



Point of Sale Disclosure

Implementation of New Requirements for Segregated Funds

On January 1, 2011, new requirements go into effect for segregated funds. While insurers will need to modify current disclosure documents, the changes for the most part simply reinforce current point of sale disclosure practices for segregated funds.

The new requirements relate to disclosure at the time the client enters into the individual variable insurance contract (or IVIC) and selects segregated funds in that contract. The key requirements are as follows:

- The Information Folder must be delivered to the client before he or she signs the application for the IVIC. This requirement is unchanged from current practices.
- The Information Folder must contain a Key Facts document that briefly describes the key features of the contract.
- Fund Facts documents for each segregated fund available under the contract must be delivered with the Information Folder. The Fund Facts documents may be physically included in the Information Folder or delivered separately.
- The client may choose to receive these disclosure documents either physically (in person, mail, or fax) or electronically (e-mail or viewed by the client on-line).
- The client must sign acknowledging receipt of these documents. This requirement is unchanged but the acknowledgment may be modified to include a reference to the Fund Facts documents.
- The insurer must offer a two-day rescission right (i.e., free exit) that applies to the decision to enter into the contract and/or any fund selection.

These requirements, approved by insurance regulators in late 2009, are intended to implement principles established by the Joint Forum of Financial Market Regulators to harmonize disclosure practices for mutual funds and segregated funds.

At this time, the requirements (except for the rescission rights) do not apply to any fund selections or other transactions that occur at a date after the client has purchased the IVIC. As of April 2010, disclosure requirements for mutual funds had not been finalized. Among other things, securities regulators and the mutual fund industry were still discussing delivery requirements for the Fund Facts disclosure documents. For this reason, the life insurance industry and life insurance regulators have agreed to await the outcome of mutual fund discussions before making decisions about requirements for subsequent transactions.

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