ANNEX B

SPECIFIC QUESTIONS REGARDING THE PROPOSED INSURANCE GUIDANCE

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Insurance Guidance,

   a. Segregated Fund Contracts which are no longer available for sale, but to which customers can still make deposits;
   b. Segregated Fund Contracts which are no longer available for sale and to which customers can no longer make deposits;
   c. Segregated Fund Contracts that have the potential to have funds in more than one phase at one time (i.e. Accumulation Phase, Withdrawal Phase, Benefits Phase);
   d. Segregated Fund Contracts that may include insurance fees that are paid both directly (i.e. from money outside a segregated fund, such as where units are cashed out to pay the insurance fee) and indirectly (i.e. from assets held within a fund in which the client holds units)?

2. The Proposed Insurance Guidance does not yet include a method insurers must follow when calculating the fund expenses for each Segregated Fund Contract. Please comment on the advantages and disadvantages of calculating the fund expenses for each segregated fund the client holds each day as follows:

   Option 1:

$$\frac{A}{365} \text{ x } B \text{ x } C$$

   Option 2:

$$\frac{A}{365} \text{ x } \frac{B}{(1-\frac{A}{365})} \text{ x } C$$

In each option

A = the fund expense ratio of the applicable class or series of the segregated fund;

B = the net asset value of a unit of the applicable class or series of the segregated fund for the day; and

C = the number of units owned by the client for the day.

The difference between these two options is that Option 1 bases the allocation of fund expenses on the <u>net</u> value of assets in the fund after they are reduced to reflect the fund expenses for the day. Option 2 bases the allocation of fund expenses on the <u>gross</u> value of assets before they are reduced to reflect these expenses.

For example, suppose that A = 2%, B = $1,000 and C = 10,000.

Under Option 1, the fund expenses for the client for that segregated fund for the year would be $547.95:

$$\frac{0.02}{365} \text{ x } 1000 \text{ x } 10000$$

Under Option 2, the fund expenses would be $547.98:

$$\frac{0.02}{365} \text{ x } \frac{1000}{(1 - \frac{0.02}{365})} \text{ x } 10000$$

3. Should all insurers be required to use the same formula to calculate the dollar amount of fund expenses? Please comment on the advantages and disadvantages of:

    a. Requiring all insurers to use the same calculation method; or
    b. Allowing an insurer to use a different calculation method if the insurer can create a more precise approximation.

4. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using the following to calculate fund expense ratio (i.e. MER + TER):

    a. The MER from the most recent Fund Facts document published before the year in question begins and a TER calculated at the same time on a similar basis;
    b. The MER and the TER calculated for the year in question after the year ends; or
    c. Another estimated MER and TER for the year (please explain how this MER and TER would be calculated if you discuss this option)?

5. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using:

    a. 365 days;
    b. The actual number of days in the calendar year in question; or
    c. Another number that reflects the number of days on which the net asset value is calculated for the fund rather than the number of days in the year?

Note that the proposed calculation for securities assumes 365 days.

6. Would you consider it acceptable if, instead of information about each segregated fund's fund expense ratio (MER + TER), the MER alone was:

    a. disclosed in annual statements for each fund; and
    b. used in the calculation of the total fund expenses for the Segregated Fund Contract for the year?

    What are the costs, benefits and risks of using the fund expense ratio versus only using the MER?

7. Might Segregated Fund Contract customers incur significant costs, other than for deferred sales charges, if they withdraw all funds from their Segregated Fund Contracts? If so, what are those costs?

8. The Proposed Insurance Guidance describes annual statements. Do you anticipate any issues in connection with the guidance as drafted in cases where an insurer provides semi-annual statements to customers?

9. Do you anticipate any other implementation issues related to the Proposed Insurance Guidance?

10. Do you anticipate any issues specifically related to the proposed transition period?