. 121.0.1(1) of the Act is proclaimed into force, or
- If clause 11.1 of s. 121.0.1(1) of the Act is proclaimed into force less than 75 days after the Board Approved Rule is delivered to the Minister, then in accordance with s. 24(2)(c) of the FSRA Act, the Board Approved Rule will come into force on the date that is 75 days after the Board Approved Rule was delivered to the Minister.

² Note that the Board Approved Rule uses the word "insured" rather than "owner" but under Part V of the *Insurance Act*, which governs IVICs, the word "insured" means the person who owns the IVIC. Please refer to ss. 171(1) "insured", 199(1)(b), 199(2) and 200(3) of the *Insurance Act*.

Statement of Substance and Purpose

The current IVIC annual statement requirements in Ontario's legal regime do not match the Insurance Guidance's enhanced expectations. The Board Approved Rule aims to harmonize Ontario's annual statement reporting requirements with the Insurance Guidance's enhanced expectations. Additionally, the Board Approved Rule addresses an important concern that there are currently no requirements for insurers to provide ongoing reporting to owners on the costs of owning IVICs after the initial point of sale in a form which is specific to an owner's IVIC and easily understandable.

The Board Approved Rule enhances owner protection by improving owners' awareness of:

- the ongoing embedded fees, such as management expense ratios and trading expense ratios that form part of the cost of owning IVICs, and
- their rights to guarantees under IVICs and how their actions might affect guarantees.

Written Comments Received and FSRA's Responses to Significant Concerns

FSRA must publish a summary of written comments received and FSRA's responses to significant issues and concerns brought to FSRA's attention during the consultation period.

Please refer to Appendix B for a summary of comments and FSRA's responses in relation to the consultation period.

Summary of Immaterial Amendments

During the public consultation period, FSRA received stakeholders' submissions and, in response, FSRA made immaterial amendments to address the comments received. As the amendments are immaterial, FSRA is not required to publish a notice of change for a second public consultation, which would have been required by s. 22(7) of the FSRA Act if FSRA proposed material changes.

Please see the following summary of the immaterial amendments:

i. Interpretation Section

- FSRA added 'event change' as a new defined term, to clarify the circumstances which qualify for the exception under the new s. 4 of the Board Approved Rule.
 - event change means when an IVIC experiences one or more of the following changes:
 - a tax registration status change,
 - a change in ownership,
 - a change in securities dealer, or

- owner to or from nominee or nominee to nominee change.
- FSRA added a new provision to clarify that a tax registration status change includes whether an IVIC or a trust that owns an IVIC becomes:
 - unregistered,
 - a registered retirement savings plan, or
 - a registered retirement income fund.
- FSRA has modified the definition of segregated fund to clarify that FSRA is using the definition under s. 1(1) of O. Reg. 132/97: Variable Insurance Contracts.
- FSRA added a provision to clarify that the missing historical data, event change and legacy system exceptions can apply concurrently.

ii. Section Reference Updates and Minor Clarifying Changes to Schedule A

FSRA has made a number of section reference updates throughout the Board Approved Rule and has also made minor clarification edits to Schedule A of the Board Approved Rule.

iii. Missing Historical Data Exception

FSRA has made minor edits to clarify that the attestation filed with FSRA must be signed by two duly authorized signing officers.

iv. Event Change Exception

FSRA has incorporated an additional exception into the Board Approved Rule to allow an insurer to restart the reporting of certain information described in Schedule A if an IVIC experiences one or more event changes. This carveout establishes a process for an insurer to follow so that the owner can have a comprehensive and accurate understanding of their contract for the entire fiscal year considering any event changes experienced by their IVIC.

v. Legacy System Exception

FSRA has incorporated an additional exception into the Board Approved Rule to accommodate IVICs which are no longer issued or offered for sale and are administered on insurer systems which are cost prohibitive to upgrade.

Under this carveout, an insurer is not required to provide the owner with an annual statement containing information from Schedule A, to the extent that this information cannot reasonably be provided by the insurer's system without it being upgraded or the system cannot be upgraded. In order to report in this manner, the insurer must satisfy all the conditions set out in the Board Approved Rule.

Appendix A – the Board Approved Rule

Rule 2024 – 002 - Total Cost Reporting

1 Interpretation

1(1) In this Rule,

- (i) “Act” means the *Insurance Act*, R.S.O. 1990, c. I.8, as amended,
- (ii) “accumulation phase” means the time between the date an insured begins making deposits to an individual variable insurance contract that provides a guaranteed withdrawal benefit and the date the insured notifies the insurer the insured wants to begin receiving such guaranteed payments under the individual variable insurance contract, or otherwise triggers the commencement of such payments,
- (iii) “advisory service fee” means any fee payable by an insured to an agent with respect to an individual variable insurance contract, that is paid by an insurer to the agent on direction of the insured from assets within the individual variable insurance contract,
- (iv) “annuitant” means a person whose life triggers any guarantee on death or maturity of the individual variable insurance contract or any payment for life under an individual variable insurance contract,
- (v) “benefits phase” means the time between the date when the withdrawal phase ends for all or part of an individual variable insurance contract that provides a guaranteed withdrawal benefit and the last date a guaranteed withdrawal benefit is payable,
- (vi) “customer fees and charges” means, for the purpose of Schedule A,
 - (a) any sales charges, distribution fees, management fees, administrative fees, account set-up or closing charges, surrender charges, transfer fees or insurance fees, and
 - (b) any other fees, charges or expenses whether or not contingent or deferred which are or may be payable by an insured in connection with the acquisition, holding, transferring or withdrawal of units of a segregated fund credited to an individual variable insurance contract,
- (vii) “event change” means one or more of the following changes related to an individual variable insurance contract,
 - (a) a tax registration status change,
 - (b) an ownership structure change,

