

Joint Forum of Financial Market Regulators

Forum conjoint des autorités de réglementation du marché financier

NEWSLETTER

SPRING/SUMMER 2003

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Newsletter

Fourth Anniversary of the Joint Forum

The Joint Forum of Financial Market Regulators was established in 1999 by the:

- Canadian Securities Administrators (CSA);
- Canadian Council of Insurance Regulators (CCIR);
- Canadian Association of Pension Supervisory Authorities (CAPSA).

More recently, the membership of the Joint Forum has expanded to include participation by the Canadian Insurance Services Regulatory Organizations (CISRO) and the Bureau des services financiers (BSF). The Office of the Superintendent of Financial Institutions (OSFI) has involvement through that organization's membership in CCIR and CAPSA.

Enhancing market efficiency and controlling regulatory costs were seen to be important goals when the Joint Forum was established in 1999. The evolution of the regulatory environment over the last four years has made the work of the Joint Forum even more vital. A sample of the current challenges for financial market regulators includes:

- Increased stakeholder dissatisfaction with the costs and complexities of doing business across Canada.
- A perception that regulatory inefficiency has a negative impact on the competitiveness of Canada's financial services sector.

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- › Many of the largest financial institutions are now global conglomerates combining banking, insurance and securities services in one entity.
 - › Concerns regarding public confidence in capital markets around the world.

Recent Milestones

January 2003 – first strategic plan for the period 2002 to 2005 finalized and released.

February 2003 – consultation paper on point of sale disclosure for segregated funds and mutual funds released. Comment period closed April 30 2003.

March 2003 – consultation paper on principles and practices for financial intermediaries released. Comment period closed May 28, 2003.

April 2003 – consultation paper on proposed guidelines for capital accumulation plans (CAPs) released. Comments due August 31, 2003.

April Meeting Highlights

The Spring meeting of the Joint Forum is one of two “in person” meetings during the year. It takes place concurrently with the spring meetings of the CSA, CAPSA and CCIR. This allows regulators to meet with colleagues from other provinces and sectors, and facilitates presentations by Joint Forum Working Groups and external speakers. On April 2, 2003, Joint Forum members had the benefit of two external presentations on issues central to the Joint Forum’s mandate.

The Financial Services OmbudsNetwork (FSON)

As discussed in the Fall/Winter 2003 Newsletter, the Financial Services OmbudsNetwork (FSON) became fully operational in Canada on November 29, 2002, with the launch of the Centre for the Financial Services OmbudsNetwork (CFSON). Pierre Gravelle, CEO of the CFSON, was the luncheon speaker for the Spring 2003 meeting. He applauded the Joint Forum for its role in the creation of the Centre and the OmbudsNetwork, and provided members with a progress report.

The FSON is an independent national system, funded by the industry, for handling and resolving consumer complaints about the products and services of the banking, life and health insurance, property and casualty insurance, and securities industries. The Centre for the FSON provides consumers of financial services with a single integrated access point for responding to their general inquiries and connecting them to the appropriate point in the network of company complaint handling mechanisms and industry OmbudServices.

Individual companies are the first level of recourse for consumers with concerns or complaints. Under the new system, if a complaint remains unresolved consumers have access to an additional level of recourse: three independent, “industry-level” OmbudServices. These are the:

- Canadian Life and Health Insurance OmbudService (CLHIO),
- General Insurance OmbudService (GIO), and
- Ombudsman for Banking Services and Investments (OBSI).

When they receive a complaint, OmbudService investigators fully assess the issues at hand, work fairly and impartially with both the consumer and the company, and produce a report with non-binding recommendations, including, where warranted, restitution or compensation.

