

October 15, 2007

Mr. Neil Mohindra  
Acting Policy Manager  
Joint Forum Project Office  
5160 Yonge Street  
Box 85, 17<sup>th</sup> Floor  
North York, ON M2N 6L9

Re: Proposed Framework 81-406: "Point of Sale Disclosure for Mutual Funds and Segregated Funds"

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Sir:

Desjardins Financial Security Life Assurance Company ("Desjardins Financial Security") is pleased to be participating in the Joint Forum of Financial Market Regulators ("Joint Forum") consultation on the Proposed Framework 81-406: Point of Sale Disclosure for Mutual Funds and Segregated Funds ("Proposed Framework"), published June 15, 2007.

Desjardins Financial Security is a life insurance company incorporated under *An Act respecting insurance* (Quebec). It manufactures individual variable insurance contracts ("IVIC"), which are offered in all provinces of Canada. As of September, 30, 2007, these contracts represented more than \$730,000,000 in managed assets.

From the time the Joint Forum began the process to review point-of-sale disclosure in 2003, Desjardins Financial Security has actively participated in the CLHIA IVIC Working Group, which has been working with a sub-committee of the Canadian Council of Insurance Regulators on this initiative. Desjardins Financial Security also took part in drafting the memorandum issued by Desjardins Group on Consultation Paper 81-403: "Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds", tabled in April 2003.

Desjardins Financial Security would like to stress that it supports the Joint Forum objectives, aimed at improving the information delivered to clients at the time they purchase mutual funds and segregated funds. Desjardins Financial Security is always ready to improve the information disclosed to clients, so that they can make an informed decision. We believe, however, that it would be in the client's best interest if certain adjustments were made to the Proposed Framework to adapt it to the products offered and distribution methods used by insurance companies.

In reading the following, you will note that the purchase of mutual fund units differs considerably from the purchase of IVICs. The information provided to clients when they purchase each of

these products must take into account their specific features and, consequently, be consistent without however being identical.

## **IVIC**

Above all, it should be specified that, unlike mutual funds, an investor never purchases segregated fund units directly. Rather, the client purchases an annuity contract, namely an IVIC, which is assimilated by law to a life insurance contract. To establish its value, fictional units are allocated to each client's contract, but clients have no ownership rights to the units allocated to their contract. They own an annuity contract, have the right to receive the benefits specified under their contract, which vary according to the market value of one or more specified groups of assets (segregated funds) held separate and apart from the insurer's general assets, and have a right of claim against the insurer for the value of their contract.

To qualify for sale, the IVIC must be accompanied by an information folder which meets the requirements of the CLHIA Guideline G2 and the applicable legislation of the jurisdictions where the contract is sold. The Guideline is a joint effort of the CLHIA and one of its sub-committees, comprised of various industry representatives, together with the Canadian Council of Insurance Regulators (CCIR). The IVIC, information folder and contract application form delivered to the client must first be approved by a reviewer, i.e., CLHIA or outside legal counsel, and by insurance authorities where the product is sold. The information folder must be updated annually or more frequently when there is a material change, in which case prior approval from the CLHIA and insurance authorities is required before any changes can be made. As well, this product can only be sold by representatives duly licensed by the insurance authority of their province of residence. For example, in Quebec, only a life insurance agent (financial security advisor), licensed to sell life insurance by the *Autorité des marchés financiers* (AMF), can sell this contract.

IVIC terms and conditions:

- Maturity and death benefit guarantees (minimum of 75% of premiums paid). Life insurance companies must retain adequate actuarial reserves to fund these guarantees.
- Various investment choices, i.e., the contract holder determines how the amounts invested in his contract are allocated among the range of segregated funds offered by the life insurance company since, by law, the life insurance company must maintain the amounts invested in one or more groups of assets separate and apart from its general assets. The value of each contract holder's investment varies based on the return of these segregated funds.
- The contract holder can designate a beneficiary in the event of death, since this contract is a life insurance contract.
- The type of changes that can be made to a contract after issue must be reserved in the contract or mandated by applicable legislation. For example, fundamental change rights (increase in management fees, change in fundamental objectives, reduced frequency of calculation of value per unit, increase in maximum insurance fee amount) require that 60 days' prior notice be given to the client before these can take effect. In certain cases, such changes allow for withdrawals to be made with no fees.
- The right to transfer, with no fees, the amounts invested in a fund to another fund under the contract.

- The right for a client to have a transaction (redemption, switch from one fund to another or additional purchase) requested prior to 4 p.m. on a given business day executed that same business day.
- The right to convert the contract into an annuity to obtain a minimum income.