- (c) a dealer account change, insured to or from nominee or nominee to nominee change,
 - (viii) "fee option" means any option available to an insured under an individual variable insurance contract which results in there being more than one set of customer fees and charges applicable in respect of a segregated fund,
 - (ix) "fund expense ratio" means the sum of a segregated fund's management expense ratio and trading expense ratio, expressed as a percentage,
 - (x) "fund expense ratio for the day" means the ratio, expressed as a percentage, of the amount of fund expenses of a class or series of a segregated fund for the day to the net asset value of the class or series of the segregated fund for the day,
 - (xi) "fund expenses" means all of a segregated fund's expenses that are paid out of assets of the segregated fund, including management expenses and trading expenses,
 - (xii) "fund facts" means a disclosure document, for each segregated fund available under an individual variable insurance contract, which forms part of the information folder referred to in s. 110(2) of the Act,
 - (xiii) "individual variable insurance contract" means an individual contract of life insurance under which the insurer's liabilities vary in amount depending upon the market value of a specified group of assets in a segregated fund. Individual variable insurance contract includes a provision in an individual contract of life insurance under which policy dividends are deposited in a segregated fund,
 - (xiv) "insurer's name" means an insurer's full legal name,
 - (xv) "investment option" in connection with an individual variable insurance contract means each segregated fund offered for investment under the individual variable insurance contract and any other investment offered under the individual variable insurance contract, including a guaranteed interest investment,
 - (xvi) "individual variable insurance contract structure" with respect to an insured's individual variable insurance contract means how the individual variable insurance contract is structured, including the individual variable insurance contract's,
- (a) ownership structure, including,
- (1) whether there is one insured or more than one, and

- (2) if there is more than one insured,
 - 1. the respective rights of the insureds while the insureds are alive, and
 - 2. the rights surviving insureds will have when one insured dies, and
- (3) designation of successor insureds under s. 199 of the Act, if applicable,
- (b) beneficiaries, and successor annuitants or successor holders, if applicable,
- (c) annuitant or annuitants upon whose death the individual variable insurance contract will end, and
- (d) measuring life or lives where benefits under the individual variable insurance contract are available as long as one of the measuring lives are alive, if applicable,
- (xvii) “management expense ratio” means the ratio, expressed as a percentage, of the management expenses of a segregated fund to the segregated fund’s average daily net asset value for a financial year, as calculated under s. 8,
- (xviii) “management expenses” means a segregated fund’s management fees, operating and other administration expenses, including those of any secondary fund, and all taxes other than income taxes but excluding trading expenses. Management fees are net of any fees or expenses waived,
- (xix) “material change to customer information” means a change in information about an insured that could result in a change in the insured’s needs or the recommendations or advice provided to the insured, or should reasonably cause an agent to question whether all of the following continue to meet the insured’s needs,
 - (a) the insured’s individual variable insurance contract,
 - (b) the individual variable insurance contract structure, and
 - (c) the insured’s investments in the individual variable insurance contract,
- (xx) “net asset value” means the value of the total assets of a segregated fund less the value of the segregated fund’s total liabilities, other than net assets attributable to insureds who have invested in the segregated fund, as at a specific date and calculated by,
 - (a) using the fair value of the segregated fund’s assets and liabilities, and
 - (b) including the income and expenses of the investment fund accrued up to the date of calculation of the net asset value,

- (xxi) “secondary fund” means a segregated fund, a mutual fund or other investment fund, limited partnership or income trust, including an index participation unit, in which a segregated fund may invest,
 - (xxii) “segregated fund” has the meaning ascribed to such term in s. 1(1) of O. Reg. 132/97: Variable Insurance Contracts,
 - (xxiii) “statement date” means the date of the last day of the period covered by the statement,
 - (xxiv) “trading expense ratio” means the ratio, expressed as a percentage, of the trading expenses of a segregated fund to the segregated fund’s average daily net asset value for the financial year, as calculated under s. 7,
 - (xxv) “trading expenses” means the total commissions and other portfolio transaction costs paid or payable by an insurer from the assets of a segregated fund on the purchase and sale of the segregated fund’s assets, including those of any secondary fund, and
 - (xxvi) “withdrawal phase” means the time between,
 - (a) the date an insured triggers the guaranteed withdrawal benefit under an individual variable insurance contract that provides such benefit, and
 - (b) the date when there is no longer enough money held within the individual variable insurance contract to pay a scheduled withdrawal.
- 1(2) In addition to s. 1(1), if a term or phrase used in this Rule is defined in the Act, that definition shall apply for the purpose of this Rule.
- 1(3) For the purpose of this Rule, fair value shall be calculated as follows,
- (i) if reported prices and/or quotations for the market value are available in an active market, and the manager of the investment fund does not reasonably believe that the market value based on these prices and/or quotations is unreliable, then the fair value shall be the market value based on reported prices and/or quotations, and
 - (ii) otherwise, the fair value shall be a value that is fair and reasonable in all the relevant circumstances.
- 1(4) For the purpose of this Rule, market value of the units of a segregated fund in an individual variable insurance contract shall be calculated by taking the number of fund units within the individual variable insurance contract and multiplying such number by the market value per unit at the end of the date for which the market value is calculated.