Mr. Gravelle noted that it has been a year and a half since the heads of six industry associations [the Canadian Bankers Association (CBA), Canadian Life and Health Insurance Association (CLHIA), Insurance Bureau of Canada (IBC), Investment Dealers Association of Canada (IDA), Investment Funds Institute of Canada (IFIC), and the Mutual Fund Dealers Association of Canada (MFDA)] announced their intention to launch the OmbudsNetwork and four months since operations began. Due to the leadership and support of the Joint Forum and industry sponsors, a great deal of progress has been achieved in a relatively short time. The OmbudsNetwork represents a tremendous accomplishment in industry-regulator co-operation. Following are some of the highlights of the first six months of operation:

\$ *Consumer Assistance and Referral Service*

- Complaints comprised 82 per cent of consumer contacts, with the remainder related to enquiries. Volume is rising steadily. There have been just over 1,800 contacts in total since December. Most consumers are contacting the Centre by phone.
- In more than half the cases, consumers are referred back to the financial provider, either to the point of sale, manager, complaint liaison officer, customer assistance/complaint centre or company Ombudsman.
- Another 35 per cent are referred to either an industry level assistance centre, such as CLHIA’s Consumer Assistance Centre or IBC’s regional centres.
- Ten per cent of consumers are referred to one of the OmbudServices, either OBSI, CLHIO or GIO.
- About 3 per cent go to other sources, such as industry associations, provincial consumer ministries, Better Business Bureaus or credit counselling agencies.

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- In a few instances, less than 2 per cent, and generally at the request of the consumer, referrals are made to a regulator or SRO.

\$ *Web Site* (<http://www.cfson-crcsf.ca>)

Traffic on the CFSON Web site is rising steadily; total visits as of May 30 reached close to 20,000, with the average session lasting 11 minutes. Popular pages include the complaint information kit, helpful links section, industry participants and OmbudService pages.

\$ *Public Awareness Activities*

Consumers are learning about the Centre from a variety of sources:

- government, regulators and associations;
- print media (both articles and advertising); and
- the Internet.

The Centre has also sent information to consumer groups, Better Business Bureaus, Chambers of Commerce and credit counselling agencies and all public libraries across the country.

Referrals from regulators are an especially effective means of reaching consumers. The Centre has scheduled dates to meet with regulators in the provinces and provide staff briefings. The CFSON encourages regulators to add a link from their sites to the Centre. Some existing links include the Consumers Council of Canada, Canada 411, Yellow Pages.ca, and the websites of some Members of Parliament.

\$ *Standards and Best Practices*

In announcing the establishment of the OmbudsNetwork, the six industry heads laid out a set of standards as a starting point for both the OmbudsNetwork as a whole and the individual OmbudServices. CFSON's standards framework includes six OmbudsNetwork standards:

- *accessibility,*
- *timeliness,*
- *courtesy,*
- *clarity,*
- *accuracy, and*
- *consistency.*

In addition, four standards applicable to the OmbudServices, have been defined.

These are:

- *knowledge,*
- *fairness and impartiality,*
- *confidentiality,*
- *independence, and*
- *objectivity.*

At its March meeting, the independent Board of Directors of the CFSON agreed to strike a Standards Committee charged with recommending standards, and with oversight and monitoring of the standards adopted by the Board. Ted Hughes, an independent Board member who is Commissioner of Conflict of Interest and Ethics Counsellor to the Public Service in the Northwest Territories, is chairing the committee. The committee will initiate its work by identifying best practices as a means of assisting in the development of standards. In addition, the Board agreed to set up a small Industry Working Group to help identify industry best practices in complaint handling.

The Joint Forum Steering Committee on Consumer Dispute Resolution, chaired by Doug Hyndman, Chair of the British Columbia Securities Commission, participated in the March CFSON Board of Directors meeting and will continue to collaborate with CFSON staff to finalize the few remaining issues. In order to maintain a dialogue, the two groups will meet on at least an annual basis going forward.

Financial Literacy and Basic Literacy Skills

Gaps in basic and financial literacy leave consumers vulnerable to any number of potential problems, such as mismanagement of credit and vulnerability to fraud. At the spring meeting of the Joint Forum, representatives from the Investor e.ducation Fund [established by the Ontario Securities Commission (OSC) to act as an objective source of financial information] provided members with valuable information on literacy levels in Canada. These insights are vital to several Joint Forum projects aimed at improving disclosure to consumers.

Financial Literacy

Financial literacy skills are important to an individual's ability to manage his or her financial affairs. Unfortunately, several studies have found that Canadians score poorly when surveyed for financial literacy. For example:

- \$ Only 20% of Canadian investors claim to be "very knowledgeable" about financial, investment or money matters. [Canadian Securities Institute, *Investor Profiles*, 1994; Toronto Stock Exchange, *Canadian Shareowners Study* 1996; Angus Reid Group (for the OSC 1998.)]