In addition, the amounts invested are guaranteed by Assuris should the life insurance company become insolvent, up to the amount guaranteed under the terms of the contract.

In certain specified cases, the contract may even be unseizable and thus offer protection from creditors.

The information folder must contain the following:

- A executive summary of the contract containing, among other things, the guaranteed benefits payable under the contract, non-guaranteed benefits, fundamental change rights, transfer and withdrawal options, as well as the method used to determine the benefits payable under the contract.
- Information pertaining to the management of the segregated funds, including information on the life insurance company setting up the contract, investment policies of each segregated fund offered under the contract, tax aspects pertaining to the segregated funds and contract holders and segregated fund managers.
- Fees and expenses related to the sales effort, including management fees, expenses, other fees and charges and “trailer” fees.
- Restrictions, risk factors and material investments in other companies.
- Financial statements of the funds, financial highlights and fund performance data.
- Name of the independent auditors who audited the funds.

#### Information at the time of initial purchase

At the time of or prior to the purchase of the IVIC from Desjardins Financial Security, the client receives one document, which contains the contract and the Information Folder. Since 2002, we have had authorization from the CLHIA and insurance authorities to combine the two documents. Consequently, this ensures that the client has all the information he needs before purchasing the contract.

The purchase of the contract is done in person with the representative. At that time, the representative gives the client a copy of the Contract and Information Folder (“Contract and Information Folder”). Before the purchase, the representative can also opt to provide the client with up-to-date information on the returns of the various funds available on the *Morningstar* data base. In fact, current industry practice consists in systematically providing *Fund Data* with the information including the returns of the funds available, which then sends it to different sources, including *Morningstar*, so that the representatives have up-to-date information on hand. This is in addition to the financial information for the previous financial year, which is already included in the Contract and Information Folder. At the time of or prior to the purchase, the client receives a paper copy of the information on the funds selected and other available funds, which are described in the Contract and Information Folder. Then, the client receives a trading confirmation by mail indicating the contract type purchased, funds selected and trading

information. Subsequently, he will receive the relevant tax slips and official tax receipts, as applicable.

The client also receives a semi-annual statement, confirming the value of his contract, based on the units allocated to it and the amount guaranteed under the contract, along with a reminder that he can obtain semi-annual and annual financial statements. Thus, as provided for in several sections of the Contract and Information Folder, the client can consult the fund's annual and semi-annual financial statements on our web site or request a copy by contacting Customer Service.

### Subsequent transactions

Subsequent transactions can be done (i) by mail directly with the insurance company, (ii) by phone, typically with the representative when changes are made to the client's portfolio allocation under a limited trading authorization or (iii) directly with the representative. In most cases, the trades are carried out the same day they are requested. Clients expect rapid, user-friendly and accessible service in compliance with the terms and conditions of their contract. A trading confirmation is sent to clients after each transaction.

## **Proposed framework**

### Information documents

The Proposed Framework contains the obligation to provide clients with two two-page documents entitled "Key Facts" and "Fund Facts". The first document is a summary of certain aspects of the contract, while the second document provides information about the specified segregated fund selected by the client.

The Proposed Framework also specifies that these documents will be incorporated by reference into the contract.

Desjardins Financial Security believes that the Key Facts and Fund Facts documents should be considered communications tools for the sole purpose of helping the client understand what he is purchasing. These documents should refer the client to the various sections of the contract and invite him to consult it. Since the information on the two documents is summary information and since the prescribed format lacks sufficient space to detail the specificities of the product purchased, they cannot be deemed to be the contract.

The Proposed Framework provides that many aspects of the Key Facts and Fund Facts documents be mandated, including:

- Items and presentation order
- Items on the first page
- Items on the second page
- Section headings and certain language in each section

A separate information document will be required for each class or series of a fund that has a separate MER.

Desjardins Financial Security favours principles based regulation. As written, the Proposed Framework leaves no margin. Therefore, we are asking the Joint Forum for more flexibility in terms of how the information is presented.

The Proposed Framework should provide presentation parameters that allow reference to be made to the IVIC as a whole. We support the format proposed by the CLHIA as part of its present consultation and which summarizes, in four pages, the contract and all of the investment options offered under the contract. This format is better adapted to the products sold by life insurance companies. Since it presents the full range of funds available under the contract, it allows the client to compare returns and associated risk levels among the various funds.

Moreover, we suggest that this four-page document be delivered to the client only when the IVIC is purchased and not for subsequent transactions. It should be noted that the client must receive notification if any changes are made to the contract.

