Canadian Life and Health Insurance Association Inc.

Association canadienne des compagnies d'assurances de personnes inc.

Guideline G2
INDIVIDUAL VARIABLE INSURANCE CONTRACTS RELATING TO SEGREGATED FUNDS

This Guideline has been approved by CLHIA's Board of Directors. All member companies are expected to comply with the CLHIA Guidelines. Companies are urged to bring Guidelines to the attention of their Board of Directors or the Board Committee responsible for the company's compliance program with a view to incorporating the Guidelines into the company's ongoing compliance program.

Originally adopted March 4, 1997

Amended March 7, 2001

Amended December 5, 2005, with amendments taking effect June 30, 2006

Approved by: CLHIA's Board of Directors
and
Canadian Council of Insurance Regulators

RELATED REFERENCE DOCUMENTS:

IVICs: Calculation and Disclosure of Performance Data (re: Guideline G2)

IVIC Clarifying Notes (re: Guideline G2)

IVIC Filing Checklist and Schedule "A" (re: Guideline G2)

Explanatory Notes to December 5, 2005 Amendments to Guideline G2

INDEX	Section	Page

PURPOSE STATEMENT		**1**
FOREWORD		**2**
• 2001 Revisions		2
• 2005 Revisions		3
PART I - APPLICATION:		**4**
• General	1.1	4
• Non-Application of Guidelines	1.2	4
PART II - DEFINITIONS:		**5**
• "advertisement"	2.1(a)	5
• "arm's length transaction"	2.1(b)	5
• "audit"	2.1(c)	5
• "auditor"	2.1(d)	5
• "Canadian securities"	2.1(e)	5
• "cap"	2.1(f)	5
• "cash"	2.1(g)	5
• “CLHIA”	2.1(h)	6
• "counterparties"	2.1(i)	6
• "counterparty exposure amount"	2.1(j)	6
• "covered"	2.1(k)	6
• "current yield"	2.1(l)	6
• "derivative"	2.1(m)	6
• "fee option"	2.1(n)	7
• "fees and charges"	2.1(o)	7
• “financial highlights”	2.1(p)	7
• "financial option"	2.1(q)	7
• "foreign securities"	2.1(r)	7
• "forward"	2.1(s)	7

- “fundamental investment objectives” 2.1(t) 7
- "future" 2.1(u) 7
- "government securities" 2.1(v) 7
- “guidelines” 2.1(w) 7
- "hedging" 2.1(x) 8
- "illiquid investments" 2.1(y) 8
- "independent qualified appraiser" 2.1(z) 8
- “index fund” 2.1(aa) 8
- “index participation unit” 2.1(bb) 8
- "individual variable insurance contract" 2.1(cc) 8
- "information folder" 2.1(dd) 9
- “insurance regulator” 2.1(ee) 9
- "insurer" 2.1(ff) 9
- "investment policy" 2.1(gg) 9
- "listed" 2.1(hh) 9
- "long position" 2.1(ii) 9
- "manager" 2.1(jj) 9
- "market value" 2.1(kk) 9
- "material change" 2.1(ll) 10
- "maximum credit exposure" 2.1(mm) 10
- "money market fund" 2.1(nn) 10
- “non-material change: 2.1(oo) 10
- “performance data” 2.1(pp) 10
- "permitted index” 2.1(qq) 10
- “portfolio advisor” 2.1(rr) 11
- “potential exposure" 2.1(ss) 11
- “principal risks 2.1(tt) 11
- "qualified appraiser" 2.1(uu) 11
- "rating" or "ranking" 2.1(vv) 11
- “related party” 2.1(ww) 11
- “reviewer” 2.1(xx) 11
- "secondary fund" 2.1(yy) 12
- "segregated fund" 2.1(zz) 12
- "short position" 2.1(aaa) 12

- "swaps" 2.1(bbb) 12
- "unit" 2.1(ccc) 12
- "warrant" 2.1(ddd) 12

PART III - DOCUMENTS TO BE FILED WITH THE REVIEWER AND INSURANCE REGULATORS: 13

- Preliminary Filing with Reviewer 3.1 13
- Filing of Material Changes with Reviewer 3.2 13
- Review for Compliance with Guidelines 3.3 13
- Amendments and Re-Submission 3.4 13
- Copies for Submission to Insurance Regulators 3.5 13
- Preparation of Reviewer Comfort Letter 3.6 14
- Filing of Draft Documents with Insurance Regulator 3.7 14
- Response by Insurance Regulator 3.8 14
- Filing of Final Documents with Reviewer's Transmittal Letter 3.9 14
- Re-Filing of Information Folder with Insurance Regulators 3.10 15
- Non-material changes to IVIC Documents 3.11 15
- Information Folder Amendments by Addendum 3.12 15
- Annual Filing of Form 2 Compliance Report 3.13 15

PART IV - GENERAL DISCLOSURE REQUIREMENTS: 16

- Contract Disclosure 4.1 16
- Information Folder Disclosure 4.2 16
- Annual Statement to Contractholder 4.3 16

PART V - DELIVERY OF DOCUMENTS TO PROSPECTIVE CONTRACTHOLDER: 18

- Delivery of Information Folder 5.1 18
- Acknowledgement of Receipt of Information Folder 5.2 18

PART VI - CORPORATE GOVERNANCE OF SEGREGATED FUNDS: 19

- Corporate Governance of Segregated Funds 6.1 19

PART VII - ADVERTISING: 20

- Unfair and Deceptive Acts and Practices 7.1 20

- Clarity of Advertisements 7.2 20
- If Advertisement Lists Advantages, Must Also List Limitations 7.3 20
- Advertisements Not to be Misleading 7.4 20
- Source of Statistics 7.5 20
- Testimonials 7.6 20
- Date of First Publication 7.7 20
- Insurer's Corporate Name 7.8 20
- Text Requirements and Warnings 7.9 21
- Performance Data and Advertisements 7.10 21
- Performance Comparisons for Segregated Funds 7.11 23
- Standard Performance Measurement Presentation 7.12 23

PART VIII - MANAGEMENT EXPENSE RATIO: 24

- Calculation of Management Expense Ratio 8.1 24
- Change in Basis of the Calculation of Fees and Charges 8.2 25
- Audited Financial Statements 8.3 25

PART IX - INVESTMENTS: 26

- Investment Information 9.1 26
- Derivatives 9.2 27
- Investments in Another Fund 9.3 29
- Illiquid Investments 9.4 30
- Real Estate 9.5 30
- Mortgages 9.6 33
- Borrowing 9.7 35
- Non-Arm's Length Transactions 9.8 36

PART X - PARTITIONING OF ASSETS HELD IN SEGREGATED FUNDS: 37

- General 10.1 37
- Equitable Allocation 10.2 37
- Notice to Contractholders 10.3 37
- Terms of the Contract 10.4 37

PART XI – FUNDAMENTAL CHANGES AND MERGER OF SEGREGATED FUNDS: 38

- Merger with Another Segregated Fund of the Same Insurer 11.1 38
- Merger with Another Segregated Fund of a Different Insurer 11.2 39
- Fundamental Changes 11.3 40

PART XII - AUDIT AND ACCOUNTING REQUIREMENTS: 42

- General 12.1 42
- Financial Statement Requirements: 12.2 42

Statement of Operations 12.2(1) 42

Statement of Changes in Net Assets 12.2(2) 43

Statement of Net Assets 12.2(3) 43

Statement of Investment Portfolio 12.2(4) 44

Notes to the Audited Financial Statements 12.2(5) 46

FORMS

FORM 1: INFORMATION REQUIRED IN THE INFORMATION FOLDER OF AN INSURER WITH AN INDIVIDUAL VARIABLE INSURANCE CONTRACT

FORMAT OF THE INFORMATION FOLDER **48**

(a) General Instructions 48

(b) Information Folder cover 48

(c) Summary 48

(d) Financial Disclosure 48

PART A CONTRACT AND UNIT FEATURES: **49**

- Item 1 Description of the Individual Variable Insurance Contract 49
- Item 2 Value of Units 50

PART B INFORMATION ON SEGREGATED FUND MANAGEMENT: **51**

- Item 3 Description of the Insurer Issuing Individual Variable Insurance Contracts 51
- Item 4 Policies with respect to Investments for the Segregated Fund 51
- Item 5 Tax Status of the Segregated Fund 52
- Item 6 Tax Status of the Contractholders 52
- Item 7 Segregated Fund Manager and Advisor 52
- Item 8 Interest of Management and Others in Material Transactions 52

PART C FEES AND SALES INCENTIVES: **53**

- Item 9 Management Fees and Other Expenses 53
- Item 10 Other Fees and Charges 53

PART D RESTRICTIONS, RISK FACTORS AND SIGNIFICANT HOLDINGS IN OTHER ISSUERS: **53**

- Item 11 Investments in Mortgages, Real Estate and Derivatives 53
- Item 12 Material Contracts 54
- Item 13 Other Material Facts 54

PART E INVESTMENTS IN ANOTHER FUND **55**

- Item 14 Secondary Fund Disclosure Requirements 55

PART F **FINANCIAL STATEMENTS:** **55**

- Item 15 Statement of Operations 55
- Item 16 Statement of Changes in Net Assets 55
- Item 17 Statement of Net Assets 55
- Item 18 Statement of Investment Portfolio 55
- Item 19 Notes to Audited Financial Statements 56
- Item 20 Information Folder Asset Disclosure 56
- Item 21 Financial Highlights 56
- Item 22 Auditor 59

FORM 2: **COMPLIANCE REPORT**

Questionnaire on investment, advertising, and investment manager proficiency 60

SCHEDULE 1 Approved Credit Rating 64

PURPOSE STATEMENT

This Guideline has been approved by CLHIA's Board of Directors. Each Member company is urged to bring the Guidelines to the attention of its Board of Directors or the Board Committee responsible for the company's compliance program and to incorporate them into its broader compliance activities.

The CLHIA Guidelines on Individual Variable Insurance Contracts Relating to Segregated Funds, establish industry standards including standards for:

- advertising disclosure;
- pre-sale disclosure requirements;
- contract disclosure, including minimum contractual terms;
- policyholder rights;
- audit and accounting requirements;
- investment disclosure;
- minimum investments standards;
- corporate governance of segregated funds;
- partitioning of assets held in segregated funds;
- closing of segregated funds, and
- fundamental changes to and merger of segregated funds.

Foreword

The disclosure guidelines for Individual Variable Insurance Contracts ("IVICs") established by the Canadian Council of Insurance Regulators ("CCIR") and the Canadian Life and Health Insurance Association Inc. ("CLHIA"), set out in former CLHIA Guidelines Nos. 23, 24, 86, 87, 88 and The Canadian Code of Advertising Standards (the "Former Guidelines"), have been revised and consolidated, with the applicable legislation, to produce these CLHIA Guidelines on Individual Variable Insurance Contracts relating to Segregated Funds.

With the exception of Part XII, Audit and Accounting Requirements and the requirement for financial statements on an audited basis under Part F, Financial Statements, of Form 1, these Guidelines shall apply as of July 1, 1997, to all IVICs issued on or before that date. These Guidelines came into full force and effect on January 1, 1998.

CLHIA urges all insurers to note that Part X, Partitioning of Assets Held in Segregated Funds, and Part XI, Merger of Segregated Funds, have yet to receive the benefit of the proposed amendments to the Income Tax Act that would prevent unwanted dispositions occurring in the hands of contractholders.

2001 Revisions

The Guidelines were amended in 2001 in the following areas: index fund/concentration limit (ss. 2.1(aa), 2.1(bb), 2.1(qq), 9.1(1)(d), 9.1(2)(c), fundamental changes (ss. 2.1(t), 11.3, Form 1, Item 1 (g)), financial information (ss. 2.1(p), 4.3, 8.1, Form 1, Item 9, Form 1, Item 21), performance data (ss. 7.9, 7.10, 7.12), manager proficiency (Form 2), fund-of-fund arrangements (ss. 7.8, 9.3, Form 2, Instructions) and summary fact statement disclosure (the “Guideline Amendments”).

These Guideline Amendments came into full force and effect:

(a) on December 31, 2001 for individual variable insurance contracts issued pursuant to new and amended Information Folders filed after that date;

(b) on the first renewal date after December 31, 2001 for contracts issued pursuant to refiled Information Folders; and

(c) on December 31, 2002 for contracts that are in force but no longer offered by the insurer.

Where the segregated fund is an index fund s. 9.1(2)(c) (i) was effective April 30, 2001. Section 9.1(1)(d), s. 9.1(2)(c) (ii) and (iii) were effective for any new filings after April 30, 2001, or for any re-filings on the normal re-filing date beginning January 1, 2002.

The Guideline Amendments were approved by the CLHIA Board of Directors on March 7, 2001.

2005 Revisions

The Guidelines have been amended in the following areas:

Part II – Definitions - The following definitions have been amended: 2.1 (a) "advertisement"; 2.1 (b) "arm's length transaction"; 2.1 (t) "fundamental investment objectives"; 2.1 (v) "government securities"; 2.1 (w); "Guidelines"; 2.1 (ee) "insurance regulator"; 2.1 (oo) "non-material change"; 2.1 (pp) "performance data"; 2.1 (rr) "portfolio advisor"; 2.1 (tt) "principal risks"; 2.1 (vv) "rating" or "ranking"; 2.1 (ww) "related party"; and 2.1 (xx) "reviewer".

Part III – Documents to be Filed With the Reviewer and Insurance Regulator – Former Part III - Documents to be Filed with the CLHIA and Part IV – Documents to be Filed with the Insurance Regulator – have been combined and rewritten to create an easier to understand, integrated explanation of the process for review and filing of documents.

Part IV – General Disclosure Requirements: 4.1 (a) – Shortened warning statement to consumers; 4.1(f) added requirement for description of fundamental change rights in contract; detailed information folder disclosure requirements moved to Form 1; 4.3 – amended to allow optional delivery of unaudited semi-annual and audited annual financial statements.