1(5) For further clarity, a tax registration status change under s. 1(1)(vii)(a) includes but is not limited to, whether the individual variable insurance contract or a trust that owns an individual variable insurance contract becomes,

- (i) unregistered,
- (ii) a registered retirement savings plan, or
- (iii) a registered retirement income fund.

1(6) For further clarity, s. 3, 4 and 5 can apply concurrently.

2 Annual Statement to Insured

2(1) An insurer shall provide to an insured with respect to each individual variable insurance contract, within four months of each fiscal year end of the segregated funds within the individual variable insurance contract, a statement showing the information described in Schedule A.

3 Missing Historical Data Exception

3(1) Despite s. 2(1), an insurer is not required to provide an insured with information with respect to an individual variable insurance contract for time periods before this Rule comes into force if the insurer,

- (i) does not possess and cannot, with reasonable efforts, obtain the information,
- (ii) provides the information for any period for which the insurer possesses or can reasonably obtain the information,
- (iii) notifies the insured that the statement does not include certain information for the entire period from the date the individual variable insurance contract began and specifies which information, and
- (iv) prior to the date the insurer is required to provide the insured with the statement described in s. 2(1),
 - (a) makes reasonable efforts, if any are available, to obtain the information for the entire period since the individual variable insurance contract began, and
 - (b) files a document with the Authority which contains at a minimum the following information for each such individual variable insurance contract,
 - (1) the name of the contract,

- (2) the number of such contracts for which the insurer is unable to provide the information,
- (3) the information which the insurer does not possess and cannot, with reasonable efforts, obtain,
- (4) the identity of any person who does possess any such information,
- (5) the efforts the insurer made to obtain the information from such person(s), if the insurer has made any effort,
- (6) if the insurer has not made any effort to obtain the information from one or more of these persons, why the insurer does not consider it reasonable to do so, and
- (7) an attestation signed by two duly authorized signing officers of the insurer stating the information in clauses (1)-(6) is true and complete, and that to the best of the insurer's knowledge, the insurer does not possess and cannot reasonably obtain the information.

4 Event Change Exception

- 4(1) Despite s. 2(1), if an individual variable insurance contract experienced an event change before this Rule came into force, an insurer may instead provide the information listed in s. 1(ii)(d), 2(ii)(a), 2(iii)(a), 2(iv)(a) and 2(v)(a)-(b) of Schedule A in the statement described in s. 2(1) as if the individual variable insurance contract began on the date of the most recent event change.
- 4(2) Despite s. 2(1), if an individual variable insurance contract experiences an event change after this Rule comes into force, an insurer may instead,
 - (i) provide an insured with statements, within four months of the end of the fiscal year in which the event change occurred, in the manner described in s. 4(3) or 4(4), as applicable, and
 - (ii) provide the information listed in s. 1(ii)(d), 2(ii)(a), 2(iii)(a), 2(iv)(a) and 2(v)(a)-(b) of Schedule A to the insured in the statement described in s. 2(1) as if the individual variable insurance contract began on the date of the most recent event change for,
 - (a) the year after the insurer is permitted to send the statements referred to in s. 4(2)(i), and
 - (b) every year subsequent to the year referred to in s. 4(2)(ii)(a).

- 4(3) If an individual variable insurance contract experiences one event change during a fiscal year, then an insurer may instead provide to an insured, within four months of the end of the fiscal year in which the event change occurred,
- (i) a first statement showing the information described in Schedule A, where the statement date is the date the individual variable insurance contract experienced the event change, and
 - (ii) a second statement,
 - (a) showing the information described in Schedule A as of the date after the first statement's statement date instead of reporting such information,
 - (1) since the individual variable insurance contract began, and
 - (2) since the start of the year, and
 - (b) where the statement date is the date of the fiscal year end of the segregated funds within the individual variable insurance contract.
- 4(4) If an individual variable insurance contract experiences more than one event change during a fiscal year, then an insurer may instead provide to an insured, within four months of the end of the fiscal year in which the event changes occurred,
- (i) a first statement showing the information described in Schedule A, where the statement date is the date the individual variable insurance contract experienced the first event change,
 - (ii) as many statements as are necessary to correspond with any event change subsequent to the first event change, where in each case,
 - (a) the statement shows the information described in Schedule A as of the date after the preceding statement's statement date instead of reporting such information,
 - (1) since the individual variable insurance contract began, and
 - (2) since the start of the year, and
 - (b) the statement date is the date the individual variable insurance contract experienced a subsequent event change, and
 - (iii) a final statement,
 - (a) showing the information described in Schedule A as of the date after the last event change instead of reporting such information,

(1) since the individual variable insurance contract began, and

(2) since the start of the year, and

(b) where the statement date is the fiscal year end of the segregated funds within the individual variable insurance contract.

4(5) For greater clarity, if an individual variable insurance contract experiences more than one event change on a single date, then an insurer may provide statements under s. 4(3) or 4(4), as applicable, as if the individual variable insurance contract experienced only one event change on that date.

4(6) An insurer must include a prominent and plain language disclaimer explaining why an insured is receiving more than one statement during a fiscal year in,

(i) at least one statement referred to in s. 4(3) or 4(4), or

(ii) a document accompanying the statements referred to in s. 4(3) or 4(4).