#### At the time of purchase

At the time of the initial purchase of the contract, the representative meets with the client personally and explains the full details of the contract. The client has the right to receive all the information about the options available under the contract before he signs the contract application form. This meeting lasts between one and half hour and two hours, during which time the representative analyses the client's needs based on his assets, objectives, obligations, risk tolerance, investment knowledge and objectives, so that he can recommend the investment best suited to him.

If, as proposed, a separate "Fund Facts" document has to be delivered for each fund selected by the client, representatives will have to carry a pile of documents around with them. For example, if the current proposal is not streamlined, the representatives would have to carry about 105 documents to cover all of the options provided for under our contract. This requirement could limit the number of options that the representative decides to present to his clients. In the end, it is the client who will be affected and who will have cause for complaint against the life insurance company.

Consequently, should the CLHIA's suggestion not be acceptable, we suggest that all Key Facts and Fund Facts documents be combined into a single document, similar to the document which already exists in the Contract and Information Folder currently delivered to all our clients, as required under the applicable legislation. This document already contains an executive summary, which could be the equivalent of the Key Facts document, if it were revised somewhat, as well as information about each fund to which the client is entitled under the contract. Each fund is described in two pages. This provides the client with an overview of the investment choices available under his contract and allows him to compare them. This way of doing things respects the type of product sold, namely an IVIC, facilitates the transaction since all the information appears in a single document and discloses the costs the client must pay. The documentation currently delivered could be reformatted based on the Joint Forum's revised requirements and correlative changes would need to be made to CLHIA Guideline G2.

In order to respect the spirit of the Proposed Framework, we submit that the most efficient way of distributing these documents would be, for example, to have a perforated dotted line on all fund-relevant pages that are included in the Contract and Information Folder. The representative could thus tear out the selected fund page, give it to the client and draw his attention to the

features of the fund selected. We also require greater flexibility when it comes to the content of the documents, so that we can add, among other things, graphic links between the Key Facts and Fund Facts documents and the various Contract and Information Folder headings (for example, placing balloon graphics next to the prescribed information containing a reference to the specified headings and relevant pages of the Contract and Information Folder), as well as other graphic codes so that the client can easily identify the degree of risk of each fund. Lastly, we believe that a single document per fund is sufficient, provided it presents all the MERs or guarantees available. The information on the contract application form confirms the fee schedule and type of guarantee selected by the client.

### Subsequent transactions

We believe that delivery of the Fund Facts document to the client should not be mandatory before subsequent purchases can be made, since all the information is already contained in the Contract and Information Folder. The Proposed Framework would have the effect of delaying the client's purchase. This could also result in the client purchasing often riskier, but less regulated, products that are available whenever he wishes.

We propose that the Fund Facts document be routinely mailed with each trading confirmation for the fund(s) chosen. This respects the conditions of the contract in force, which stipulates that all trading requests made by the client before 4 p.m. on a given business day will be executed that day. Moreover, the purchaser would be presumed to have received the Fund Facts document within 48 hours of its being mailed, without our being obliged to keep a register or proof of mailing or receipt. In all cases, the trading confirmation would give the client the option of obtaining the Fund Facts document at any time, and reminders in the client statements and trading confirmations would mention that the information is available upon request through the internet and by phone.

In any case, the contractual rights of holders of in-force contracts must be considered when evaluating the proposed changes. Clients' financial interests must not be adversely affected by the objective of the Proposed Framework, which is to improve how information is communicated. The Proposed Framework would have the effect of preventing them from investing additional amounts or making changes to their portfolio when they wish, despite the contract provisions. Should the Proposed Framework not be modified, amendments to the legislation would be required to reduce the rights of our current contract holders.

### Increased costs

It should also be taken into account that the requirements provided for in the Proposed Framework could raise costs, which risks affecting the net return on clients' investments.

## **Conclusion**

In summary, Desjardins Financial Security:

- Supports the Joint Forum initiative aimed at improving the information delivered to clients.
- Requests the Joint Forum take into consideration the specificity of the products offered by life insurance companies, namely IVICs.

- Believes that the Key Facts and Fund Facts documents should be considered communications tools that invite the client to consult the contract without, however, being part of it.
- Is in favour of principles based regulation.
- Supports the disclosure format suggested by the CLHIA (Schedule A) as part of the present consultation, which summarizes, in four pages, the contract and all the investment options offered under the contract at the time of the initial purchase.
- Is concerned that the Proposed Framework could limit the number of options that representatives decide to present to their clients if separate documents are required to be delivered, even though other options are available under the contract.
- Alternatively, if the CLHIA suggestion is not accepted, have the Key Facts and Fund Facts documents, revised as per our suggestions, bound into a single document similar to the one that already exists in the Contract and Information Folder that we currently deliver to our clients at the time of the initial purchase.
- For all subsequent transactions, send the Fund Facts documents at the same time as the trading confirmation is sent, since the client already possesses all the options available in the Contract and Information Folder delivered to him at the time of the initial purchase.
- Ask the Joint Forum to take into consideration the rights provided for under the contracts currently in force.