Part V – Delivery of Documents to Prospective Contractholder: 5.1 amended to facilitate electronic delivery of information folder and 5.2 amended to allow obtaining receipt in written, electronic or recorded oral form.

Part VII – Advertising: Provisions substantially shortened and streamlined.

Part VIII – Management Expense Ratio: Formerly titled "Retail Remuneration" this section now deals only with calculation and disclosure of the "Management Expense Ratio".

Part IX – Investments: 9.1 (1) amended to require disclosure of fundamental investment objectives and disclosure of principal investment strategies; 9.1(2) clarified to refer to "book value"; 9.3 (1) (c) clarified to not allow duplication of management fees or sales charges; Former 10.3 (2) disclosure requirements for investments in a secondary fund moved to Form 1; 9.5 real estate fund size categories and amounts required to be maintained in liquid assets simplified; 9.6 mortgage fund size categories and amounts required to be maintained in liquid assets simplified; 9.7 restriction on ability to pledge assets removed.

Part XII – Audit and Accounting Requirements – Minor wording clarifications have been made.

Form 1 – Amended to include a comprehensive list of all requirements for information folder disclosure.

Form 2 – Minor wording clarifications added.

The 2005 Guideline amendments were approved by the CLHIA Board of Directors on December 5, 2005.

The 2005 Guideline amendments will come into effect on June 30, 2006.

PART I - APPLICATION:

1.1 General:

These Guidelines apply to individual variable insurance contracts that meet the definition provided in Section 2.1 of these Guidelines.

1.2 Non-Application of Guidelines:

Group variable insurance contracts relating to segregated funds are not subject to the compulsory application of these revised Guidelines.

In addition, these Guidelines do not apply in respect of individual variable insurance contracts that meet the definition provided in Section 2.1 of these Guidelines, but which are no longer offered for sale to the public on, and after, July 1, 1997, provided that the insurer has ceased all sales of individual variable insurance contracts. In such an instance, the insurer shall, at a minimum, meet the requirements of the former CCIR and CLHIA Variable Insurance Contract Guidelines, set out in CLHIA Guidelines Nos. 23 and 24, in respect of all existing contracts. Where the insurer continues to sell individual variable insurance contracts generally, but has simply ceased to sell any particular type of its individual variable insurance contracts, the insurer must comply with these new Guidelines for all of its individual variable insurance contracts with respect to the rights and obligations provided to policyholders.

PART II - DEFINITIONS:

2.1 In these Guidelines,

(a) **"advertisement"** means any communication by or on behalf of an insurer used in the solicitation for sale of an individual variable insurance contract including all printed and electronic:

(i) descriptive literature in newspapers or magazines, signage, and all radio, television, or electronic messages;

(ii) illustrations, circulars, memoranda, booklets and form letters of all kinds including forwarding and return envelopes or forwarding and return cards mailed by an insurer as a mass advertisement to the public without solicitation; and

(iii) brochures, information folders, summary fact statements or other advertising documents produced for distribution to the public.

(b) **"arm's length transaction"** means a transaction with a person other than a related party.

(c) **"audit"** means the examination of the financial statements of the segregated fund by an independent auditor.

(d) **"auditor"** means an accountant who is a member in good standing of an institute or association of accountants incorporated by, or under, an Act of the legislature of a province.

(e) **"Canadian securities"** means securities that are not foreign securities.

(f) **"cap"** means an agreement obligating the seller to make payments to the buyer, each payment based on the amount by which a reference price or level or the performance or value of one or more underlying interests exceeds a predetermined number, sometimes called the strike rate or price.

(g) **"cash"** means:

(i) cash on deposit at the segregated fund's custodian; or

(ii) treasury bills or other evidences of indebtedness issued, or fully guaranteed as to principal and interest, by:

(A) any of the Federal, Provincial or Territorial Governments of Canada: or
(B) the Government of the United States or any political subdivision thereof, the Government of any sovereign state or any supranational agency, provided that such treasury bills or other evidences of indebtedness have an approved credit rating.

all maturing in less than one year; or

(iii) an evidence of deposit, maturing in less than one year, issued, or fully guaranteed

as to principal and interest, by:

(A) a bank to which the Bank Act (Canada) applies:
(B) a loan corporation or trust company registered under applicable federal or provincial legislation; or
(C) a foreign financial institution;

provided that the short term debt instruments of such institution have an approved credit rating.

(h) **"CLHIA"** means the Canadian Life and Health Insurance Association Inc.

(i) **"counterparties"** means the party(ies) other than the insurer, on behalf of a segregated fund, to a contract respecting derivatives.

(j) **"counterparty exposure amount"** means the net amount of credit risk attributable to a derivative instrument entered into with a business entity other than through a qualified exchange, or cleared through a qualified clearing house ("over-the-counter derivative instrument"). The amount of credit risk equals the following: the potential exposure of the derivative instrument plus:

(i) the market value of the over-the-counter derivative instrument if the liquidation of the derivative instrument would result in a final cash payment to the insurer; or

(ii) zero if the liquidation of the derivative instrument would not result in a final cash payment to the insurer.

(k) **"covered"** means that the insurer owns the underlying interest in order to fulfil or secure its obligations under a call option it has written in an income generation transaction.

(l) **"current yield"** means current yield of a money market fund expressed as a percentage and determined by applying the following formula:

current yield = [seven day return X 365/7] X 100.

(m) **"derivative"** means an agreement, financial option, instrument or any series or combination thereof:

(i) to make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or

(ii) which has a price, performance value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.

Derivatives include financial options, warrants, caps, floors, collars, swaps, forwards, futures, and any other agreements, options or instruments substantially similar thereto, or any series or combination thereof.

(n) **"fee option"** means any option available to a contractholder under an individual variable insurance contract which results in there being more than one set of fees and charges applicable in respect of a particular segregated fund.

(o) **"fees and charges"** means any sales charges, distribution fees, management fees, administrative fees, account set-up or closing charges, surrender charges, transfer fees or any other fees, charges or expenses whether or not contingent or deferred which are or may be payable in connection with the acquisition, holding, transferring or redemption of units of a segregated fund credited to the contract.

(p) **"financial highlights"** means the following information as of the financial year-end of the fund: fund allocations or distributions, net assets of the fund, net asset value per unit, number of units outstanding, management expense ratio and portfolio turnover rate, all as more particularly described in Item 21, Form 1.

(q) **"financial option"** means an agreement giving the buyer the right to buy or receive, sell or deliver, enter into, extend or terminate, or effect a cash settlement based on the actual or expected price, level, performance or value of one or more underlying interests.

(r) **"foreign securities"** means securities issued by an issuer that is constituted under the laws of a jurisdiction other than Canada or a Province or Territory of Canada and carries on a substantial portion of its activities outside of Canada.

(s) **"forward"** means an agreement other than a future to make or take delivery of, or effect a cash settlement based on the actual or expected price, level, performance or value of one or more underlying interests.

(t) **"fundamental investment objectives"** means those characteristics that distinguish one segregated fund from another on the basis of parameters such as 1) the investment fund category (e.g: equity, fixed income) 2) country or region where the segregated fund primarily invests; (3) type of capitalization, if equity (e.g: large cap, small cap) and (4) whether the fixed income investments, if applicable, are government, high-grade corporate, or junk investment grade status.

(u) **"future"** means an agreement traded on a qualified exchange, to make or take delivery of or effect a cash settlement based on the actual or expected price, level, performance or value of one or more underlying interests.

(v) **"government securities"** means bonds, debentures or other evidences of indebtedness (other than debt-like securities), having a term of one year or more, issued or fully guaranteed as to principal and interest by any of the Federal, Provincial or Territorial Governments of Canada, or the Government of the United States of America or any political subdivision thereof, or the bonds, debentures or other evidences of indebtedness (other than debt-like securities) having an approved credit rating and a term of one year or more, issued or guaranteed by the government of any sovereign state or any supranational agency.

(w) "**Guidelines**" means the CLHIA Guidelines on Individual Variable Insurance Contracts Relating to Segregated Funds as amended from time to time.

(x) **"hedging"** means to enter into a transaction, or a series of transactions, the intended effect of which, is the offset or reduction of the risk associated with all or a portion of an existing investment or group of investments. For the transaction to offset or reduce the risk associated with an investment, or group of investments, there must be a high degree of correlation between changes in the market value of the investment, or group of investments, being hedged and the instrument or instruments with which the position is hedged. The term "hedging" shall also include the hedging of all or a portion of the currency exposure of an existing investment or group of investments either directly or by currency cross hedging.

(y) **"illiquid investments"** means investments, other than units or shares of a mutual fund or of a segregated fund, which may not be readily disposed of in a marketplace where such investments are normally purchased and sold and public quotations in common use in respect thereof are available.

(z) **"independent qualified appraiser"** means a qualified appraiser who:

(i) has no direct or indirect interest, financial or otherwise, in the real property subject to appraisal or with the party to the real estate-related transaction with whom the insurer is dealing; and

(ii) is not in the full-time employment of the insurer whose segregated fund is being valued, or any associated or affiliated companies of the insurer.

(aa) **“index fund”** means a segregated fund that has adopted fundamental investment objectives that require the segregated fund to:

(i) hold the securities that are included in a permitted index or permitted indices of the segregated fund in substantially the same proportion as those securities are reflected in that permitted index or those permitted indices; or

(ii) invest in a manner that causes the segregated fund to substantially replicate the performance of that permitted index or those permitted indices.

(bb) **“index participation unit”** means a security traded on a stock exchange in Canada or the United States and issued by an issuer the only purpose of which is to:

(i) hold the securities that are included in a specified widely quoted market index in substantially the same proportion as those securities are reflected in that index; or

(ii) invest in a manner that causes the issuer to replicate the performance of that index.

(cc) **"individual variable insurance contract"** means an individual contract of life insurance, including an annuity, or an undertaking to provide an annuity, as defined by provincial and territorial insurance statutes and by the Civil Code of Quebec, under which the liabilities vary in amount depending upon the market value of a specified group of assets in a segregated fund, and includes a provision in an individual contract of life insurance under

which policy dividends are deposited in a segregated fund.

(dd) **"information folder"** means a disclosure document in respect of an individual variable insurance contract, the particulars of which are described in Part IV and Form I of these Guidelines. No information folder may be forwarded to the applicable insurance regulators unless it has received written pre-clearance from a reviewer, and is in compliance with the provisions of these Guidelines.

(ee) **"insurance regulator"** means a provincial or territorial authority responsible for regulating insurance in a province or territory.

(ff) **"insurer"** means a life insurance company authorized to transact the business of life insurance under the laws of the province or territory in respect of which these Guidelines apply.

(gg) **"investment policy"** means a written policy of the insurer applying to segregated funds that is the subject of an individual variable insurance contract offered for sale in Canada.

(hh) **"listed"** means publicly-traded securities listed on a recognized securities exchange.

(ii) **"long position"**, with respect to:

(i) clearing corporation financial options, over-the-counter financial options and listed warrants, refers to a segregated fund holding a position which entitles the segregated fund to elect to purchase, sell, receive or deliver the underlying interest (or pay or receive cash in lieu thereof);

(ii) futures and forward contracts, refers to a segregated fund holding a position which obliges the segregated fund to accept delivery of the underlying interest (or pay or receive cash in lieu thereof);

(iii) call financial options on futures, refers to a segregated fund holding a position which entitles the segregated fund to elect to assume a long position in futures; and

(iv) put financial options on futures, refers to a segregated fund holding a position which entitles the segregated fund to elect to assume a short position in futures.

(jj) **"manager"** means a person(s) or company who has the power or responsibility to direct the affairs of the segregated fund and whose duties include the management of the investment portfolio of the segregated fund(s) and the provision of investment advice in connection therewith.

(kk) **"market value",** in Part IX on Investments, means:

(i) as to cash, the amount; and

(ii) as to a security held by a segregated fund, the current price obtained from a generally recognized source, the most recent bid quotation from a generally

recognized source, or if no generally recognized source exists, the price for the security as determined by data and assumptions documented by the parties to a transaction, and accrued but unpaid income on the security.

(ll) **"material change"** means a change in a fact required to be disclosed in the information folder, other than a change in the investments of the segregated fund, that would reasonably be expected to influence or change a decision by a prospective contractholder.

(mm) **"maximum credit exposure"** means current exposure (mark-to-market) if positive.

(nn) **"money market fund"** means a segregated fund offered under an investment option under an individual variable insurance contract, and which has and intends to continue to have:

(i) all of its assets invested in cash or debt obligations maturing in 13 months (25 months for government securities) or less or in floating rate debt obligations where the principal amount of such obligations had a market value of approximately par at the time of each change in the rate to be paid to the holders of such obligations;

(ii) a portfolio with a dollar-weighted average term to maturity not exceeding 180 days;

(iii) not less than 95 percent of its assets invested in cash or securities, which assets are denominated in the same currency as the units of the segregated fund; and

(iv) not less than 95 percent of its assets invested in cash or debt obligations of issuers having an approved credit rating for commercial paper as set out in Schedule 1 attached to these Guidelines.

For purposes of calculating the dollar-weighted average term to maturity of the money market fund's portfolio, the term of a floating rate obligation shall be the period remaining to the date of the next rate setting.

(oo) "**non-material change"** means a change in a fact required to be disclosed in the information folder that is not material including: changes in non-static financial information such as financial highlight information, performance data information; changes in top 10 holding information; changes which do not change the substance of the information presented; and correction of typographical errors.

(pp) **"performance data"** means any rating, ranking, quotation, discussion or analysis regarding rate of return, yield, volatility or other measurement or description of the investment performance of a segregated fund.

(qq) "**permitted index"** means, in relation to a segregated fund, a widely quoted market index that is:

(i) administered by an organization that is not affiliated with the insurer or the manager or portfolio advisor of the segregated fund; or

(ii) widely recognized and used.

