INVESTMENT DEALERS ASSOCIATION OF CANADA

notice

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

Contact:

Keith Rose

Vice-President, Regulatory Policy

Phone: (416) 943-6907

e-mail: krose@ida.ca

FINANCIAL COMPLIANCE DIVISION

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TO: Chief Financial Officers, IDA Members

Panel Auditors, IDA Audit Jurisdiction Members

Distribute internally to:

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- ■ Retail
- ☐ Trading desk

PROCESSING OF SEGREGATED FUNDS

Traditionally life insurance business conducted by dually licensed individuals employed by IDA Members has been recorded completely separately from the securities business of our Members. However, the number of individuals licensed to sell both securities products and life insurance products has increased significantly in the last few years. Also, Segregated Funds and Guaranteed Income Annuities have become increasingly popular products. This has led to the present situation where clients of our Members wish to have these insurance products reported in their accounts along with reports of activities with the Member in securities products. Clients have difficulty understanding Members' inability to report these products together especially given their similarity to securities products and the fact that both are purchased through the same individual.

We have studied this issue in consultation with several Members. We have concluded that while legally these products are life insurance products, they exhibit strong similarities to securities products and may be treated for processing and reporting purposes in a similar manner. Accordingly, we will permit reporting of positions in these products on client statements of our Members under the following circumstances:

1. A confirmation for the purchase of the product is issued in the name of the Member
2. The statement showing the transaction and the position is in the name of the Member
3. The cheque for the purchase is made out to the Member
4. The individual selling the insurance product is a registered representative of the Member and is dually licensed to sell insurance in the province where the client resides.
5. The Member pays any commission from the sale of the product
6. The income from the sale of the product is recorded "gross" in the books of the Member and CIPF fees are based on this gross income
7. The product is recorded in nominee name with the life insurance company and the nominee name is a nominee name of the Member
8. Positions in the product are subject to the same controls and reconciliations as mutual funds.

Given that these products are to be treated in a manner very similar to mutual funds, the rules relating to off-book transactions apply. Please refer to IDA Compliance Interpretation Bulletins C-106 (dated August 28, 1996) and C-93 (dated February 15, 1996) for a detailed description of this topic.

This bulletin does not attempt to address the legal and regulatory implications of selling mutual funds from an insurance perspective. **It should be noted that this manner of processing and reporting these insurance products may have certain legal and regulatory implications. For example, there may be contractual and regulatory obligations for the life insurance agency affiliate of the Member stemming from reporting the sales of these products in this way. In addition, the holding of these products in nominee name may have implications of which the clients must be made aware. In particular, "creditor proofing" and probate status features of segregated funds may be effected. Members should consult legal counsel with respect to these matters.**