Furthermore, we suggest that the Proposed Framework be implemented progressively. First, for the initial purchase, since the required adjustments are relatively straightforward, and then for subsequent transactions, so that we can continue to seek optimal approaches and make the necessary changes to our procedures and IT systems.

We believe that future consultation between the Joint Forum and the CLHIA could result in a beneficial solution for clients, while taking into account the product offered by life insurance companies. The insurance industry has long promoted team work among a cooperative approach between various working groups comprised of various industry representatives and committees comprised of insurance authorities. This would again provide an excellent opportunity to show how effective the process can be.

To conclude, Desjardins Financial Security would like to assure the Joint Forum of its full cooperation, and trusts that the observations and comments it has made herein will be taken into consideration.

Yours sincerely,

Monique Tremblay  
Senior Vice-President  
Savings and Segregated Funds

## FUND FACTS

Fund Name	IFSC Fund Category	Risk	MER (as at Fund's Year End)	Performance (Annual Compound Return)				
				1 Yr	3 Yr	5 Yr	10 Yr	Since Start
<b>ASSET ALLOCATION FUNDS</b>								
Conservative Portfolio Fund	Canadian Balanced	Low to Moderate	2.57	5.98	4.31	4.58	N/A	5.74
Advanced Portfolio Fund	Canadian Balanced	Moderate	2.94	11.38	0.20	4.81	N/A	6.27
Aggressive Portfolio Fund	Canadian Balanced	Moderate to High	3.03	12.76	-3.10	3.29	N/A	5.51
<b>FIXED INCOME AND CASH EQUIVALENT FUNDS</b>								
Money Market (TNIM)	Canadian Money Market	Low	1.31	1.71	N/A	N/A	N/A	6.85
Fixed-Income Portfolio Fund	Canadian Bond	Low	2.38	4.05	5.48	N/A	N/A	5.59
Mortgage (TNIM)	Canadian Mortgage	Low	2.36	4.83	5.79	4.80	5.74	8.38
<b>BALANCED FUNDS</b>								
Income (TNIM)	Canadian Balanced	Low	2.17	6.76	5.12	5.45	N/A	7.92
Balanced (Mackenzie)	Canadian Balanced	Low to Moderate	2.79	7.90	2.70	7.33	N/A	6.94
Growth & Income (AGF)	Canadian Balanced	Low to Moderate	2.82	12.10	0.92	4.92	N/A	4.46
<b>CANADIAN EQUITY FUNDS</b>								
Dividend (TNIM)	Canadian Dividend	Moderate to High	2.58	17.13	7.87	9.08	N/A	8.08
Equity Index (TNIM)	Canadian Large Cap Equity	Moderate to High	2.36	23.84	-3.31	4.08	6.04	7.26
Growth Equity (AGF)	Canadian Small Cap Equity	High	3.31	26.77	3.90	8.07	N/A	6.97
<b>CANADIAN SPECIALTY FUNDS</b>								
Real Estate (TNIM)	Real Estate	Moderate to High	2.95	4.04	5.40	6.09	5.07	5.05
Canadian Resources (AGF)	Natural Resources	High	3.31	40.77	19.99	17.00	N/A	4.73
Canadian Science and Technology (TNIM)	Science & Technology	High	3.10	25.00	-24.04	N/A	N/A	-24.71
Ethics (TNIM)	Specialty or Miscellaneous	Moderate to High	2.78	27.07	1.89	N/A	N/A	1.94
<b>FOREIGN EQUITY FUNDS</b>								
American Growth (AGF)	U.S. Equity	Moderate to High	2.93	1.00	-16.90	-10.16	N/A	-1.24
International Equity (Putnam)	International Equity	Moderate to High	3.01	3.94	11.15	-1.31	N/A	5.07
<b>FOREIGN SPECIALTY FUNDS</b>								
Asian Growth (AGF)	Asia/Pacific Rim Equity	High	3.43	12.08	-4.53	0.36	N/A	0.05
European Equity (Sceptre)	European Equity	High	2.49	9.82	-11.33	-5.80	N/A	-1.47



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### Choice Segregated Funds

Here are the basic things you should know before you enter into a Choice Segregated Funds policy.