(rr) **"portfolio advisor"** means a person(s) or company engaging in or holding himself, herself, themselves or itself out as engaging in advising an investment fund as to the investing in or the buying or selling of securities.

(ss) **"potential exposure"** means:

(i) as to futures positions, or any other such instruments that are traded on recognized exchanges, the amount of initial margin held for such positions;

(ii) as to swaps, collars and forwards, the notional amount times the square root of the remaining years to maturity (residual maturity) times a spread factor of 0.5% for interest rate contracts and 3% for cross currency and equity contracts; or

(iii) for swaps, collars and forward contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset so that the market value of the contract is zero on these specified dates, the residual maturity is considered to be the time until the next reset date.

(tt) "**principal risks**" means those risks applicable to the segregated fund such as interest rate risk; foreign currency risk; credit risk; sovereign risk; market risk; special equities risk; real estate risk; derivative risk; and any risk related to use of leverage.

(uu) **"qualified appraiser"** means an appraiser who has the knowledge, ability, experience and integrity required to complete the assignment competently. Although not requiring the selection of an appraiser with a designated professional qualification, insurers must use appraisers that have the necessary attributes set out below.

An insurer's appraiser selection criteria should ensure that appraisers used to perform an appraisal for the segregated fund are, at a minimum:

(i) experienced, competent and knowledgeable regarding the real estate market within the area to which the appraisal relates and the type of real estate being appraised; and

(ii) independent of the real estate being appraised and of the person whom the insurer is dealing with in respect to the real estate-related transaction.

(vv) **"rating" or "ranking"** means the performance rating or ranking of a segregated fund, prepared by an independent organization and standard performance data that must be provided for any segregated fund whose rating or ranking is quoted when referred to in an advertisement.

(ww) **"related party"** means a person who is a related party as defined in the self-dealing provisions of the *Insurance Companies Act* of Canada.

(xx) **"reviewer"** means the person designated by the Canadian Life and Health Insurance Association to review an insurer's draft individual variable insurance contract documents in accordance with these Guidelines or a lawyer in private practice in Canada.

(yy) **"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, pursuant to Section 9.3 of these Guidelines.

(zz) **"segregated fund"** means a separate and distinct segregated fund maintained by an insurer in respect of which the non-guaranteed benefits of a variable insurance contract are provided.

(aaa) **"short position"**, with respect to:

(i) clearing corporation financial options, over-the-counter financial options and listed warrants, refers to a segregated fund having a position which, at the election of another, obliges the segregated fund to purchase, sell, receive or deliver the underlying interest (or pay or receive cash in lieu thereof);

(ii) futures and forward contracts, refers to a segregated fund holding a position which obliges the segregated fund to deliver the underlying interest (or pay or receive cash in lieu thereof);

(iii) call financial options on futures, refers to a segregated fund holding a position which, at the election of another, obliges the segregated fund to assume a short position in futures; and

(iv) put financial options on futures, refers to a segregated fund holding a position which, at the election of another, obliges the segregated fund to assume a long position in futures.

(bbb) **"swaps"** means a series of forward contracts which obligate two parties to swap or exchange a series of cash flows on specified payment dates. The cash flows are either fixed or calculated by specified reference rates or prices. Interim payments are netted, with the difference being paid by one party to the other.

(ccc) **"unit"** means a unit of a segregated fund, attributed to an individual variable insurance contract to measure the participation and corresponding benefits under the contract.

(ddd) **"warrant"** means financial option to purchase the underlying financial instruments at a given price and time or at a series of prices and times outlined in the warrant agreement. A warrant is issued alone or in connection with the sale of other securities, as part of a merger or recapitalization agreement, and, occasionally, to facilitate divestiture of the securities of another corporation.

PART III - DOCUMENTS TO BE FILED WITH THE REVIEWER AND INSURANCE REGULATORS

3. 1 Preliminary Filing with Reviewer:

An insurer that proposes to offer to the public an individual variable insurance contract in any Canadian jurisdiction shall file, in draft form, with the reviewer,

(a) the documents evidencing the individual variable insurance contract;

(b) financial highlights for each segregated fund and other relevant documents, such as any endorsements for registered, individual variable insurance contracts; and

(c) the information folder, to be used by the insurer in connection with the sale of that type of individual variable insurance contract.

3.2 Filing of Material Changes with Reviewer:

An insurer that has filed an information folder in respect of an individual variable insurance contract shall file with the reviewer an amended information folder or an addendum in accordance with section 3.12 forthwith upon any material change. Any previously-filed information folder and any other previously-filed revised document submitted to the reviewer must be in draft form and include both a clean copy, and a blackline version setting out the changes.

3.3 Review for Compliance with Guidelines:

The reviewer shall examine the original documents or any material change to an information folder previously filed with an insurance regulator for compliance with these Guidelines within 30 days from the date of their receipt from the insurer. Where the draft documents do not meet the requirements set out in these Guidelines, or require further changes, the reviewer shall notify the insurer indicating the nature of the non-compliance.

3.4 Amendments and Re-Submission:

Upon receiving the notification referred to in section 3.3, the insurer shall make any necessary changes to the draft documents and re-submit them to the reviewer for further examination and possible comment.

3.5 Copies for Submission to Insurance Regulators:

Once the reviewer is satisfied that the insurer's draft documents are in compliance with these Guidelines and suitable for filing with the applicable insurance regulators, the insurer shall forward to the reviewer sufficient copies thereof for submission to the applicable insurance regulators accompanied by the insurer's submission letters addressed to each insurance regulator. Blackline and clean copy versions should be included in respect of any previously-filed document with material changes. Note that French language versions of the draft documents are required for submission to Quebec and New Brunswick.

3.6 Preparation of Reviewer Comfort Letter:

The reviewer shall forthwith prepare a comfort letter addressed to each applicable insurance regulator, as requested by the insurer, stating that the draft documents are in compliance with the CLHIA Guidelines on Individual Variable Insurance Contracts Relating to Segregated Funds.

3.7 Filing of Draft Documents with Insurance Regulator:

An insurer that proposes to offer to the public a new individual variable insurance contract or revised individual variable insurance contract with material changes, shall file in a particular jurisdiction, in draft form, with the insurance regulator of the jurisdiction, either directly, or indirectly through the reviewer,

(a) the documents evidencing the individual variable insurance contract;

(b) the information folder, to be used by the insurer in connection with the sale of that type of individual variable insurance contract including a certificate signed by two officers duly authorized by the insurer certifying that the information folder provides brief and plain disclosure of all material facts relating to the variable insurance contract;

(c) a blackline copy and a clean copy of any revised contract and information folder; and

(d) the reviewer's comfort letter.

3.8 Response by Insurance Regulator:

Any correspondence from an insurance regulator regarding the draft documents will be sent directly to the submitting insurer with a copy forwarded by the insurer to the reviewer. The insurer shall respond directly to any comments received from an insurance regulator and forward a copy of the correspondence to the reviewer.

3.9 Filing of Final Documents with Reviewer's Transmittal Letter:

The reviewer shall forthwith file the final printed versions of the insurer's documents, together with the reviewer's transmittal letter, with the applicable insurance regulators upon receipt from the insurer of:

(a) the final printed versions of the documents;

(b) a copy of the insurance regulator's receipt where such receipt is required to be issued to the insurer under the applicable legislation of a particular jurisdiction;

(c) in respect of any jurisdiction where an insurance regulator's receipt is not required to be issued, written confirmation that at least 30 days have elapsed since the date the draft documents were submitted to the insurance regulator of a particular jurisdiction in accordance with Section 3.7 and that the insurer has not, in the meantime, received written notice from the insurance regulator that the documents

are not acceptable for filing; and

(d) written confirmation by the insurer that there have been no material changes made to the documents previously submitted in draft form or detailing changes made as a result of comments received from an insurance regulator.

For purposes of administrative convenience, an insurer may elect to directly file the final printed versions of the insurer's documents together with the reviewer's transmittal letter.

Upon receiving the information required in 3.9 (a), (b), (c) and (d) above, the reviewer will provide the insurer with transmittal letters to be submitted to each jurisdiction.

Once filed, the insurer may offer the individual variable insurance contract for sale in the particular jurisdiction.

3.10 Re-Filing of Information Folder with Insurance Regulators:

An insurer that has filed an information folder in respect of an individual variable insurance contract shall, as long as it continues to offer to enter into that type of individual variable insurance contract, file with the applicable insurance regulator revised documents in accordance with section 3.7 above upon any material change in the latest information folder filed. In addition, an insurer shall comply with any annual or periodic filing requirement specified by law in any jurisdiction.

3.11 Non-material changes to IVIC Documents:

Non-material changes to an information folder do not require review and approval. An insurer should file with each applicable insurance regulator and the CLHIA any amended information folder together with a covering letter explaining the changes.

3.12 Information Folder Amendments by Addendum:

Information folder amendments which involve revisions to the information presented in the information folder may be made by the insertion of a supplemental information page or information folder addendum. Any supplemental information page or addendum should reference the applicable information folder, state the purpose of the addendum and provide the insurer's address and contact information. Such information folder amendments should be incorporated into the information folder on the next refiling of an amended information folder. All information must be presented in a clear and non-misleading manner.

3.13 Annual Filing of Form 2 Compliance Report:

The insurer shall file at least once each calendar year with each applicable insurance regulator the executed Compliance Report in accordance with Form 2. If there have been no material changes to the information folder the insurer shall file with the Form 2 Compliance Report a letter confirming that there have been no material changes.

PART IV - GENERAL DISCLOSURE REQUIREMENTS:

4.1 Contract Disclosure:

The documents evidencing an individual variable insurance contract shall:

(a) on the cover or face page of the contract, include a warning statement in bold, print in substantially the following words:

"Any amount that is allocated to a segregated fund is invested at the risk of the contractholder and may increase or decrease in value."

(b) describe the benefits under the individual variable insurance contract and indicate which benefits are guaranteed and which benefits are not guaranteed;

(c) state,

(i) the method of determining the benefits related to the market value of the segregated fund and the amount of the surrender value of these benefits, and

(ii) where provision is made for part of the premium to be allocated to provide the benefits related to the market value of the segregated fund, the percentage of the premium so allocated;

(d) state the times, which shall not be less than once monthly, at which the segregated fund shall be valued and at which the value of the benefits related to the market value of the segregated fund may be determined;

(e) describe the fees and charges, or basis for calculating the fees and charges, against the segregated fund; and

(f) describe the fundamental change rights applicable including the nature, notice requirements and rights and obligations set out in section 11.3.

4.2 Information Folder Disclosure:

The information folder relating to an individual variable insurance contract shall present in clear and plain language the information required by Form 1.

4.3 Annual Statement to Contractholder:

The insurer shall provide to the contractholder, within four months of each successive fiscal year-end of the fund, a statement showing the following:

(a) the value of the benefits under the contractholder's individual variable insurance

contract related to the market value of the segregated fund at the end of the period covered by the statement;

(b) the amount, if any, allocated under the contractholder's individual variable insurance contract to a segregated fund during the period covered by the statement;

(c) a statement that annual audited financial statements and semi-annual unaudited financial statements are available upon request together with contact information about how to obtain the statements;

(d) a statement that information regarding the current management fee, management expense ratio and the overall rate of return, calculated on a net basis for the segregated fund for the last 1, 3, 5 and 10 year periods, if applicable, are available upon request, together with contact information about how to obtain the statements; and

(e) if the insurer specifies an insurance fee limit pursuant to section 11.3(7)(b), the changes to the insurance fee in accordance with Section 11.3(7)(c).

PART V - DELIVERY OF DOCUMENTS TO PROSPECTIVE CONTRACTHOLDER:

5.1 Delivery of Information Folder:

Before an application for an individual variable insurance contract is signed by a prospective contractholder, a true copy of the most current information folder including any applicable addenda shall be delivered to the prospective contractholder. A prospective contractholder may elect to receive the information folder either physically (in person, mail, or fax) or electronically (e-mail or viewed by consumer on-line).

Where a contract is not an individual variable insurance contract at issue but is subsequently amended to become an individual variable insurance contract upon application by the contractholder for such amendment, the most current information folder including any applicable addenda will be provided in accordance with paragraph 1 above.

5.2 Acknowledgement of Receipt of Information Folder:

The insurer shall, at the time of delivery, obtain an acknowledgement in written, electronic or recorded oral form from any person to whom an information folder is delivered in compliance with Section 5.1 of these Guidelines.

PART VI - CORPORATE GOVERNANCE OF SEGREGATED FUNDS:

6.1 An insurer that establishes and maintains a segregated fund as a fund for investment under individual variable insurance contracts shall:

(a) prepare the segregated fund's financial statements, described in Part XII of these Guidelines, annually;

(b) appoint an auditor to make such examination as the auditor considers necessary to enable the auditor to report on the segregated fund's financial statements;

(c) monitor the quality of internal controls in place for the segregated fund;

(d) ensure that the segregated fund has an investment policy in accordance with Part IX of these Guidelines, and monitor the segregated fund for compliance with that policy;

(e) review any partitions or mergers of segregated funds as described in Part X or Part XI of these Guidelines; and

(f) make available explanatory materials to life agents.

PART VII - ADVERTISING:

7.1 Unfair and Deceptive Acts and Practices:

No insurer may engage in any unfair or deceptive acts or practices including the doing of any activity that does not comply with the applicable legislation of a particular jurisdiction or the failure to do an act required by the applicable legislation.

7.2 Clarity of Advertisements:

All information in advertisements must be clearly presented and correspond with the statements relating thereto or be grouped under appropriate headings so that the content of the advertisement is comprehensible and coherent.

7.3 Advertisement Which Lists Advantages, Must Also List Limitations:

When an advertisement mentions any advantage, such as the nature of the coverage, the benefits payable or any other advantage attached to the individual variable insurance contract or to one of its provisions, it must also fairly disclose, in close proximity, and in the same manner, any limitations, exceptions or reductions which affect the nature of the coverage.

