



NEWS RELEASE

For Immediate Release

Canadian Council of Insurance Regulators
Canadian Insurance Services Regulatory Organizations

CCIR and CISRO Release Discussion Paper on Upfront Compensation for Segregated Funds

September 8, 2022

TORONTO – The Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) have released for public consultation a discussion paper on upfront compensation paid for the sale and servicing of segregated funds and individual variable insurance contracts (IVICs).

On February 10, 2022, CCIR and CISRO announced their position on the use of Deferred Sales Charges (DSCs) in segregated fund contract sales, and their intention to consult on other upfront commissions in segregated funds and IVICs.

CCIR and CISRO are of the view that there is a high risk of poor consumer outcomes associated with DSCs in segregated fund sales and this form of sales charge is not consistent with treating customers fairly. Further, insurance regulators urged insurers to refrain from new DSC sales in segregated fund contracts in line with the June 1, 2022 ban in securities, and expect a transition to a cessation of such sales by June 1, 2023.

Segregated fund contracts and mutual funds are products with certain similar characteristics, including some compensation and fee structures. After a lengthy review of DSC compensation, the Canadian Securities Administrators (CSA) banned upfront commissions in mutual funds, including DSCs, effective June 1, 2022.

Upfront commissions in segregated funds may present similar concerns to the sale of other financial products, including the potential for conflicts of interest and alignment in cost and services provided in situations where the consumer is relying on an advisor to sell them a suitable product and the advisor is being paid by the product manufacturer for the sale. The purpose of this discussion paper is to fully understand:

- Compensation arrangements in segregated funds and IVICs, and what other changes to Upfront Compensation may be needed, including understanding the impacts of a complete ban of Upfront Commissions or other measures that could be taken to improve Customer outcomes;
- Potential impacts for Customers, Intermediaries, and Insurers; and
- What would be a reasonable period of time for the industry to adapt to any changes.

CCIR and CISRO invite all interested parties to review and comment on this discussion paper. The discussion paper is available on the CCIR and CISRO websites (ccir-ccrra.org, cisro-ocra.com). The

consultation period will be 60 days in length and the deadline to provide written submissions is November 7, 2022. Please send comments to the CCIR Secretariat at ccir-ccrra@fsrao.ca.

Please note that CCIR and CISRO may publish on their respective websites all submissions received pursuant to this consultation process.

After this consultation, CCIR and CISRO intend to move forward swiftly with a policy position and guidance on upfront commissions in sales of segregated funds.

About CCIR

The Canadian Council of Insurance Regulators is an inter-jurisdictional association of insurance regulators. The mandate of the CCIR is to facilitate and promote an efficient and effective insurance regulatory system in Canada to serve the public interest. CCIR members work together to develop solutions to common regulatory issues.

About CISRO

The Canadian Insurance Services Regulatory Organizations is a forum of Canadian regulatory authorities who are dedicated to consistent qualifications and conduct of business standards for insurance intermediaries. CISRO members collaborate on initiatives that support a consistent approach to consumer protection through the regulation of insurance intermediaries.

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