5 Legacy System Exception

5(1) Despite s. 2(1), an insurer is not required to provide an insured with information from Schedule A, to the extent that such information cannot reasonably be provided by the system without the system being upgraded or the system cannot be upgraded, if,

(i) the individual variable insurance contract is no longer issued or offered for sale on or after January 1, 2026,

(ii) the insurer makes reasonable efforts to determine the expected costs to upgrade the system and produces an estimate which has been reviewed and confirmed as reasonably accurate in a report by an independent auditor, in a form approved by the Chief Executive Officer,

(iii) a reasonable person would conclude that, based on the estimate referred to in s. 5(1)(ii), the costs to be allocated to each insured to facilitate the system upgrade to provide all or some of the information described in Schedule A are unreasonable,

(iv) the insurer notifies the insured that the statement does not include certain information from Schedule A and identifies to the insured which information is not included in the statement, and

(v) prior to the date the insurer is required to provide the insured with the statement described in s. 2(1), the insurer files a document with the Authority which contains at a minimum the following information,

- (a) the information in Schedule A which can reasonably be provided to the insured by the system and an explanation of why the system cannot reasonably be upgraded to provide the insured with information from Schedule A not included in the statement,
- (b) the information from Schedule A not included in the statement that, if requested by the insured, can be provided by the insurer to the insured without the system being upgraded,
- (c) the date the individual variable insurance contract became no longer issued or offered for sale,
- (d) the name of the system,
- (e) the estimate prepared pursuant to s. 5(1)(ii),
- (f) an opinion from a qualified independent party with respect to whether a reasonable person would conclude that the costs passed onto each insured to upgrade the system are unreasonable based on the estimate prepared pursuant to s. 5(1)(ii),
- (g) For each individual variable insurance contract,
 - (1) the name of the individual variable insurance contract,
 - (2) the number of individual variable insurance contracts issued, and
 - (3) the total assets under management with respect to the individual variable insurance contract, and
- (h) an attestation signed by two duly authorized signing officers of the insurer stating the information in clauses (a)-(g) is true and complete.

5(2) For the purposes of s. 5, "system" means, individually and collectively, each of the insurer's systems administering an individual variable insurance contract that an insured owns.

5(3) For the purposes of s. 5, the estimate must,

- (i) be in writing,
- (ii) estimate the cost to upgrade the system so that the system is able to provide,
 - (a) all the information described in Schedule A, and
 - (b) various combinations of some, but not all of the information described in Schedule A, and

- (iii) include or be accompanied by all other relevant information used by the insurer and independent auditor to support the accuracy of the estimate prepared pursuant to s. 5(1)(ii).

6 Calculating Fund Expenses

- 6(1) An insurer must calculate and report the amount of a segregated fund's fund expenses allocated to an individual variable insurance contract based on,
 - (i) how many segregated fund units an insured held in the individual variable insurance contract, and
 - (ii) when the insured held the segregated fund units during the reporting period.
- 6(2) An insurer must use the following formula to calculate the fund expenses of an applicable class or series of segregated fund for each day an insured held units of the applicable class or series of the segregated fund during the reporting period, making any adjustments reasonably necessary to accurately determine fund expenses attributed to the insured,

$$A \times B \times C$$

A= the fund expense ratio for the day of the applicable class or series of the segregated fund,

B= the market value of a unit for the day of the applicable class or series of the segregated fund, and

C= the number of segregated fund units within the insured's individual variable insurance contract for the day.

- 6(3) For the purpose of s. 6(2), an insurer may use a reasonable approximation of the fund calculation inputs "A" and "B" provided the insurer reasonably believes that doing so would not result in reporting misleading information to an insured.
- 6(4) For greater clarity, a reasonable approximation may include estimating the fund expense ratio for the day by dividing the segregated fund's fund expense ratio in the most recent fund facts document or financial statement by the number of days in the year unless the insurer knows there has been an event which resulted in a significant change to the fund expense ratio since the document was published.
- 6(5) For reporting an insured's fund expenses under s. 3(i) of Schedule A, an insurer must repeat the calculation under s. 6(2) for each class or series of segregated fund which the insured held units of during the reporting period and aggregate the results.
- 6(6) An insurer is not required to calculate and report the fund expenses of a segregated fund which was established less than 12 months before the statement date.

7 Calculation of Trading Expense Ratio

- 7(1) An insurer must calculate the trading expense ratio of a segregated fund for any financial year by,
- (i) dividing
 - (a) the total commissions and other portfolio transaction costs before income taxes, for the financial year as shown on the segregated fund's statement of comprehensive income,
 - by
 - (b) the same denominator as is used to calculate the management expense ratio under s. 8, and
 - (ii) multiplying the result obtained under s. 7(1)(i) by 100.
- 7(2) If a segregated fund invests in a secondary fund, an insurer must calculate the trading expense ratio using the methodology required for the calculation of the management expense ratio, making reasonable assumptions or estimates where necessary.

8 Calculation of Management Expense Ratio

- 8(1) An insurer must calculate the management expense ratio of a segregated fund applicable to a particular fee option under an individual variable insurance contract for any financial year by,
- (i) dividing
 - (a) the aggregate of,
 - (1) total expenses of the segregated fund, excluding commissions and other portfolio transaction costs, before income taxes, for the financial year as shown on the segregated fund's statement of comprehensive income, and
 - (2) any other fee, charge or expense of the segregated fund that has the effect of reducing the segregated fund's net asset value,

by

(b) the average net asset value of the segregated fund for the financial year obtained by,

(1) adding together the net asset value of the segregated fund as at the close of business of the segregated fund on each day during the financial year on which the net asset value of the segregated fund has been calculated, and

(2) dividing the amount obtained under s. 8(1)(i)(b)(1) by the number of days during the financial year on which the net asset value of the segregated fund has been calculated, and

(ii) multiplying the result obtained under s. 8(1)(i) by 100.