7.4 Advertisement Not to be Misleading:

No advertisement shall be untrue or misleading or include a statement that conflicts with information that is contained in an information folder.

7.5 Source of Statistics

No advertisement shall use statistics without clearly identifying their source.

7.6 Testimonials:

Testimonials used in an advertisement must be of a general nature, be authentic and express the current opinion of the author of the testimony at that time. Where a testimonial or a recommendation is paid for directly or indirectly by the insurer, or someone on its behalf, the advertisement shall so state. When using a testimonial, the insurer shall be deemed to assume as its own all of the statements contained therein.

7.7 Date of First Publication:

A written advertisement shall contain the date of its first publication.

7.8 Insurer's Corporate Name:

The insurer's corporate name shall be displayed in a conspicuous manner and printed in full in an advertisement and must be shown in a conspicuous manner on any accompanying application for an individual variable insurance contract. If the segregated fund involves investment in another fund or if the name of the segregated fund includes the

name of the entity associated with the secondary fund, additional disclosure should be provided to clearly indicate that the individual variable insurance contract is issued by the insurance company.

7.9 Text Requirements and Warnings:

All text in a written advertisement shall be at least 10-point type. Disclaimers or asterisked information in a written advertisement should be clearly visible.

All warnings and disclaimers shall be clearly displayed and audible or visible for a reasonable period of time if broadcast or delivered by way of an electronic medium.

Advertisements whether written, or delivered by way of electronic media, shall include the prescribed warning (with appropriate modifications by an insurer selling a life insurance contract or an immediate annuity contract that provides for investment in a segregated fund), as set out in Section 4.1(a) except in circumstances where the advertisement does not contain any performance data and the warning would constitute more than 50% of the advertisement.

7.10 Performance Data and Advertisements:

(a) No advertisement may contain performance data unless it complies with the following:

(i) the segregated fund has been available for investment for at least 12 months; or

(ii) if the segregated fund invests in secondary funds, at least 80% of the number of secondary funds in which it invests have been available for investment for at least 12 months, provided that where all of the underlying funds have not been so available the advertisement clearly states that the indicated performance does not represent all of the underlying funds for the period and indicates which funds are not included; or

(iii) a segregated fund for which there are different classes or series of units available pursuant to an information folder shall not contain performance data unless:

A. the advertisement clearly specifies the class or series of units to which any performance data contained in the advertisement relates; and

B. if the advertisement relates to more than one class or series of units and provides performance data, then the advertisement provides performance data for each class or series of units and clearly explains the reasons for different performance data among the classes or series; and

(iv) an advertisement for a new class or series of units of a segregated fund that pertains to the same investment portfolio as an existing class or series of units shall not contain performance data relating to the existing class or

series unless the advertisement clearly explains any differences between the new class or series and the existing class or series that could affect performance;

(c) if there have been any changes during the performance measurement period in the fundamental investment objectives, characterization as a money market fund, or in any portfolio advisor or in the ownership of the insurer or in fees or charges, including the waiving or absorbing of fees or charges, that would or could reasonably be expected to materially affect the segregated fund's performance, the advertisement shall contain:

(i) summary disclosure of the change or a statement to the effect that the segregated fund has undergone changes during the performance measurement period which would or could have affected either positively or negatively the segregated fund's performance had those changes been in effect throughout the period; and

(ii) for a money market fund which during the performance measurement period did not pay or accrue the full amount of fees and charges payable by the segregated fund, or any recurring fees and charges that are payable by all contractholders, disclosure of the difference between such full amounts and the amounts actually charged, expressed as an annualized percentage on a basis comparable to current yield; or

(iii) for other than a money market fund, a description of the method used in calculating the performance data during the performance measurement period and a statement that the calculation has been performed on a net basis and indicating any fees and charges that have been deducted in performing the calculation;

(d) where the advertisement is not a report to contractholders and relates to a money market fund, the standard performance data which is given shall be calculated for the most recent 7 day period for which it is practicable to calculate the standard performance data taking into account publication deadlines, provided that this 7 day period is not more than 3 months prior to the date of the appearance or use of the advertisement in which it is included and not more than 3 months prior to the date of first publication of any other advertisement in which it is used;

(e) for other than a money market fund, the indicated rate of return shall be the historical annual compound total return including changes in unit value and reinvestment of all dividends or distributions but not taking into account sales, redemption, distribution or optional charges payable by any contractholder which would have reduced returns;

(f) where performance data is advertised, include the prescribed warning set out in Section 4.1(a), and indicate:

(i) where an illustration of growth rates of a segregated fund is based upon the past performance of a segregated fund itself or of similar funds or of one or more indices, it shall also be made clear that such past results should not be

construed as being indicative of the future performance of the segregated fund;

(ii) performance data must be reported, at a minimum, on a 1, 3, 5 and 10 year basis. Where a segregated fund has not been in existence for 10 years, then its performance data should be reported, at minimum, on a 1, 3 and 5 year basis, and since inception, or as is applicable; and

(iii) performance data which is provided must, at a minimum, be for the 1, 3, 5, and 10 year periods, or as is applicable, ending on a calendar month not more than 3 months prior to the date of first publication;

(g) where performance data is advertised with respect to investments over a stipulated period of time, indicate also any qualification which would prevent redemptions prior to expiry of such period;

(h) where withdrawal privileges for investments in a segregated fund are advertised, indicate any qualification preventing withdrawal of the redemption request;

(i) where fees or charges are referred to, include a statement listing all fees and charges which are applicable; and

(j) where costs or commissions on sales of individual variable insurance contracts are referred to as applying or not applying, include a statement listing all fees and charges applicable to those sales. Where a withdrawal charge is applicable, include a statement listing the charge.

7.11 Performance Comparisons for Segregated Funds:

An advertisement that compares the performance of one or more segregated funds to a consumer price index, any stock, bond or other index, average, or any guaranteed investment certificate or other certificate or deposit, real estate or any other investment of any kind or nature, including another segregated fund, shall:

(a) include all facts that, if disclosed, would likely materially alter conclusions reasonably drawn or implied by the comparison;
(b) present data for each subject of comparison for the same period(s); and
(c) where the performance of an index or average is compared, if appropriate in view of the nature of the comparison, describe the index or average, point out if there are material differences between the composition of or calculation of the performance of the index or average and the investment portfolio of the segregated fund and state any other factors to make the comparison fair and not misleading.

7.12 Standard Performance Measurement Presentation:

The standard performance data of a segregated fund shall be calculated and disclosed in accordance with the CLHIA Reference Document Calculation and Disclosure of Performance Data.

PART VIII - MANAGEMENT EXPENSE RATIO

8. 1 Calculation of Management Expense Ratio:

The management expense ratio of a segregated fund applicable to a particular fee option under an individual variable insurance contract for any financial year shall be obtained by dividing (i) the aggregate of all fees and charges and other expenses paid or payable by the segregated fund during or in respect of the financial year in question which relate to that particular fee option, by (ii) the amount of the average net asset value of the segregated fund attributable to the particular fee option for the financial year in question and multiplying the quotient by 100. For the purpose of making this calculation:

(a) the expression "the average net asset value of the segregated fund attributable to the particular fee option for a financial year" means the result obtained by:

(i) adding together the amounts determined to be the net asset value of the segregated fund attributable to the particular fee option as at the close of business of the segregated fund on each day during the financial year in question on which the net asset value of the segregated fund has been determined in the manner from time to time as described in Item 2 of Form 1;

(ii) dividing the amount resulting from the addition provided for in clause (i) by the number of days during the financial year in question on which the net asset value has been determined;

(b) The expression "all fees and charges and other expenses" means all fees and charges 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 any) and all taxes other than income taxes, but excluding commissions and brokerage fees on the purchase and sale of portfolio securities;

(c) If any fees and expenses otherwise payable by a segregated fund in a financial year were waived or otherwise absorbed by the insurer, the insurer shall disclose in a note to the disclosure of the management expense ratio, details of:

(i) what the management expense ratio would have been without any waivers or absorptions;

(ii) the length of time that the waiver or absorption is expected to continue;

(iii) whether the waiver or absorption can be terminated at any time by the insurer; and

(iv) any other material arrangements concerning the waiver or absorption;

(d) A segregated fund that has separate classes or series of units shall calculate a management expense ratio for each class or series, in the manner required

by this section, modified as appropriate; and

(e) The management expense ratio of a segregated fund for a financial year of less than 12 months shall be annualized.

8.2 Change in Basis of the Calculation of Fees and Charges:

Where the basis of the calculation of fees and charges and other expenses that are charged to a segregated fund are changed or proposed to be changed and where such change would have a material effect on the management expense ratio for the last completed financial year of the segregated fund if such change had been in effect for such year, the information folder shall disclose the effect of such change.

8.3 Audited Financial Statements:

The audited financial statements of the segregated fund shall set out in appropriate detail the amounts of all fees and charges and other expenses, if any, which have been charged to the segregated fund during the period covered by the financial statements.

PART IX - INVESTMENTS:

9.1 Investment Information:

(1) The insurer shall include a brief statement in the information folder addressing each of the following matters with respect to each segregated fund:

(a) the fundamental investment objective(s) of the segregated fund;

(b) the principal investment strategies that the portfolio advisor intends to use in achieving the segregated fund's fundamental investment objectives which may include any investment approach, philosophy, practice or technique used by the portfolio advisor or any particular style of portfolio management that the portfolio adviser intends to follow;

(c) the principal risks applicable to the segregated fund; and

(d) where the segregated fund is an index fund, a statement that as a result of investment decisions for the segregated fund being based on one or more permitted indices, the segregated fund may have more of the net assets of the segregated fund invested in one or more issuers than is usually permitted for segregated funds, and disclose the risks associated with that fact, including the possible effect of that fact on the liquidity and diversification of the segregated fund, the ability to satisfy redemption requests and on the volatility of the segregated fund.

(2) The insurer shall abide by all of the following limits:

(a) the sum of the segregated fund's exposures to any one issuer at the time of purchase may not exceed 10% of the book value of the fund. Exposure may take the form of securities issued by the entity, loans to the entity recorded on the face of the financial statements or credit exposure (expressed as "credit equivalent amount") to the entity;

(b) Section 9.1(2)(a) above shall not apply to:

(i) investment in any corporate issue, or a security guaranteed by, any government authority in Canada; or

(ii) investments held in cash.

(c) Section 9.1(2)(a) above shall not apply to a segregated fund that:

(i) is an index fund;

(ii) includes the word 'index' in the name of the fund; and

(iii) discloses the derivative investment strategy, if the fund employs a

derivative investment strategy to match the index;

(d) the percentage of securities of any one corporate issue that may be acquired is limited to10% of each class of securities of any one corporate issuer except for any corporate issue of, or a government security guaranteed by, any government authority in Canada;

(e) at the time of making an investment, an insurer shall not seek to invest in the securities of a company in order to exercise control or management of it. However, should an insurer ultimately gain control or management of a company due to market forces, such as through realization procedures, such a circumstance is not prohibited;

(f) where more than 10% of the market value of the segregated fund is or will be invested in mortgages, state the method used to determine the market value of the mortgages. This method must provide for the categorization of mortgages based on risk, and within each category, mortgages are to be valued at a principal amount based on the following: the prevailing rate of return; the duration; the relationship between the current interest rates and the interest rate of the mortgage for that category; and, the statutory requirements relating to wrap-around mortgages, where applicable; and

(g) where more than 10% of the market value of the fund is or will be invested in real estate for the production of income, state the method used to determine the market value of the real estate. This method must include the following: the initial market value shall be equal to the cost of acquiring the real estate including professional fees and other costs; each parcel of real estate must be appraised by an independent qualified appraiser at least once every 3 years; each parcel of real estate must be appraised at least once a year by a qualified appraiser and may include an updating of previous appraisals; for dates where no appraisal is available, the insurer must provide a monthly market value; all appraisals in any one year must be scheduled at regular intervals over the year; where a material change in the condition of any real estate held in the segregated fund occurs that could materially affect the fund's market value, the insurer must immediately arrange for an appraisal by an independent qualified appraiser of such real estate and adjust the valuation of it at the next monthly valuation date after the appraisal is made.

(3) Section (2) above shall not apply where a segregated fund invests in a secondary fund that is subject to other regulation. The rules of the underlying secondary fund shall be applicable.

9.2 Derivatives:

(1) Use of Derivatives Instruments in an Unlevered Portfolio:

Where the investment policy of a segregated fund states that leverage will not be used, the notional amount of derivatives used by the segregated fund shall not exceed 100% of the value of the net assets of the segregated fund, subject to a short-term 2% variation depending on movements in the foreign exchange value of

the currency in which the units of the fund are offered. In those instances, where derivatives add to the market exposure of the segregated fund (e.g., through a long position in a futures contract, swaps, call financial options, or a short position in a put financial option), the segregated fund will hold cash which together with any margin on account are equal to the notional value of any derivative instrument held. Where the derivatives provide negative market exposures to the segregated fund (e.g., a short position in a futures contract, swap, call financial option or a long position in a put financial option), the segregated fund must hold a position in the underlying instrument in the portfolio or an equivalent long position equal to the notional value of the derivatives instrument held.

Derivatives may be used in hedging positions recorded on the face of the financial statements and positions disclosed in the notes to the financial statements, to generate income (by sale of covered calls) or for replication of an index.

For segregated funds using derivatives to change the asset exposure and currency exposure, the notional value of the derivatives relating to assets shall be measured independently of those relating to currency so that the currency positions do not independently exceed the net assets of the segregated fund.