When you enter into a Choice policy, the money you put into the policy is invested in the segregated funds you choose. The available funds are briefly described in the accompanying chart.

Your advisor can provide you with more detailed information about these investment options. You may also request a fund fact sheet for each fund that you are interested in or can access this on the company's website at [www.giantfinancial.com/fund\\_facts/info](http://www.giantfinancial.com/fund_facts/info). Fund specific information is updated on a regular basis.



# KEY FACTS

## Why buy this product?

When you invest in Choice Segregated Funds, you combine the growth potential of investment funds with:

- guarantee to protect your investment if the markets go down
- death benefit guarantee
- option that lets you reset your guarantee to a higher amount if your investment goes up
- possible creditor protection and tax advantages.

The death benefits guarantee is available immediately, but you will have to hold the policy for 10 years or longer to get some of the other benefits. You should consider this a long-term investment.

You pay an annual insurance cost, and therefore a higher MER, to get these benefits.

## Your investment options

You can choose from the 20 segregated funds listed on the back of this page. Your adviser will help you choose the funds that are right for you.

You can change funds at any time. However:

- changing funds may affect your guarantees
- you may have to pay fees or sales charges when you change funds.

You'll find information about each fund in the Fund Facts chart at the back of this document. The chart will help you see how the different funds compare in terms of risk, cost and past performance.

## Your guarantee

Each fund may have different guarantee options.

Guarantee option	Guarantee (as % of amount invested, if you hold policy for 10 years or more)	Guarantee (as % of amount invested, on death)
Full	100%	100%
Combined	75%	100%
Basic	75%	75%

The 100% guarantees cost more than the 75% guarantees. The insurance cost is added to the fund expenses to come to the total charge (MER) you will pay each year. See Fund Facts for cost of each fund.

The full guarantee is not available on some higher risk funds.

If you hold the policy for 10 years or if you die, you or your beneficiaries will get the market value of your investment or the guarantee amount, whichever is higher. That means if the market has gone down, you or your beneficiaries will get 75% or 100% of what you paid in (depending on the guarantee you've chosen), less any fees or withdrawals you have made.

The full and combined guarantees let you reset your guarantee amount when there are gains on your investment and base the guarantee on the higher amount. Some restrictions apply.

This policy will pay you an annuity at maturity unless you select otherwise.

## Choosing beneficiaries

You can choose beneficiaries to inherit the guaranteed death benefit. Ask your adviser for details.

## Making withdrawals

You can take out some or all of your money at any time:

- sales charges and withdrawal fees may apply
- withdrawals reduce the amount you get under the guarantee

## If you change your mind

You can cancel your policy by notifying Giant Insurance in writing within two business days of signing an application.

- you will get back the amount you invested or less if the value of your investments has gone down
- you will also get back any sales charges you paid

## How much does it cost to buy?

You may have to pay a sales charge. The table below outlines your options. Ask your adviser to explain the pros and cons of each option. Your adviser can also tell you about other sales charge options available on similar funds.

Your sales charge options (✓ Choose one)		What you pay	What else you should know
<input type="checkbox"/> Initial sales charge	(In per cent %) 0 to 4% when you buy	(In dollars \$) 0 to \$40 on every \$1,000 you buy	<ul style="list-style-type: none"> <li>• The initial sales charge is deducted from the amount you buy. That means less of your money is invested in the fund</li> <li>• Ask your adviser to tell you the sales charge on the amount you're buying.</li> </ul>
<input type="checkbox"/> Deferred sales charge	If you sell within: 1 year of buying 6.0% 2 years of buying 5.0% 3 years of buying 4.0% 4 years of buying 3.0% 5 years of buying 2.0% 6 years of buying 1.0% After 6 years none	0 to \$60 on every \$1,000 you sell	<ul style="list-style-type: none"> <li>• This is a set schedule.</li> <li>• The deferred sales charge is deducted from the amount you sell. That means you get less of your money back.</li> <li>• You may redeem up to x% of your units each year before this fee is applicable.</li> </ul>

## How does my adviser get paid?

- Your adviser will normally get a commission when you enter into the policy and direct premiums to a fund.
- Your adviser also gets an ongoing commission for as long as you hold the fund. This is called a "trailing commission".
- The commission rates depend on the sales charge option you choose. Your adviser can tell you the commission rates for this fund, and how they compare with similar funds.
- The fund company pays the commissions to the company your adviser works for. The company pays your adviser some or all of these commissions.
- The commissions are part of the fund's annual expenses.

## For more information

For more information about this segregated fund and your insurance contract, speak to your adviser or contact:



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