8(2) For the purpose of this section, “any other fee, charge or expense” means all fees, charges and expenses 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 applicable, and all taxes other than income taxes but excluding commissions and brokerage fees on the purchase and sale of portfolio securities.

8(3) Where a segregated fund has separate classes or series of units, an insurer must calculate a management expense ratio for each class or series of units in the manner required by this section, modified as appropriate.

8(4) An insurer must annualize the management expense ratio of a segregated fund for a financial year of less than 12 months.

9 Contact Information for Insurers and Agents

9(1) The statement referred to in s. 2(1) must contain information that is reasonably designed to enable an insured to contact,

(i) the insurer, and

(ii) either

(a) the agent who sold the individual variable insurance contract to the insured, or

(b) another agent with sufficient knowledge and expertise to provide suitable recommendations and advice to the insured with respect to the insured’s individual variable insurance contract.

- 9(2) For the purpose of s. 9(1)(i), one way to reasonably design information to enable the insured to contact the insurer is to include in the statement the insurer's,
- (i) name,
 - (ii) telephone number,
 - (iii) mailing address, and
 - (iv) website.
- 9(3) For the purpose of s. 9(1)(ii), one way to reasonably design information to enable the insured to contact the agent is to include in the statement the agent's,
- (i) name,
 - (ii) telephone number,
 - (iii) mailing address, and
 - (iv) email address.

10 Reminder to Contact Agent Periodically

- 10(1) With respect to each individual variable insurance contract it insures, each insurer must, on an annual basis, take reasonable steps to,
- (i) invite each insured to contact the agent referred to in s. 9(1)(ii) and update the agent about any material change in customer information since the last time the insured provided information to the agent,
 - (ii) explain why it is important for the agent to have up-to-date information about each insured, and
 - (iii) invite each insured to review the following and discuss any proposed changes with the agent,
 - (a) the individual variable insurance contract,
 - (b) the individual variable insurance contract structure, and
 - (c) the investments the insured has made in the individual variable insurance contract.
- 10(2) For the purpose of s. 10(1), one way an insurer can take the reasonable steps required is to include the elements of s. 10(1)(i)-(iii) in the statement described in s. 2(1).

11 Coming Into Force

- 11(1) This Rule comes into force on the later of the date that clause 11.1 of s. 121.0.1(1) of the Act comes into force and 15 days after the Rule is approved by the Minister.

Schedule A – Minimum Content of Annual Statement

1) General

- (i) Statement date,
- (ii) The following information about the individual variable insurance contract:
 - (a) Individual variable insurance contract name,
 - (b) Individual variable insurance contract tax status,
 - (c) Individual variable insurance contract number, and
 - (d) When the individual variable insurance contract began,
- (iii) Insured(s),
- (iv) Annuitant(s),
- (v) Designated beneficiary(ies), and
- (vi) A notice in plain language to:
 - (a) Remind insured(s) that the information contained in the statement will help the insured track the insured's financial goals,
 - (b) Remind insured(s) that the insured can obtain copies of the most recent fund facts associated with the individual variable insurance contract, annual audited financial statements and semi-annual unaudited financial statements for each segregated fund and how to obtain such contract and statements, and
 - (c) Invite insured(s) to contact the insured's agent or the insurer if the insured needs additional information.

2) Performance – Contract

- (i) For the individual variable insurance contract as a whole, the market value at the start of the year and at the statement date,
- (ii) For the individual variable insurance contract as a whole, as of the statement date, the total deposits:
 - (a) Since the individual variable insurance contract began, and
 - (b) Since the start of the year,
- (iii) For the individual variable insurance contract as a whole, as of the statement date, total withdrawals:
 - (a) Since the individual variable insurance contract began, and
 - (b) Since the start of the year,
- (iv) For the individual variable insurance contract as a whole, as of the statement date, the change in value of investments in the individual variable insurance contract for reasons other than deposits to or withdrawals from the individual variable insurance contract:
 - (a) Since the individual variable insurance contract began, and
 - (b) Since the start of the year,
- (v) Personal rate of return, as a percentage, calculated on the dollar-weighted method for the individual variable insurance contract as a whole:
 - (a) Since the individual variable insurance contract began, and
 - (b) Where the individual variable insurance contract has been in effect for the relevant time:

- (1) For the 10 years ending on the statement date,
- (2) For the 5 years ending on the statement date,
- (3) For the 3 years ending on the statement date, and
- (4) For the year ending on the statement date, and
- (vi) A plain language explanation that the personal rate of return may be different than the rate realized by the segregated funds within the individual variable insurance contract because calculation of personal rate of return depends on factors such as timing of deposits and withdrawals.

3) Customer Fees and Charges – Contract

- (i) For the individual variable insurance contract as a whole, the dollar amount the insured incurred during the year for each of the following,
 - (a) Fund expenses,
 - (b) Front end load charges,
 - (c) Deferred sales charges,
 - (d) Advisory service fee,
 - (e) Withdrawals fees
 - (f) Transfer fees,
 - (g) Reset fees,
 - (h) Early withdrawal and/or short term trading fee,
 - (i) Fees with respect to cheques returned due to insufficient funds,
 - (j) Small policy fee,
 - (k) Insurance fees not paid by the insurer from the assets of a segregated fund, and
 - (l) Any other customer fees and charges deducted from the individual variable insurance contract,
- (ii) For greater clarity, the insurer is not required to include a fee or charge under s. 3(i)(a)-(l) of Schedule A if the dollar amount the insured incurred for such fee or charge in the year is zero,
- (iii) For the individual variable insurance contract as a whole, the dollar amount of the total of the items listed in s. 3(i) of Schedule A,
- (iv) Any changes to the insurance fee, where legally permitted,
- (v) A plain language explanation that any customer fees and charges the insured pays directly to the agent, if applicable, are not included in the amount in s. 3(iii) of Schedule A,
- (vi) Plain language explanations of:
 - (a) How customer fees and charges affect returns,
 - (b) The actions an insured can take regarding the customer fees and charges information in the statement,
 - (c) The fact approximations have been used when calculating fund expenses, if applicable, and
 - (d) The fact an insured can look at the fund facts document for more information about customer fees and charges, including fund expenses,
- (vii) Where applicable, a notice in plain language:

- (a) Explaining that the total market value of the individual variable insurance contract is not necessarily the amount the insured will receive if the insured ends the insured's individual variable insurance contract,
 - (b) Explaining how the insured can get more details about the amount of money the insured would receive if the insured ended the insured's individual variable insurance contract, and
 - (c) If the costs the insured would incur if the insured withdrew the total market value of the individual variable insurance contract are significant, explaining the costs of withdrawing the total market value of the individual variable insurance contract in enough detail to allow the insured to understand the effect of such costs, and
- (viii) For greater clarity, the disclosure explicitly required under this Rule with respect to deferred sales charges is sufficient to address item s. 3(vii)(c) of Schedule A regarding deferred sales charges.

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

- (i) For each segregated fund held within the individual variable insurance contract during the year described by the statement:
 - (a) The segregated fund name,
 - (b) Market value of the insured's units in the segregated fund at start of year,
 - (c) Since the start of the year:
 - (1) Total deposits into the segregated fund,
 - (2) Total withdrawals from the segregated fund, and
 - (3) The change in value of investments in the segregated fund for reasons other than deposits or withdrawals,
 - (d) As of the statement date:
 - (1) Number of segregated fund units held,
 - (2) Market value per segregated fund unit, and
 - (3) Total market value of segregated fund units held,
 - (e) The fund expense ratio for the fund,
 - (f) The fact that a deferred sales charge applies, if applicable, and
 - (g) The fact that no fund expense ratio is provided for a segregated fund because the segregated fund was established less than 12 months before the statement date, if applicable, and
- (ii) A plain language explanation of:
 - (a) What the fund expense ratio is, and
 - (b) The fact that the dollar amount of the fund expenses allocated to the individual variable insurance contract are included in the details of the charges for the individual variable insurance contract for the year.

5) Guarantees

- (i) For the individual variable insurance contract as a whole as of the statement date:
 - (a) The market value of the insured's units in the segregated funds subject to the guarantee under the individual variable insurance contract,

- (b) The maturity date of the guarantee of the individual variable insurance contract as a whole,
 - (c) The dollar value guaranteed on the individual variable insurance contract maturity date, and
 - (d) The dollar value guaranteed on death of the annuitant(s),
- (ii) For greater clarity, if the individual variable insurance contract has more than one maturity date, the insurer is only required to provide the information under s. 5(i)(a)-(c) of Schedule A for the maturity guarantee of the individual variable insurance contract as a whole, not for each separate deposit, and
- (iii) If the individual variable insurance contract has an automatic reset provision, the date of the next automatic reset and an explanation of the impacts of an automatic reset on the values of the guarantees.

6) Guarantees – Contracts with guaranteed withdrawals

Accumulation Phase

- (i) If the individual variable insurance contract provides a guaranteed withdrawal benefit and all or part of the individual variable insurance contract is in the accumulation phase, the following information with respect to the assets in the accumulation phase:
- (a) The annual guaranteed withdrawal amount for every withdrawal option available to the insured under the individual variable insurance contract at:
 - (1) The earliest age at which the insured can begin receiving guaranteed withdrawals,
 - (2) Age 65, if applicable, and
 - (3) Age 70, if applicable,
 - (b) A notice in plain language that the guaranteed amounts have been calculated assuming,
 - (1) The insured will make no further deposits to the individual variable insurance contract,
 - (2) The insured will make no withdrawal from the individual variable insurance contract, aside from the guaranteed withdrawals,
 - (3) The value of the units in the individual variable insurance contract will not change between the date of calculation and the dates for which guaranteed withdrawal amounts are shown,
 - (4) That no bonuses will be credited to the individual variable insurance contract, if applicable, between the date of calculation and the dates for which guaranteed withdrawal amounts are shown, and
 - (5) That the insured will not reset any guarantees under the individual variable insurance contract, if applicable, between the date of calculation and the dates for which guaranteed withdrawal amounts are shown,
 - (c) A notice in plain language explaining how guarantees are affected by withdrawals, and

- (d) If applicable, a notice in plain language to remind the insured of the insured's ability to make discretionary resets of the guarantees under the individual variable insurance contract,

Withdrawal Phase

- (ii) If the individual variable insurance contract provides a guaranteed withdrawal benefit and all or part of the individual variable insurance contract is in the withdrawal phase, the following information with respect to the assets in the withdrawal phase:
 - (a) The guaranteed annual withdrawal amount,
 - (b) How long the guaranteed annual withdrawal amount will be payable, assuming the insured does not make any withdrawals other than the scheduled withdrawals,
 - (c) The amount the insured has chosen to receive annually, if different from the guaranteed annual withdrawal amount,
 - (d) If the individual variable insurance contract is a registered retirement income fund, life income fund, locked-in retirement income fund or restricted life income fund, the minimum registered retirement income, life income fund, locked-in retirement income fund or restricted life income fund withdrawal for the year following the statement date,
 - (e) If the individual variable insurance contract is a life income fund, locked-in retirement income fund or restricted life income fund, the maximum life income fund, locked in retirement income fund or restricted life income fund withdrawal for the year following the statement date,
 - (f) A notice that any withdrawals that exceed the guaranteed annual withdrawal amount will decrease future guaranteed withdrawal amounts, except if required with respect to a registered retirement income fund, life income fund, locked in retirement income fund or restricted life income fund minimum withdrawals, and
 - (g) A notice in plain language explaining the guaranteed withdrawal amount will be payable to the insured even if the market value of the relevant assets in the individual variable insurance contract is less than the guaranteed withdrawal amount, and