(2) Use of Derivatives Instruments in a Levered Portfolio:

Where the investment policy of a segregated fund specifically states that leverage will be or may be used, derivatives may be used to create this leverage if all of the following conditions are met:

(a) no more than 20% of the net assets of the segregated funds will be invested in any particular trading strategy or approach using leverage;

(b) the segregated fund will isolate each levered trading strategy or approach in limited liability secondary funds in order to protect the segregated fund from losing more than 20% of the net assets of the segregated fund on that strategy;

(c) on a quarterly basis, the management of the segregated fund will make such risk management studies as it deems prudent to ensure that each of the levered strategies anticipated for a segregated fund is relatively independent of other such strategies (e.g., low correlation, etc.); and

(d) where leverage is being used, the contractholder shall be informed in the information folder of the historical and anticipated risk level of the segregated fund with such measures as standard deviation.

(3) Over-the-Counter Derivatives Instruments:

Where over-the-counter derivatives instruments are used, the following conditions must be met:

(a) a calculation of the counterparty exposure amount must be made at least monthly for each counterparty and such exposure to any counterparty taken

together with any exposures recorded on the face of the financial statements must not exceed 10% of the net assets of the segregated fund for any individual counterparty; and

(b) fund managers are prohibited from making derivative contracts on behalf of the segregated fund with the sponsoring insurer or any entity controlled by, or in control of, the sponsoring insurer, or in the control of an entity in control of the sponsoring insurer.

(4) Valuation of Derivatives:

Positions in derivative instruments shall be valued at the current market value thereof.

Where a covered clearing corporation financial option, financial option on futures or over-the-counter financial option is written, the premium received by the segregated fund shall be reflected as a deferred credit that shall be valued at an amount equal to the current market value of the clearing corporation financial option, financial option on futures or over-the-counter financial option that would have the effect of closing the position. Any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred debit or credit shall be included in determining the net asset value of the segregated fund. The securities, if any, which are the subject of a written clearing corporation financial option or over-the-counter financial option shall be valued at their current market value.

The value of a futures contract, or a forward contract, shall be the gain or loss with respect thereto that would be realized if, on the valuation date, the position in the futures contract, or the forward contract, as the case may be, were to be closed out unless "daily limits" are in effect, in which case fair value shall be based on the current market value of the underlying asset.

Margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin.

In accordance with Section 12.2(4)(e), the value of written clearing corporation financial options, positions in future contracts and positions in forward contracts determined in accordance with this paragraph shall be disclosed in the statement of investment portfolio of the segregated fund.

9.3 Investments in Another Fund:

(1) Notwithstanding Section 9.1(2), an investment in a secondary fund is permitted by a segregated fund (the "principal fund"), provided that the following conditions are met:

(a) adequate disclosure of this practice is made in the information folder;

(b) the principal fund establishes a unit value;

(c) there are no management fees or sales charges payable by the segregated

fund that would duplicate a fee or sales charge payable by the secondary fund for the same service; and

(d) the investment policy of the principal fund continues to be followed.

9.4 Illiquid Investments:

Where in the case of any investment there is no marketplace where such investment may normally be purchased and sold and public quotations in common use in respect thereof are not available, such investment will be considered to be an illiquid investment notwithstanding the fact that any party has agreed to purchase the investment. Examples of illiquid investment include, but are not limited to: limited partnership interests that are not listed; non-publicly traded securities; and, over-the-counter financial options entered into for non-hedging purposes. However, over-the-counter financial options entered into for hedging purposes in accordance with Section 9.2(2) of these Guidelines are not deemed to be illiquid investments. In addition, limited liability vehicles or secondary funds used to protect against excessive loss where leverage is being used, or where the units of a limited liability vehicle (other than those issued to the limited or general partner) are issued solely to a segregated fund, are not deemed to be illiquid investments, provided that the underlying securities are themselves not illiquid investments.

Subject to the specific provisions set out below respecting certain types of segregated funds, in general, a segregated fund shall not, without prior written notice to the applicable Insurance Regulators, invest more than 10% of its net assets (taken at market value at the time of the investment) in illiquid investments.

9.5 Real Estate:

(1) Where a segregated fund invests in real estate, the investment policy of the segregated fund must outline the insurer's purchase and sale of real estate in respect of the fund over the last five years. In addition, the investment policy must state the following:

(a) that no investment can be made in real estate except for the production of income;

(b) that the segregated fund is not permitted to invest in raw or undeveloped land;

(c) an insurer shall not sell or transfer real estate investments from or to a segregated fund of the insurer, to or from another fund of the insurer at other than its fair value as determined by an independent qualified appraiser;

(d) that the segregated fund is not permitted to invest more than 10% of its assets in real estate, unless the segregated fund is a real estate fund;

(e) that the segregated fund is not permitted to invest in real estate until its net assets are equal to or greater than $10,000,000;

(f) where more than 10% of the segregated fund's market value is invested or will

be invested in real estate for the production of income, state the methods used to determine the market value of the real estate, consistent with the following:

(i) the initial market value is the cost of acquiring the real estate including professional fees and other acquisition costs;

(ii) an independent qualified appraiser must appraise each parcel of real estate at least once every three years;

(iii) a qualified appraiser must appraise each parcel of real estate at least once a year and may include an updating of previous appraisals;

(iv) the insurer must determine a monthly market value at dates for which an appraisal is not available based on the price the real estate would bring if sold on the open market after a reasonable time to a knowledgeable purchaser;

(v) all appraisals in any year must be arranged so that the valuations of the market value of individual parcels of real estate are made at regular intervals over the year;

(vi) the insurer shall ensure that the contents of appraisal reports and the valuation methodologies used in appraisal reports meet the minimum standards of the Appraisal Institute of Canada, which are contained in the Uniform Standards of Professional Appraisal Practice with the Canadian Supplement, and the Handbook for Appraisal Guidelines, as amended from time to time;

(vii) in the event of a material change in the condition of any real estate held in the fund that may affect the market value of the segregated fund, the insurer must immediately arrange for the appraisal of it by an independent qualified appraiser, and adjust the valuation of the real estate at the next monthly valuation after the appraisal is made; and

(g) where over 30% of the net asset value of a segregated fund is invested in real estate, there are minimum levels that must be met as a percentage or amount of the total net asset value of the segregated fund held in liquid assets, as follows:

Net asset Value of the Fund	Minimum amount to be Maintained in Liquid Assets
$10,000,000 to $20,000,000	10% of net asset value of the fund
over $20,000,000	$2,000,000 plus 6% of net asset value of the fund over $20,000,000

(2) A segregated fund may invest in a joint venture arrangement in respect of real estate only if:

(a) the fund's interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first refusal, if any, in favour of the joint venturers;

(b) the fund has a right of first refusal to buy the interests of joint ventures; and

(c) the joint venture arrangement provides an appropriate buy-sell mechanism to enable the fund to cause the joint venturers to purchase the fund's interest or to sell their interests to the fund.

(3) A segregated fund shall not lease or sublease to any person any real estate, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real estate, premises or space having a fair market value net of encumbrances in excess of 20% of the net asset value of the fund.

(4) A segregated fund shall not enter into any transaction involving the purchase of real estate or real estate improvements thereon and the leasing thereof back to the vendor where the fair market value net of encumbrances on the real estate being leased to the vendor together with all other real estate being leased by the fund to the vendor and its affiliates is in excess of 20% of the net asset value of the fund.

(5) No units of a real estate segregated fund shall be issued under an individual variable insurance contract unless the premium relating thereto is fully paid for in cash. No individual variable insurance contract shall be issued, directly or indirectly, as consideration for real estate or services. No acquisition of real estate shall be made by a segregated fund on the condition or understanding that the vendor of the real estate subscribe for individual variable insurance contracts held in the segregated fund.

(6) No investments can be made in any one parcel of real estate to an extent of more than 10% of the market value of the segregated fund's assets at the time of making the investments, except for the amount transferred by an insurer to establish a segregated fund, and no more than 25% of the transferred amount can be invested in any one parcel of real estate.

(7) Unless a segregated fund has either reserved the right in its discretion to purchase real estate in its information folder or is a real estate fund, it must not participate in the purchase of real estate, other than real estate acquired from foreclosure of mortgages held by the segregated fund.

(8) If on a redemption date a real estate segregated fund is unable to redeem all individual variable insurance contracts in respect of which redemption has been requested, redemptions shall be made "pro rata".

9.6 Mortgages:

(1) Where a segregated fund invests in mortgages the investment policy of the segregated fund must state the following:

(a) that no investments can be made in any one mortgage to an extent of more than 5% of the market value of the segregated fund's assets at the time of making the investments, except for the amount transferred by an insurer to establish a segregated fund, and that no more than 25% of the transferred amount can be invested in any one mortgage;

(b) except for a mortgage approved or insured under the National Housing Act (Canada), which must be transferred at market value, state that the insurer cannot sell or transfer mortgage investments from or to a segregated fund of the insurer, to or from another fund of the insurer. A sale or transfer of a mortgage investment to a segregated fund from another fund of the insurer within 60 days of the first advance under the mortgage shall not be considered as a sale or transfer where there has been no material change in value since the date of the first advance. However, a sale or transfer may be made provided that such sale or transfer is effected at fair value as determined by an independent qualified appraiser;

(c) where more than 10% of the segregated fund's market value is invested in mortgages or will be invested in mortgages, state the methods used to determine the market value of the mortgages, consistent with the following:

(i) all mortgages must be divided into categories of similar risk characteristics. Certain mortgages must be placed in their own category, such as: leasehold mortgages; participation mortgages; mortgages on land only; construction mortgages and mortgages in default over 6 months;

(ii) mortgages in each category must be valued at a principal amount that will produce the prevailing rate of return of new mortgage loans in that category and for an assumed duration. Refer to the remaining term to maturity, the period remaining until the date the mortgage can be repaid, and the relationship between the interest rate of the mortgage and the current existing market interest rates for that category of mortgages; and

(iii) to calculate the value of a wrap-around mortgage, the wrap-around mortgage and the original mortgage shall each be valued separately, as set out in subparagraph (ii), and the value of the mortgage or mortgages must be deducted from the value of the wrap-around mortgage; and

(d) where over 30% of the net asset value of a segregated fund is invested in mortgages, there are minimum levels that must be met as a percentage or amount of the net asset value of the segregated fund held in liquid assets, as follows:

Net Asset Value	**Minimum Amount to**

of the Fund	to be in Liquid Assets
Less than $5,000,000	15% of net asset value of the fund or $250,000 whichever is greater
$5,000,000 or greater	10% of the net asset value of the fund or $750,000, whichever is greater.

(2) A segregated fund is not permitted to invest in mortgages until its net assets are equal to or greater than $350,000.

(3) A segregated fund is not permitted to invest more than 10% of its assets in mortgages, unless the segregated fund is a mortgage fund. Only mortgages, representing up to 75% of the fair market value of the real estate as appraised by a qualified appraiser, unless insured, on real estate situated within Canada are permissible investments.

(4) In addition to the general requirements for segregated funds set out in these Guidelines, a segregated fund held as a mortgage fund must comply with the following additional requirements:

(a) "Liquid" or "liquidity" means,

(i) cash and treasury bills or other evidences of indebtedness issued, or fully guaranteed as to principal and interest, by:

(A) any of the Federal, Provincial or Territorial Governments of Canada or an agency thereof,

(B) the Government of the United States or any political subdivision thereof, the Government of any sovereign state or any supernatural agency, provided that such treasury bills or other evidences of indebtedness have an approved credit rating; or

(C) any Canadian financial institution as that term is defined under the Insurance Companies Act (Canada), provided that such treasury bills or other evidences of indebtedness have an approved credit rating; and

(ii) a NHA or provincially-insured mortgage-backed security.

(b) If the mortgage fund invests less than or equal to 30% of the net asset value of the fund in mortgages it shall maintain the following liquidity levels:

below $1 million $100,000
$1 to $2 million.....10%
$2 to $5 million.....$200,000 + 9% on the next $3 million
$5 to $10 million.....$470,000 + 8% on the next $5 million
$10 to $20 million.....$870,000 + 7% on the next $10 million
$20 to $30 million.....$1.52 million + 6% on the next $10 million
over $30 million.....$2.17 million + 5% on the excess.

A mortgage fund that is invested in mortgages over 30% of the net-asset value of the fund shall meet the minimum liquidity levels set out in 9.6(1)(d).

(c) The mortgage fund shall not invest in commercial, industrial or residential properties of more than 8 units until the mortgage fund has net assets totalling more than $15,000,000.

(5) If on a redemption date a mortgage segregated fund is unable to redeem all individual variable insurance contracts in respect of which redemption has been requested, redemptions shall be made "pro rata".

9.7 Borrowing:

(1) Except as otherwise permitted by applicable insurance legislation, an insurer shall not on behalf of a segregated fund pledge, mortgage or hypothecate its assets, except: (i) as a temporary measure for the purpose of accommodating requests for the redemption of units of the segregated fund while effecting an orderly liquidation of portfolio securities, and then only if after giving effect to such borrowing the outstanding amount of all such borrowings does not exceed 5% of the net assets of the segregated fund taken at market value at the time of such borrowing; or (ii) in accordance with Section 9.7(2) (3) and (4) below.

(2) A real estate segregated fund shall not assume or incur any indebtedness under a mortgage on the security of real property unless, at the date of the proposed assumption or incurring of indebtedness:

(a) the aggregate of (i) the amount of all indebtedness secured on such real property and (ii) the amount of additional indebtedness proposed to be assumed or incurred does not exceed 75% of the market value of such real property; and

(b) the aggregate of (i) the total indebtedness of the segregated fund under mortgages on the security of real property and (ii) the amount of additional indebtedness proposed to be assumed does not exceed 50% of the total asset value of the segregated fund.

(3) An insurer shall not on behalf of a real estate segregated fund directly or indirectly guarantee any indebtedness or liabilities of any kind except indebtedness assumed or incurred under a mortgage on the security of real property by a corporation

wholly-owned by the insurer and operated solely for the purpose of holding a particular real property or properties on behalf of the segregated fund where such mortgage, if granted directly, would not cause the segregated fund to contravene Section 9.7(2) above.

