FSRA's gearing up for change: Consultation on total cost reporting for segregated funds

June 27, 2024

On May 27, 2024, the Financial Services Regulatory Authority of Ontario (FSRA) launched a public consultation on its new proposed rules that will affect all insurers that offer customers individual variable insurance contracts (also known as individual segregated funds contracts). The objective of this consultation is to obtain feedback from stakeholders, including customers, insurers and investors, as part of FSRA's ongoing commitment to transparency and protecting the interests of life insurance customers. FSRA invites stakeholders to review the proposed rule and provide feedback before **July 26, 2024**.

These proposed rules will make the expectations set out in the Individual Variable Insurance Contract Ongoing Disclosure Guidance published by the Canadian Council of Insurance Regulators and the Canadian Securities Administrators (CSA) in 2023 mandatory for Ontario segregated funds. Under the proposed rules, customers will get the first set of enhanced statements for the year ended December 31, 2026, in early 2027.

Although insurers are already required to provide annual statements to customers, the proposed rules will require insurers to increase the amount of information provided on those statements. The current requirements do not match the Insurance Guidance's enhanced requirements. It is noted in the consultation paper that absent the proposed rules, there are also no current requirements for insurers to provide ongoing, specific reporting to owners on the cost of owning segregated funds after the initial point of sale. The new statements will need to include information such as:

- the total cost of investing, including ongoing embedded fees such as management expenses and trading expenses;
- additional information on the segregated funds' investment performance;
- a customer's right to guarantees under their segregated fund contracts and how certain actions might affect their guarantees; and
- information to more easily allow customers to compare the cost of owning segregated funds with the cost of owning other investments.

In addition to seeking general comments on the proposed rule, FSRA notes it does not have statutory authority to provide exemptions and is thus seeking feedback on whether

additional exceptions are appropriate for some of the new requirements where it would not be in a customer's best interest to require full compliance, such as if it would result in costs to customers that would exceed the benefits.

We note that a recent study released by the CSA that analyzed the effects of the earlier cost disclosure reforms of Phase 2 of the Client Relationship Model (CRM2) applicable to certain investments showed that the industry responded the way regulators had anticipated when they implemented the cost transparency measures (we wrote about the study in last month's bulletin here). The CSA had concluded that MERs and management fees decreased for both mutual funds and ETFs over the study period, although the CSA cautioned that the observed changes in industry behaviour could not be attributed directly to CRM2 because of other potential factors.

By

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