Benefits Phase

- (iii) If the individual variable insurance contract provides a guaranteed withdrawal benefit and all or part of the individual variable insurance contract is in the benefits phase, the following information with respect to the portion of the individual variable insurance contract in the benefits phase:
 - (a) The guaranteed annual benefit amount, and
 - (b) How long the withdrawal amount is guaranteed to be payable.

Appendix B – Written Comments Received and FSRA’s Responses to Significant Concerns

5.4: Total Cost Reporting Rule – Approval of Final Rule

Summary of Stakeholder Comments

General Comments	
Comments	Response
<p>FSRA published a prior version of Rule 2024 – 002 Total Cost Reporting (the “Proposed Rule”) for public comment between May 27 and July 26, 2024.</p> <p>Overall, stakeholders expressed support for the requirements that will ensure individual variable insurance contract (“IVIC” or “segregated funds contract”) owners have the information they need to make informed decisions about their investments.</p>	<p>FSRA appreciates stakeholder support for the goals and outcomes of the Proposed Rule.</p>

Need for Harmonization	
Comments	Response
<p>One industry association expressed that in order to achieve the goals and meet the proposed implementation timeline, it is critical to ensure harmonization with:</p> <ol style="list-style-type: none"> 1. The Canadian Council of Insurance Regulators (the “CCIR”) cost and performance reporting guidance (the “Insurance Guidance”) for IVICs. 2. The investment fund industry requirements for total cost and performance reporting, 3. The implementation by other provincial and territorial jurisdictions, including the Autorité de marchés financiers (“AMF”) 	<p>FSRA recognizes the importance of harmonizing cost and performance reporting across Canada, in relation to both the securities and insurance sectors. This is reflected in the approach we have taken with the two new exceptions added to Rule 2024 – 002 Total Cost Reporting (the “TCR Rule”).</p> <p>As part of the rule-making work, FSRA has worked closely with other insurance regulators, particularly the AMF, who has been the only other jurisdiction to confirm that they have taken steps to implement the Insurance Guidance.</p>

	FSRA has worked with the AMF to achieve as harmonized an outcome as possible.
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Missing Historical Information Exception	
Comments	Response
<p>One investor advocacy organization expressed concern about the lack of guidance or clarity regarding the “reasonable efforts” standard as each person or institution will have its own sense of what this means. The organization recommended that FSRA issue guidance to clarify what is meant by “reasonable efforts”.</p> <p>One advocacy group said the exception for “missing historical data” should not apply to IVICs issued after the Proposed Rule comes into force as insurers should be prepared to maintain and report this information for new IVICs.</p>	<p>FSRA recognizes that there are certain historical contracts where the insurer does not have the necessary data. The exception in the TCR Rule is intended to address this challenge.</p> <p>The missing historical information exception is limited to information with respect to an IVIC before the TCR Rule comes into force.</p>

Legacy System Challenges	
Comments	Response
<p><u>Stakeholder comments from the Insurance Sector</u></p> <p>One industry association commented that the Proposed Rule should provide a clear exemption for legacy contracts on old systems and small closed blocks of business. However, in the absence of having express statutory authority to</p>	<p>The legacy system exception now included in the TCR Rule is intended to mitigate the cost impacts that could be passed, in specific and narrow circumstances, to IVIC owners. Under this exception, an insurer is not required to provide the owner with an annual statement containing information from Schedule A to the extent that this</p>

provide exemptions from the proposed requirements, they agreed FSRA should adopt alternative approaches such as exceptions or forbearance. The stakeholder commented that the need for an exception is reinforced by the fact that the number and percentage of contracts administered on old systems continues to decline, currently representing about 1% of all IVIC contracts and is projected continue to decline to about 0.1% of all contracts by 2032. The stakeholder argued that the cost-benefit to the consumer is hard to justify.

One industry association commented that including an additional exception in relation to the “cost to upgrade legacy system” would result in the fair treatment of customers.

One stakeholder estimated that the costs of \$1.4 million to update systems for 1,157 accounts for one of their products that has been closed to new business since 2010, would exceed the benefit customers would receive via enhanced annual statements.

One industry association noted that they were in favor of an additional exception for the “cost to upgrade legacy systems” because any unique builds to accommodate the IVICs may be a lower priority for service providers versus the

information cannot be reasonably provided by the insurer’s system, without it being upgraded or the system cannot be upgraded. In order to report in this manner, insurers must satisfy all the conditions set out in the exception.

securities sector, which could delay overall project timelines.

Stakeholder comments from Consumer Advocates

One advocacy group was opposed to allowing any exceptions in relation to “cost to upgrade legacy systems”. They argued that an organization that can calculate and collect a fee from customers should have the ability and obligation to report exactly what that fee was.

One advocacy group said in relation to “cost to upgrade legacy systems”, vendors have cited this as an obstacle and cost would ultimately be passed on to customers which would not benefit them. However, the failure to upgrade legacy systems was a business decision and insurers should not be rewarded for lack of investment and stewardship by way of an exception.