(4) Notwithstanding section 9.7(1), above a segregated fund may borrow cash or provide a security interest over any of its portfolio assets if the security interest is required to enable the segregated fund to effect a derivative transaction permitted by Section 9.2 of these Guidelines and is made in accordance with industry practice for that type of transaction and relates only to obligations arising under that particular specified derivative transaction.

9.8 Non-Arm's Length Transactions:

A segregated fund shall purchase an investment based on its prevailing market price, or where an investment is purchased other than through normal market facilities, based on what would have been its reasonably negotiated price with an arm's length party.

PART X - PARTITIONING OF ASSETS HELD IN SEGREGATED FUNDS:

10.1 General:

This Part applies to the partitioning of assets within a segregated fund, other than as a routine internal accounting practice performed in the ordinary course of business, in order to effect a merger or other reorganization of a segregated fund.

10.2 Equitable Allocation:

Where an insurer wishes to partition assets within a segregated fund, the insurer shall determine that the allocation of assets is equitable to all variable insurance contractholders whether or not their variable insurance contracts are registered or non-registered, or were purchased by way of individual or group contracts.

10.3 Notice to Contractholders:

Each contractholder and each applicable insurance regulator shall receive written notice by regular mail to their last known address of such a partitioning of assets within a segregated fund at least 60 days prior to its occurrence. If the partitioning of assets occurs in conjunction with a merger of segregated funds, then the notice shall describe both events, and comply with Part XI below. If the partitioning of assets is not done in conjunction with a merger of segregated funds, then the notice shall explain why the insurer is partitioning the assets of the fund.

10.4 Terms of the Contract:

It is the duty of the insurer to satisfy itself that any partitioning of assets within a segregated fund complies with the terms of the individual and group variable insurance contracts that it has issued with respect to such a segregated fund.

PART XI - FUNDAMENTAL CHANGES AND MERGER OF SEGREGATED FUNDS

11.1 Merger with Another Segregated Fund of the Same Insurer:

Where an insurer offering segregated funds as an investment under individual variable insurance contracts wishes to merge one of its segregated funds with another one (or more) of its segregated funds, the following additional steps are required to be taken:

(a) The documents that create and support the merger shall be filed with the applicable insurance regulator(s) and shall provide the following information:

(i) all relevant legal and financial documents setting out the particulars of the two or more segregated funds proposed to be merged (the "terminating funds"), including a list of all affected contractholders from the terminating funds;

(ii) the method of merger (e.g., short form vertical amalgamation) of the terminating funds and the details of the managerial and custodial arrangements made for the resulting segregated fund (the "continuing fund"), including the details of any partitioning of assets from the terminating funds, as set out in Part X above;

(iii) the benefits and rights that accrue to the affected contractholders under the continuing fund, including all details surrounding the assumption of any guarantees, rights, and the assumption of contract maturity dates for the continuing fund; and

(iv) any other information in connection with the steps to be taken under this Section that the applicable insurance regulator(s) requests.

(b) Not less than 60 days prior to the date of the proposed merger, written notice of it shall be sent by regular mail to the affected contractholders of the terminating funds by the insurer responsible for the terminating funds to their last known addresses.

(c) The written notice required in paragraph (b) above shall include an option permitting the affected contractholders of the terminating funds to "cash-out" their individual variable insurance contracts, without being charged any exit fees, provided that they give written notice of this election to their insurer at least 5 business days prior to the date of the proposed merger.

(d) The written notice required in paragraph (b) above shall clearly state that if the contractholder chooses the "cash-out" option, rather than proceed with the merger, that the contractholder will receive the fair market value of the terminating fund held under the individual variable insurance contract, but will not receive the guarantee benefit, unless the individual variable insurance contract has reached maturity, or it coincides with the death benefit.

11.2 Merger with Another Segregated Fund of a Different Insurer:

Different insurers may wish to merge their segregated funds (the "terminating funds") into a "continuing fund" arising from the merger of the insurers themselves, or as part of the sale of a block of insurance business. In such event, the following steps are required to be taken:

(a) The documents that create and support the continuing fund, resulting from the merger of the terminating funds, shall be filed with the applicable Insurance Regulator(s) by the insurer assuming the continuing funds, and shall provide the following information:

(i) all relevant legal and financial documents regarding the particulars of the terminating funds;

(ii) the method of merger of the terminating funds and the arrangements made for the continuing fund, including the details of any partitioning of assets from the terminating funds, as set out in Part XI; above;

(iii) a copy of the executed Transfer and Assumption Agreement between the different insurers of the terminating funds with respect to all relevant assets and liabilities that will accrue to the continuing fund, including a copy of the executed Certificate of Assumption;

(iv) the benefits and rights that accrue to the contractholders under the continuing fund, including all details surrounding the assumption of guarantee rights, and the assumption of contract maturity dates for the continuing fund; and

(v) any other information in connection with the steps to be taken under this Section that the applicable insurance regulator(s) requests.

(b) The insurer assuming the continuing fund shall assume all guarantees and maturity dates in the continuing fund that arise from the terminating funds.

(c) Written notice of the proposed merger shall be sent by regular mail to the affected contractholders of the terminating funds by each respective insurer to each contractholder's last known address.

(d) It is the responsibility of the insurer assuming the continuing fund to disclose to the contractholders any significant income tax implications resulting from the proposed merger.

(e) The written notice required in paragraph (c) above shall include an option permitting the affected contractholders of the terminating funds to "cash-out" their individual variable insurance contracts, without being charged any exit fees, provided that they give written notice of this election to their insurer at least 5 business days prior to the date of the proposed merger.

(f) The written notice required in paragraph (c) above shall clearly state that if the contractholder chooses the "cash-out" option, rather than proceed with the merger, the contractholder will receive the fair market value of the terminating fund held under the individual variable insurance contract, but will not receive the guarantee

benefit, unless the individual variable insurance contract has reached maturity, or it coincides with the death benefit.

11.3 Fundamental Changes:

(1) An insurer shall notify the contractholder in writing at least 60 days before making any of the following changes:

(a) an increase in the management fee which may be charged against the assets of the segregated fund;

(b) a change in the fundamental investment objectives of a segregated fund;

(c) a decrease in the frequency with which units of segregated fund are valued; or

(d) an increase in the insurance fee limit specified pursuant to Section 11.3(7)(b).

(2) The notice required under Section 11.3(1) shall:

(a) provide the contractholder with the right to:

(i) transfer within the individual variable insurance contract, and without affecting any other rights or obligations of the contractholder under the terms of that contract, to a similar segregated fund offered by the insurer that is not subject to the fundamental change for which the notice is being delivered without incurring any deferred sales charges or similar fees, provided that the contractholder's election is received by the insurer at least 5 days prior to the expiry of the notice period required by section 11.3(1); or

(ii) if the insurer does not offer a similar fund, redeem the units of the segregated fund without incurring any deferred sales charges or similar fees, provided that the contractholder's election is received by the insurer at least 5 days prior to the expiry of the notice period required by section 11.3(1).

(b) be sent by regular mail to the affected contractholders at their last known addresses as shown on the records of the insurer.

(3) During the notice period described above, an insurer may provide that a contractholder shall not be permitted to transfer to the fund subject to the change, unless the contractholder agrees to waive the right to redeem set out in Section 11.3(2).

(4) The notice required by Section 11.3(1) shall be sent at the same time to the provincial/territorial insurance regulators and the CLHIA.

(5) For the purposes of this Section, a similar segregated fund means a segregated fund that has comparable fundamental investment objectives, is in the same investment fund category (in accordance with fund categories published in a financial publication with broad distribution) and has the same or a lower management fee and insurance fee than the management fee and insurance fee of the segregated fund in effect at the time the notice is given.

(6) An insurer proposing to make a fundamental change with respect to a segregated fund shall re-file the information folder in accordance with Sections 3.10 and 3.7.

(7) Insurance Fees:

(a) The Insurer may include an insurance fee as part of the management fee charged against the assets of the segregated fund or may separate it from the management fee. "Insurance fee" means an amount charged by the insurer with respect to the provision of insurance features of the individual variable insurance contract.

(b) If an Insurer separates the insurance fee from the management fee charged against the fund, then the insurer shall state in its information folder both the current insurance fee to be charged to each segregated fund and an insurance fee limit for each segregated fund. The insurance fee limit is the highest insurance fee that can be charged by the insurer before triggering the notification required by section 11.3(1). The insurance fee limit shall not exceed the current insurance fee plus the greater of 50 basis points and 50% of the current insurance fee.

(c) Any change to the insurance fee up to the maximum specified pursuant to Section 11.3(7)(b) shall be disclosed to the contractholder in the annual statement to contractholder pursuant to Section 4.3.

PART XII - AUDIT AND ACCOUNTING REQUIREMENTS:

12.1 General:

(1) Accounting Principles:

The financial statements of a segregated fund shall be prepared in accordance with generally accepted accounting principles, the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants.

(2) Auditing Standards:

The auditor's examination of the financial statements of a segregated fund shall be conducted in accordance with generally accepted auditing standards, the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants.

12.2 Financial Statement Requirements:

(1) Statement of Operations:

(a) Every statement of operations of a segregated fund shall present fairly the results of the operations of the segregated fund for the period covered by the statement and the applicable comparative period and distinguish separately, if material, at least:

(i) dividend income;

(ii) interest income;

(iii) net rental income;

(iv) unrealized and realized gains and losses in investments;

(v) every other item of income that is material to the total revenue;

(vi) management fees including but not limited to the total fees paid by the segregated fund for portfolio management, investment advice, guarantee costs (if not otherwise disclosed in “other fees”) and other services;

(vii) other fees, (including: audit fees, investment advisory fees, custodian's fees, legal fees, director fees, trailer fees, salaries, and guarantee costs, if not otherwise disclosed in “management fees”) where the amount is material to the total expenses;

(viii) the cost of contractholder's information where the amount is material to the total expenses;

(ix) every other item of expenses where the amount is material to the total expenses;

(x) other expenses; including the sum of those items of expense not named in this section that individually are not material to the total expenses and listed elsewhere; and

(xi) net income from operations for the period.

(2) Statement of Changes in Net Assets:

(a) Every statement of changes in net assets of a segregated fund shall present fairly the information shown therein for the period covered by the statement and the applicable comparative period, and shall show separately, if material, at least:

(i) net assets held at the beginning of the period;

(ii) premium or premium income;

(iii) net operating income (from the statement of operations);

(iv) less withdrawals; and

(v) net assets at end of the period.

(3) Statement of Net Assets:

(a) Every statement of net assets of a segregated fund shall present fairly the financial position of the fund as of the period end and the applicable comparative period, and distinguish separately, if material, at least:

(i) cash, term deposits and, if not included in the statement of investment portfolio, short term debt instruments;

(ii) investments at market value with a notation of their cost;

(iii) dividends and accrued interest receivable;

(iv) accounts receivable in respect of amounts due from contractholders;

(v) accounts receivable in respect of portfolio securities sold;

(vi) every other class of assets that is material to the total assets;

(vii) other assets;

(viii) total assets;

(ix) accrued expenses;

(x) accounts payable in respect of portfolio securities purchased;

(xi) amounts received from contractholders but not allocated;

(xii) every other liability that is material to the total liabilities;

(xiii) other liabilities;

(xiv) total liabilities; and

(xv) total net assets held for the benefit of the contractholders. and

(xvi) net asset value per unit as at the period end based on the number of units outstanding as at the period end, with prior year comparisons.

(b) In Section 12.2(3), "other assets" or "other liabilities" means the sum of those classes of assets or liabilities, as the case may be, that as individual classes are not material to the total assets or total liabilities, as the case may be, of the segregated fund at the date reported upon.

(c) Any of the specified classes of assets or liabilities which accounts for less than the amount determined to be material to the total assets or total liabilities, as the case may be, of the segregated fund at the date reported upon, may be omitted and the relevant amount included in "other assets" or "other liabilities" with an appropriate explanation made by note.

(4) Statement of Investment Portfolio:

(a) Every statement of investment portfolio of a segregated fund shall present fairly the following information on the equities it holds, as of the period end:

(i) the name of each issuer of securities held;

(ii) the class or designation of each security held;

(iii) the number or aggregate face value of each class or designation of securities held;

(iv) the market value of each class or designation of securities held;

(v) the cost of each class or designation of securities held and, where the basis of computing cost is other than average cost, a statement of the basis of computing the cost; and

(vi) sub-total(s) of foreign equities.

(b) Every statement of investment portfolio of a segregated fund shall present fairly the following information on the fixed income securities it holds, as of the period end:

(i) the name of each issuer of securities held;

(ii) the contractual rate of the issue;

(iii) the maturity date of the issue;

(iv) the face value, cost and market value; and

(v) sub-total(s) of foreign fixed income securities, by investment grade, and percentage of each investment grade, where applicable, as part of total net assets. Where no investment grade exists, grade them as unrated.

(c) Every statement of investment portfolio of a segregated fund shall present fairly the following information on the mortgages it holds, as of the period end:

(i) the total number of mortgages held, and their total market value;

(ii) by province;

(iii) by type of mortgage, including distinguishing between: non-insured; residential, industrial or commercial; and maturity dates; and

(iv) by interest rate at 1/4% intervals.

(d) Every statement of investment portfolio of a segregated fund shall present fairly the following information on real property it holds as at the date to which it is prepared:

(i) the address;

(ii) a description of the type of property;

(iii) the date and cost of acquisition;

(iv) the appraised value and the date of appraisal value and the date of appraisal;

(v) the area in square feet;

(vi) the percentage of leasable area actually leased;

(vii) the amount of any mortgage granted or assumed; and

(viii) the amount of pre-tax net income generated during the previous period.

(e) Every statement of investment portfolio of a segregated fund shall disclose the following information with respect to derivatives that it holds as of the period end:

(i) for long positions in clearing corporation financial options disclose the underlying interest, the expiration month and year, and the market value;

(ii) for long positions in financial options on futures disclose the underlying interest, the expiration month and year of the financial option on futures, and the market value;

(iii) for written clearing corporation financial options disclose the particulars of the deferred credit account indicating the number of financial options, the underlying interest rate, the strike price, the expiration month and year, the premium received and the value as determined under Section 9.2(4);

(iv) for purchased over-the-counter financial options disclose the number of financial options, the credit rating of the issuer of the financial options, whether such rating has fallen below the approved credit rating, the underlying interest, the principal amount or quantity of the underlying interest, the strike price, the expiration date, the cost and the market value;

(v) for positions in future contracts disclose the underlying interest, the delivery month and year and the value as determined under Section 9.2(4);

(vi) for positions in forward contracts disclose the underlying interest, settlement date and the value as determined under Section 9.2(4); and

(vii) for swaps and forward contracts, the counterparty credit exposure determined as follows: the maximum credit exposure without taking into account the fair value of any collateral, in the event of counterparty default, plus potential exposure.

(f) Where a segregated fund invests in a secondary fund, Section 12.2(4) shall be complied with by disclosing the top 25 holdings of the secondary fund or, if there is more than one secondary fund, by disclosing the top 5 holdings of each of the secondary funds.

(5) Notes to the Audited Financial Statements:

(a) The notes to a statement of operations of a segregated fund shall include:

(i) the basis for calculating the management fee;

(ii) the composition of other expenses and other revenue, unless otherwise disclosed in the material of which the income statement forms a part or which it accompanies;

(iii) the services rendered in consideration of the management fee;

(iv) the services provided to the segregated fund by those to whom salaries or other remuneration were paid;

(v) where an unusual change in expenses from period to period is not adequately explained by changes in net assets of the segregated fund, a description and explanation of the unusual change;

(vi) a description of the nature and extent of transactions with, and amount due to and from, related parties, such as the insurer offering the segregated fund;

and

(vii) a description of the accounting policies used to determine how investment income is accrued, how it is realized, how unrealized gains and losses are calculated and how foreign currency transactions are accounted for.

(b) The notes to a statement of net assets of a segregated fund shall include:

(i) where the basis of computing the cost of investments is other than average cost, a statement of the basis of computing the cost;

(ii) the composition of other assets and other liabilities;

(iii) where market value is other than "quoted market value", the basis of determination; and

(iv) the accounting policies used with respect to the calculation and presentation of derivatives and the income derived therefrom.

(c) The notes to the audited financial statements of a segregated fund shall include the management expense ratio for each fee option under an individual variable insurance contract for each of the last five completed financial years of the segregated fund, together with a brief description of the method of calculating the management expense ratio.

(d) Where any financial period is less than 12 months, the management expense ratio shall be shown on an annualized basis with reference to the period covered and to the fact that the management expense ratio for the period has been annualized.

FORMS

FORM 1: INFORMATION REQUIRED IN THE INFORMATION FOLDER OF AN INSURER WITH AN INDIVIDUAL VARIABLE INSURANCE CONTRACT:

FORMAT OF THE INFORMATION FOLDER

(a) General Instructions:

(i) The information required in Form 1 should be stated in plain language with minimal use of technical terminology.
(ii) The information folder should be presented in a format that assists in readability and comprehension.
(iii) All print shall be at least 10 point font.
(iv) Definitions in the Guideline apply to this Form.

(b) Information Folder Cover:

(i) Contain the title "Information Folder" on the cover or face page.
(ii) Include a separate statement that the information folder is not an insurance contract.
(iii) Contain the insurer's corporate name printed in full on the front cover of the information folder in a conspicuous manner with a minimum 10 point font size.
(iv) If a segregated fund involves investment in another fund or if the name of a segregated fund includes the name of the entity associated with the secondary fund, additional disclosure should be provided to clearly indicate that the individual variable insurance contract is issued by the insurance company.

(c) Summary:

(i) Contain, on the first page immediately following the cover or face page, a summary of the information folder's highlights in bullet or chart form.
(ii) Advise the reader that the annual audited financial statements for each segregated fund and semi-annual unaudited financial statements are available upon request.
(iii) Include a warning statement in bold print in substantially the following words:

"Any amount that is allocated to a segregated fund is invested at the risk of the contractholder and may increase or decrease in value."

(d) Financial Disclosure:

The information folder must contain the information required by Items 1 to 14 and contain or be accompanied by the Financial Highlights required by Item 21 of Form 1 and the Asset Disclosure requirements of Item 20. The information required by Part F Items 15 to 19 does not need to be included in the information folder but should be made available upon request.

PART A CONTRACT AND UNIT FEATURES:

ITEM 1 Description of the Individual Variable Insurance Contract:

Describe briefly the individual variable insurance contract offered and describe the material provisions of such contract, including without limiting the generality of the foregoing, the following information:

(a) Guarantee:

(i) the benefits under the contract which are guaranteed; and

(ii) the benefits under the contract which are not guaranteed but fluctuate with the market value of the assets of the segregated fund supporting them;

(b) Units Credited to the Contract:

the method of determining the benefits related to the market value of the segregated fund and the amount of the surrender value of those benefits;

(c) Percentage of Premium Allocated to Benefits:

the percentage of the premium allocated to provide the benefits related to the market value of the segregated fund, when provision is made for part of the premium to be so allocated;

(d) Redemption, Surrender and Maturity Options:

surrender, loan, non-forfeiture, conversion, maturity or other option provisions and any charges with respect thereto;

(e) Manner of Determining the Value of Units on Acquisition or Transfer:

the manner of determining the value of units on acquisition or transfer, including any charges expressed in dollars and cents or as a percentage of premiums, as of the end of each of the first, third, and fifth year that the contract is in effect, a description of how to acquire or transfer units credited to your contract, and the minimum dollar amount to make an acquisition, either in lump sum, or periodically;

(f) Charges on Withdrawal:

the manner in which the value of units on partial surrender and full surrender is calculated and the retention charges in the event of surrender of the contract clearly stated, and expressed in dollars and cents or as a percentage of premiums, as of the end of each of the first, third, and fifth year that the contract is in effect; and

(g) Fundamental Change Rights:

The nature, notice requirements and rights and obligations set out in section 11.3.

Instruction:

This item requires that the information folder include the following details concerning fundamental change rights:

(i) disclose that the rights depend upon the happening of four specified events;
(ii) set out the notice requirements, as well as the transfer and exit rights;
(iii) define 'similar' fund [see s. 11.3 (5)];
(iv) if the insurer specifies a separate insurance or guarantee charge, specify a maximum insurance fee up to the greater of the existing charge, plus 50% or 50 basis points; and
(v) if the insurer specifies a separate insurance or guarantee charge, indicate that an increase to the maximum insurance fee is a fundamental change.

Notes: (a) if the segregated fund invests in an secondary fund, indicate that an increase in the management fee of the underlying fund, which results in an increase in the management fee of the segregated fund, is a fundamental change.

(b) if the segregated fund invests in a secondary fund, indicate if the fundamental investment objectives of the secondary fund can be changed if approved by the unitholders of the secondary fund, and that upon such approval, segregated fund contractholders will be given notice of such change.

(c) if an insurer no longer offers for sale to the public any individual variable insurance contracts, the insurer's existing individual variable insurance contracts are still subject to the fundamental change rule in s.11.3.

ITEM 2 Value of Units:

(1) Describe briefly the method followed in determining the value of units to be credited to the individual variable insurance contract, surrendered under the contract and to measure the benefits under the contract.

Instruction:

State the frequency with which units are valued, the time when such value becomes effective and the length of time it remains in effect.

(2) Describe the basis for establishing the value of the segregated fund.

(3) Describe the charges or method of determining the charges, against the segregated fund for taxes, management, or any other expenses or charges on the basis actually charged and on an annual basis.

Instruction:

Indicate briefly any charge imposed for:

(a) the crediting of units to the individual variable insurance contract;

(b) the transfer of units in one segregated fund for units in another segregated fund;

(c) the reinvestment of dividends and similar distributions;

(d) service charges against the segregated fund including charges relating to such matters as cost of establishment of the individual variable insurance contract;

(e) the cost of the continuing administration and maintenance of such contract; and

(f) when giving particulars of the charges, indicate when the charges will be deducted.

(4) Describe the application of the earnings of the segregated fund.

(5) Explain how the contractholder is notified of the number of units credited to or variable benefits available under the individual variable insurance contract and state how often the contractholder will be notified.

PART B INFORMATION ON SEGREGATED FUND MANAGEMENT:

ITEM 3 Description of the Insurer Issuing Individual Variable Insurance Contracts:

Provide the full legal name and registered head office address of the insurer offering the individual variable insurance contract for sale. State the jurisdiction in which the insurer is incorporated.

ITEM 4 Policies with respect to Investments for the Segregated Fund:

(1) In accordance with section 9.1, the insurer shall include a brief statement in the information folder addressing each of the following matters with respect to each segregated fund:

(a) the fundamental investment objective(s) of the segregated fund;

(b) the principal investment strategies that the manager intends to use in achieving the segregated fund's fundamental investment objective(s) which may include any investment approach, philosophy, practices or techniques used by the manager or any particular style of portfolio management that the manager intends to follow;

(c) disclose and describe the principal risks applicable to the segregated fund;

(d) state whether or not the segregated fund uses leverage, and if so, the manner by which it controls the risk related to this leverage (e.g., use of secondary funds, diversification, etc.); and

(e) where the segregated fund is an index fund, disclose that as a result of investment decisions for the segregated fund being based on one or more permitted indices, the segregated fund may have more of the net assets of the segregated fund invested in one or more issuers than is usually permitted for segregated funds, and disclosure of the risks associated with that fact, including the possible effect of that fact on the liquidity and diversification of the segregated fund, the ability to satisfy redemption requests and on the volatility of the segregated fund.

(2) State that a detailed description of the segregated fund's investment policy is available from the insurer with specific information as to how it can be accessed or obtained.

If the segregated fund invests in a secondary fund, indicate that copies of the disclosure documents and financial statements of the secondary fund are available upon request.

(3) The information folder should indicate that a change to the fundamental investment objective(s) of the segregated fund is a fundamental change.

ITEM 5 Tax Status of the Segregated Fund:

State any taxes that may be imposed on the insurer that would be payable by the insurer from or on behalf of the segregated fund which would constitute a charge upon, or deduction from, the segregated fund and explain the income tax position of the insurer with respect to its segregated fund.

ITEM 6 Tax Status of Contractholders:

State in general terms the income tax consequences to those contractholders who hold individual variable insurance contracts and whether or not an investment in the segregated fund may be a qualified investment for the purpose of a deferred income plan under the Income Tax Act. Describe, if applicable, in plain language, the tax status of the individual variable insurance contract which has a particular advantage under the Income Tax Act as a registered contract.

ITEM 7 Segregated Fund Manager and Portfolio Advisor:

Where the manager or portfolio advisor of the segregated fund is a person other than the insurer, state the name and address of the person who performs such function. Describe any relationship between such person and the insurer and the methods that have been established to deal with conflicts of interest.

ITEM 8 Interest of Management and Others in Material Transactions:

Describe briefly any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three years prior to the date of the filing of the latest information folder, which has materially affected the insurer or any of its subsidiaries with respect to the segregated fund:

1. the principal broker of the insurer;

2. any director or senior officer of the insurer; or

3. any associate or affiliate of the foregoing persons or companies.

PART C FEES AND SALES INCENTIVES:

ITEM 9 Management Fees and Other Expenses:

State the current management fees expressed as a percentage of the net assets of the segregated fund and all other "expenses" which may be charged against the assets of the segregated fund under the individual variable insurance contract. Explain how the management fee and other expenses are calculated and to whom they are paid.

Instruction:

> The term "other expenses" shall mean all other expenses incurred in the ordinary course of business relating to the organization, management and operation of the segregated fund including interest charges (if any) and all taxes other than income taxes, with the exception of commissions and brokerage fees on the purchase and sale of portfolio securities.

ITEM 10 Other Fees and Charges and “Trailer” or Service Fees:

Describe, by type, all the other fees and charges which may be charged against the assets of the segregated fund under the individual variable insurance contract, which do not fall under Item 9. Specifically, describe any sales commissions, loads, trailer fees, deferred charges, exchange charges, early redemption charges, trustee fees, administrative fees, and any fees or charges paid by the manager of the fund, that are charged against the assets of the segregated fund.

Where an agent is entitled to receive “trailer” or service fees from the insurer or the manager of the segregated fund, and these fees are charged to the assets of the segregated fund, this fact shall be disclosed to prospective contractholders in the information folder.

PART D RESTRICTIONS, RISK FACTORS AND SIGNIFICANT HOLDINGS IN OTHER ISSUERS:

ITEM 11 Investments in Mortgages, Real Estate and Derivatives:

Where applicable, provide an overview as follows of all investments in mortgages, real estate and derivatives held by the segregated fund:

(a) Mortgage Disclosure:

> State briefly the segregated fund's investments in mortgages, including by the type of mortgage, by province, and by rates, at 1/4% intervals. Any investments made in mortgages must comply with the relevant provisions respecting Investments set out in Part IX of these Guidelines.

(b) Real Estate Disclosure:

> State briefly the segregated fund's investments in real estate, and briefly state the segregated fund's policy on real estate acquisition, appraisals and valuations. Any investments made in real estate must comply with the relevant provisions respecting

Investments set out in Part IX of these Guidelines.