One advocacy group believed that there should not be a new exception for the “cost to upgrade legacy systems” because cost should be able to be streamlined as many firms that offer IVICs also offer mutual funds, and as such are already preparing to implement total cost reporting for those products.

Event Changes Challenges	
Comments	Response
<p><u>Stakeholder comments from the Insurance Sector</u></p> <p>One industry association noted that requiring insurers to report performance information “since the IVIC began” following specified event change scenarios would result in costly and complex IT system builds, may reduce IVIC comparability to investment funds, and may cause customer confusion from a de-harmonized approach with the securities sector.</p> <p>The same industry association estimates the cost to redesign systems to report information “since the IVIC began” following an event change could cost up to \$28 million (including up to \$14 Million for insurers and up to \$14 Million for third party service providers). Furthermore, they commented that since the IVIC industry only amounts to approximately 6% of the total size of the investment fund industry, there is a disproportionately high cost for any system changes.</p> <p>One industry association said most insurers already provide year-end statements for the past policy record, meaning there is no additional</p>	<p>FSRA has included a further exception that allows insurers to report certain information in separate documents covering the year in which the specified event change occurs and to reset reporting thereafter from the date of the most recent event change. Under the exception, additional statements would be produced when one or more of the following events occur:</p> <ul style="list-style-type: none"> • An ownership structure change • A tax registration change. • A dealer account/nominee change. <p>FSRA believes that this exception will:</p> <ul style="list-style-type: none"> • Enhance harmonization and comparability of IVICs with investment contracts so that consumers can make better informed decisions. • Achieve the intended outcomes as the customer still receives all information about fees and costs paid for the year. • Remove the disproportionate costs that would otherwise have been passed on to customers.

information that would be provided that would justify the cost increase. Additionally, they felt that customers still have access to historical performance information prior to the event change if they refer to prior statements.

One industry association pointed to privacy concerns in relation to nominee dealer changes and ownership changes.

One industry association noted that there is a risk with “system challenges” with regards to complex integration issues and potential errors which could push out project timelines.

Stakeholder comments from Consumer Advocates

One consumer advocate group raised concerns that providing historical performance information since the IVIC’s inception is critical to the new owner. This stakeholder commented that restarting reporting from the event change would eliminate this crucial information, providing only a limited snapshot of the contract’s performance. Specifically, they noted where there is a change in the owner or securities dealer, the TCR Rule should require insurers to report performance

information from the date the IVIC was first issued.	
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Consumer Education	
Comments	Response
<p>One consumer advocacy group suggested customer-facing materials including annual statements, marketing materials, and any supporting documents should use plain language, be clear and accessible, and in simple formats so consumers can easily understand the information provided.</p> <p>One consumer advocacy group commented that FSRA should enhance consumer awareness and outreach including partnership with consumer groups, financial literacy organizations, and industry stakeholders to develop a multi-pronged education campaign.</p>	<p>FSRA agrees that customer-facing materials should be clear and simple so customers can fully understand the IVICs they own.</p> <p>FSRA appreciates the suggestion to work with industry stakeholder groups to develop future education campaigns.</p>

How To Measure TCR Rule Success Post Implementation	
Comments	Response
<p>One consumer advocacy group suggested that within the next 3-5 years, FSRA develop an evaluation framework to measure success against the goals of the Proposed Rule post implementation. As part of this evaluation, the stakeholder requested FSRA engage with industry, clients and life insurance advisors. They pointed out that advisors are at the forefront of delivering and explaining the</p>	<p>FSRA appreciates the stakeholder comment with respect to developing an evaluation framework.</p>

reports, and well positioned to know whether clients are indeed benefiting from the changes in line with regulatory requirements.	
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Enhanced Fees Disclosure	
Comments	Response
<p>One industry stakeholder noted that the aim of the TCR Rule should be to make cost reporting comprehensive and standardized and consistent for both investment funds and IVICs. They urged that if IVIC's fee disclosures were more aligned with reporting requirements of CRM2, it would provide greater clarity and reduce customer confusion.</p> <p>The industry stakeholder was pleased to see that the following four recommended datapoints below were captured from a previous 2022 CSA/CCIR consultation on total cost reporting:</p> <ol style="list-style-type: none"> 1. The value of the investor's account at the beginning of the year 2. The net amount of all of their net deposits to and withdrawals from the account (if any) during the year 3. The total of all direct and indirect costs they incurred during the year to buy, sell and hold their financial products, along with all annual cost incurred for administration of their account 	<p>FSRA agrees that adequate disclosure is needed to help ensure customers make better informed decisions about their investments.</p> <p>The TCR Rule aims, to the extent it is practical and appropriate to do so, to harmonize IVIC annual statement reporting requirements with the investment industry and the Insurance Guidance.</p>

4. The value of their account at the end of the year after deduction of the year's costs

In addition, the industry stakeholder believed that the minimum requirements should show a further breakout that includes dollar amounts paid for the management fees and amounts for distribution and advice (advice fees or trailing commissions) in a similar format to what is prescribed in the mutual fund industry. Overall, they felt that displaying more enhanced fee disclosures will allow investors to better appreciate how much they are paying for advice and to whom.

One consumer advocacy group suggested that there needs to be stronger fee disclosures in order to provide a complete picture of costs to consumers. In particular, they suggested that the rule should explicitly require disclosure of *all* fees and compensation, including bonuses, commissions, and any other incentives paid to agents.

One stakeholder suggested that there should be a fund performance comparison to an investable benchmark, such as an index-based ETF.