The information folder offering individual variable insurance contracts relating to a real estate segregated fund shall:

(i) emphasize the long-term nature of an investment in a real estate segregated fund;

(ii) state that such individual variable insurance contracts can be redeemed only on specified dates and only on a specified number of days prior notice as provided in the contracts and accordingly are not a suitable investment for contractholders who require ready convertibility of their funds into cash;

(iii) state that redemption of individual variable insurance contracts may be suspended during any period that the segregated fund does not have sufficient cash or readily marketable securities to meet requests for redemptions;

(iv) state that the net asset value at which individual variable insurance contracts are issued and redeemed is based upon appraisals of the real property; that for any given real property there is a range of market values; that an appraisal is an opinion only and that there can be no assurance that the appraised value will be equal to the price for which the property is ultimately sold; and

(v) state that the net asset value per individual variable insurance contract for the purchase or redemption of individual variable insurance contracts may differ from the amounts that would be paid to contractholders on dissolution of the fund.

(c) Derivatives Disclosure:

State the purpose of the use of derivatives in the segregated fund; the type of derivatives used; whether they are exchange traded or over-the-counter; the degree of leverage involved; and, describe the markets that the derivatives provide the segregated fund with exposure to, or reduce exposure from. Any investments made in derivatives must comply with the relevant provisions respecting Investments set out in Part IX of these Guidelines.

ITEM 12 Material Contracts:

Give particulars of every material contract entered into by the insurer or any of its subsidiaries within two years prior to the date of the filing of the latest information folder and state a reasonable time and place at which the contract, or copy thereof, may be inspected.

The term "material contract" means any contract that can be reasonably regarded as presently material to the proposed contractholder with respect to the segregated fund and not in the ordinary and normal course of business.

ITEM 13 Other Material Facts:

Give particulars of any other material facts relating to the individual variable insurance contract proposed to be sold and not disclosed pursuant to the foregoing Items.

PART E INVESTMENTS IN ANOTHER FUND

ITEM 14 Secondary Fund Disclosure Requirements

Where there is investment in a secondary fund the following conditions must be met:

(a) there is disclosure in the information folder of any management fees or sales charges by the principal and the secondary fund. These fees or charges are to be included in the calculation of the management expense ratio of the principal fund;

(b) the information folder must state that the contractholder is purchasing an insurance contract and is not a unitholder of the secondary fund;

(c) disclosure of the fundamental investment objectives and policies of the secondary fund shall be included in the information folder;

(d) disclosure in the information folder shall be made that the fundamental investment objectives of the secondary fund cannot be changed unless approved by the unitholders of the secondary fund, and that upon such approval, segregated fund contractholders will be given notice of such change;

(e) contractholders must be advised, in the information folder, that copies of the simplified prospectus, annual information form, financial highlights and audited financial statements, or other disclosure documents required for the secondary fund, are available upon request;

(f) all contract charges should be described and distinguished from fund charges under one common heading in the information folder, and the individual elements of the management expense ratio ("MER") of the principal fund shall be disclosed as either: (i) the MER and management fee of the principal fund (each including the corresponding MER and management fee of the secondary fund) or (ii) the MER of the secondary fund, plus the management fee and administrative expenses of the principal fund.

PART F FINANCIAL STATEMENTS:

ITEM 15 Statement of Operations:

Provide the audited Statement of Operations described in Section 12.2(1) of these Guidelines.

ITEM 16 Statement of Changes in Net Assets:

Provide the audited Statement of Changes in Net Assets described in Section 12.2(2) of these Guidelines.

ITEM 17 Statement of Net Assets:

Provide the audited Statement of Net Assets described in Section 12.2(3) of these Guidelines.

ITEM 18 Statement of Investment Portfolio:

Provide the audited Statement of Investment Portfolio described in Section 12.2(4) of these

Guidelines.

In a fund-of-fund, disclose the top 25 holdings of the secondary fund or, if there is more than one secondary fund, for each secondary fund that is greater than 10% of the assets of the segregated fund, disclose the top 5 holdings of each secondary fund, in each case disclosing the percentage of the holding relative to the fund if such information is publicly available. Indicate that the complete holdings of any secondary fund are available upon request.

ITEM 19 Notes to the Audited Financial Statements:

Provide the notes to the audited financial statements described in Section 12.2(5) of these Guidelines.

Re MER:

(a) GST and interest must be included;
(b) each separate class of different classes must have their own MER;
(c) the notes must disclose waived expenses, gross MER (before the waiver), the expected duration of the waiver, whether the waiver can be terminated and any other arrangements concerning the waiver; and
(d) if the fund's financial year is less than 12 months, the MER must be annualized.

ITEM 20 Information Folder Asset Disclosure:

(i) Include a list of the top 10 holdings of the segregated fund as at the end of the most recent fiscal year;
(ii) where a segregated fund invests in a secondary fund indicate that the complete holdings of any secondary fund are available upon request;
(iii) where a segregated fund invests in a secondary fund representing 50% or more of the assets of the segregated fund, disclose the top 10 holding of the secondary fund; and
(iv) if a segregated fund invests in a secondary fund representing less than 50% of the assets of the segregated fund, name the secondary fund.

ITEM 21 Financial Highlights:

Tables

(1) Provide selected financial information about the segregated fund under the heading "Financial Highlights", in the form of the following tables, appropriately completed, and introduced using substantially the following words:

"The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past [insert number] years. This information is derived from the Fund's audited annual financial statements. Please see page [insert page number] for information about how you can obtain either the Fund's semi-annual unaudited or annual audited financial statements."

(a) Where the segregated fund does not provide for distributions (as opposed to allocations for tax purposes), provide the information in the following table:

The Fund's Net Asset Value per Unit

	[*insert year*]	[*insert yea*	[*insert year*]	[*insert ye*ar]	[*insert year*]
Net asset value at [insert last day of financial year] of year shown	$	$	$	$	$

or

(b) Where the segregated fund does provide for distributions of income and net capital gains, provide the following table:

The Fund's Distributions and Net Asset Value per Unit

	[*insert year*]	[*insert yea*	[*insert year*]	[*insert ye*ar]	[*insert year*]
Distributions:	$	$	$	$	$
From net income	$	$	$	$	$
From realized gain	$	$	$	$	$
Return of capital	$	$	$	$	$
Total Annual Distributions[(1)]	$	$	$	$	$
Net asset value at [insert last day of financial year] of year shown	$	$	$	$	$

(1) *Distributions were [paid in cash/reinvested in additional [units] of the Fund].*

and

(c) the following table must be provided for all segregated funds:

Ratios and Supplemental Data

	[insert year]	[insert year]	[insert year]	[insert year]	[insert year]
Net assets (000's)[(1)]	$	$	$	$	
Number of units outstanding[(1)]					
Management expense ratio[(2)]	%	%	%	%	
Portfolio turnover rate[(3)]	%	%	%	%	

(1) *This information is provided as at [insert date of end of financial year] of the year shown, and is not required in respect of financial years prior to 2002. However,*

companies may choose to report this information for periods prior to 2002, if available. For funds that have had five financial year-ends as at the date this rule comes into effect, until such time as such information is provided for five consecutive years, companies should continue to deliver audited financial statements to contractholders together with the Information Folder. For funds that have had less than five financial year-ends, as at the date this rule comes into effect, financial highlights can be provided for the number of years that the fund has been in existence, in order to avoid the requirement to deliver audited financial statements with the Information Folder.

(2) *The management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.*

(3) *The Fund's portfolio tumover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio tumover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio tumover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high tumover rate and the performance of a fund.*

(2) Derive the selected financial information in the tables referred to in subsection (1) from the audited annual financial statements of the segregated fund.

(3) Provide per unit amounts to the nearest cent, and provide percentage amounts to two decimal places.

(4) Provide the selected financial information required by this Item in chronological order for each of the five most recently completed financial years of the segregated fund for which audited financial statements have been filed, with the information for the most recent financial year in the first column on the right of the table.

(5) If the segregated fund was not in existence or was not available pursuant to an individual variable insurance contract for any year for which information would otherwise be required to be provided under subsection (4), the tables shall not include any information for that year and the segregated fund shall disclose by way of a note to the table that the information is unavailable because the segregated fund only came into existence or became available pursuant to an individual variable insurance contract on a date specified in that note.

(6) The management expense ratio for any period less than a full financial year of a segregated fund shall be annualized.

(7) If the basis of the calculation of the management fees or of the other fees, charges or expenses that are charged to the segregated fund is changed or is proposed to be changed and if the change would have had an effect on the management expense ratio for the last completed financial year of the segregated fund if the change had been in effect throughout that financial year, disclose the effect of the change on the

management expense ratio in a note to the appropriate table.

(8) Do not include disclosure concerning portfolio turnover rate for a money market fund.

Instructions:

1. Calculate the segregated fund's portfolio turnover rate by dividing the lesser of amounts of the purchases and sales of portfolio securities for the financial year by the average of the value of the portfolio securities owned by the segregated fund in the financial year. Calculate the monthly average by totaling the values of portfolio securities as at the beginning and end of the first month of the financial year and as at the end of each of the succeeding 11 months and dividing the sum by 13. Exclude from both numerator and denominator amounts relating to all securities having a remaining term to maturity on the date of acquisition by the segregated fund of one year or less.

2. Calculate the management expense ratio of the segregated fund as required by Section 8.1.

ITEM 22 Auditor:

Provide the name and address of the independent accountant who performed the audit of the segregated fund.

FORM 2: COMPLIANCE REPORT

Questionnaire on Investment, Advertising and Investment Manager Proficiency with respect to XYZ Segregated Fund of ABC Life Insurance Company

OBJECTIVE

The objective of the Form 2 Compliance Report is to ensure that each segregated fund insurance company has written internal procedures outlining how the investment and lending policies for each segregated fund will be implemented and monitored, and to address all relevant exposures and to ensure that procedures are established to ensure compliance with the advertisement requirements of the Guidelines on Individual Variable Insurance Contracts relating to Segregated Funds ("the Guidelines").

DELEGATION TO A THIRD PARTY

In the event any of the functions in this form are delegated to a third party, then the insurance company must have policies in place to monitor such functions and ensure that they are being properly carried out by such third party.

ANNUAL FILING

Form 2 shall be completed and filed annually with each applicable Insurance Regulator(s).

PROCEDURES

The internal investment and lending procedures must comply with the following provisions: be in writing; identify responsibilities and accountabilities; set out the process for recommending, approving, and implementing decisions; prescribe the frequency and format of reporting; and, describe the method of classifying loans and investments and the basis for valuing loans and investments that are not regularly traded. These procedures should address exposures from items recorded on the face of the financial statements and disclosed in the notes to the financial statements.

	Yes	No	Not Applicable
REQUIREMENTS The insurer must provide for the following matters with respect to the individual variable insurance contract (IVIC) segregated fund: (a) set out, in writing, all custodial arrangements of the segregated fund's assets;			
(b) monitor each segregated fund's exposure to fluctuations in interest rates, foreign exchange rates, and market values;			
(c) establish a system to verify all segregated fund trades and IVIC transactions;			
(d) establish procedures to deal with potential sources of conflicts of interest, particularly for those persons responsible for each fund's investment and lending policies;			
(e) establish an investment policy for each segregated fund in accordance with the Guidelines;			
(f) establish a lending policy, as follows: establishing limits on aggregate outstanding loans by type of loan broken down by major category (e.g., commercial, consumer); set limits to the source of loans where third parties (eg., mortgage brokers or syndications) are relied upon; and establish an aggregate limit for externally-sourced loans;			
(g) comply with the audit requirements established under the Guidelines;			

		Yes	No	Not Applicable
(h)	establish standards of quality for investments and loans (e.g., use ratings from recognized rating agencies for rated investments; establish own internal standards for non-rated investments and for assessing the credit quality of borrowers);			
(i)	establish limits, where applicable, on exposures to industries and geographic regions;			
(j)	establish limits to contain the risks arising from potential changes in currency or interest rates;			
(k)	establish restrictions and the use of derivatives in accordance with the Guidelines;			
(l)	maintain portfolio data in a manner that facilitates analysis (e.g., compare outstanding amounts against the limits established in its contracts, analyze asset quality/concentration);			
(m)	establish procedures to ensure compliance with the advertisement and sales communication requirements of the Guidelines in respect of the segregated fund, including the warnings that must be given;			
(n)	establish procedures to ensure that investment managers of segregated funds are suitable, and registered, or are qualified to be registered, as an Advisor, in the category of Investment Counsel and Portfolio Manager under the Securities Act (Ontario) (or comparable provisions of the securities acts of any province or territory), or, have managed a portfolio of assets with a minimum value of $5 million for a period of 5 years, including the current year prior			

	Yes	No	Not Applicable
to the application. [Note: if a comparable provision of the securities act of any province or territory permits registration based on experience without specifying a minimum value of the portfolio being managed, then the minimum shall be $5 million].			

The ABC Life Insurance Company has established policies on the areas noted above, has procedures in place for monitoring compliance with such policies and hereby certifies that the investment managers of its segregated funds comply with paragraph (n).

Date: Signed By:

Authorized signing officer and title.

SCHEDULE 1

Approved Credit Rating

1. The approved credit rating with respect to money market funds, over-the-counter financial options and forward contracts, or the equivalent debt of the other party thereto, is a credit rating that is equal to or higher than the level indicated in the table below:

APPROVED RATING AGENCY	COMMERCIAL PAPER	DEBT
Canadian Bond Rating Service Inc.	A-1	A
Dominion Bond Rating Service Limited	R-1-L	A
IBCA Limited	A-1	A
Moody's Investors Service, Inc.	P-1	A
Standard & Poor's Corporation	A-1	A

provided that

(i) there has been no announcement that the rating may be down-graded to a level below the level so indicated; and

no other Approved Rating Agency, as noted above, has rated the over-the-counter financial option or forward contract, or equivalent debt of the other party to the transaction, below the level so indicated unless the over-the-counter financial option or forward contract is a government security issued or guaranteed by the Federal, Provincial or Territorial Governments of Canada or is issued or guaranteed by the Government of the United States of America

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