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- \$ A 1997 poll found that 67% of adult Canadians do not have a financial plan for retirement. The same survey found that 84% of Canadians did not know the RSP allowance for foreign content. [AC Nielson, Financial Health Poll: Research Highlights (for CIBC), November 1997.]

 - \$ In a recent study of Ontario consumers by the Consumers Council of Canada, 4 in 10 respondents recognized that they need more investment education. (Consumers Council of Canada, A Study of Ontario Consumers' Investment Education Needs, February 2002.)

Basic Literacy

Basic literacy is a crucial subset of financial literacy. Since our public capital markets are founded on the principle of disclosure, it is important that investors be able to understand and use disclosure documents and other information to support their investment decisions. A prime source of information on literacy is the International Adult Literacy Survey (IALS), sponsored by the Organization for Economic Co-operation and Development. The IALS focuses on three domains — prose literacy, document literacy, and quantitative literacy.

In each domain there are five levels of proficiency:

Level 1 - Indicates very poor skills. An example might be a person who is unable to determine the correct amount of medication from its packaging.

Level 2 - Denotes significant weakness, people scoring in this range have likely developed coping mechanisms. They will, however, find it difficult to learn new skills.

Level 3 - Minimum for successful living in a modern society. This level corresponds with secondary school completion or college entry standards.

Levels 4 and 5 - Describe respondents who demonstrate higher-order skills.

The IALS found that even the most economically advanced societies have a literacy skills deficit where between 25% to 75% of adults fail to attain literacy Level 3. Specific results for Canada indicate that 43% of Canadians scored within Levels 1 or 2 across all three domains.

Effectiveness of Current Disclosure Documents

IALS results for Canada indicate that consumers may find it difficult to understand a company's annual report or prospectus. An analysis of disclosure documents in relation to the literacy skills required was undertaken for the Investor Education Fund by the TOWES Joint Venture at Bow Valley College (Alberta) in order to test this assumption. The analysis involved three components: ease of use, impact of simplified prospectus disclosure rules, and the effectiveness of securities regulators in reaching a broad consumer audience.

Results of the TOWES analysis:

- \$ Educational resources developed by regulators are appropriately targeted to a Level 2 audience.
- \$ MD&A disclosure found in company annual reports exceeds the 'comfort zone' of most consumers.
- \$ General Prospectuses continue to challenge consumers by demanding a minimum literacy capability of Level 3 to 4.
- \$ Rules simplifying mutual fund prospectus disclosure are having a positive impact on these documents. A best-in-class specimen analysed by experts scored Level 2 for document and prose literacy.

Future Considerations

The authors of the IALS Report, *Literacy in the Information Age*, note that globalization, technological change and organizational development are putting us all through a process of "upskilling." For example:

- \$ Globalization requires investors to be aware of political and economic developments domestically and internationally, and to understand their impact on markets.
- \$ Technological change has increased consumers' access to market information (good and bad) and to the markets themselves.
- The consumer is also witnessing changes in financial services and products as well as structural change with respect to securities and financial services regulation.

The situation calls for novel strategies to appropriately support the consumer of financial and investment products. For illustrations of some of the strategies undertaken by the Joint Forum, please refer to the following articles on the Point of Sale Disclosure Paper for Segregated Funds and Mutual Funds, Practice Standards Project and Guidelines for Capital Accumulation Plans.

Links for further information:

http://www.investored.ca/en/aboutus/about_us.htm

Investor e.ducation Fund website

<http://www.nald.ca/nls/ials/introduc.htm>

International Adult Literacy Survey (IALS)

http://www.investored.ca/en/aboutus/research/document_usability_b.pdf

On-line version of the Towes Report - Document Usability Review

Updates on Public Consultations

Capital Accumulation Plans

The Joint Forum Committee on Capital Accumulation Plans (CAPs) is looking forward to receiving submissions and comments on the proposed Guidelines for Capital Accumulation Plans (the “proposed guidelines”).

CAPs include all investment and savings plans established by employers, associations and trade unions in which participating members are empowered to decide how contributions made to the plans are invested. They include many defined contribution pension plans as well as, for example, group RRSPs, deferred profit sharing plans, and employee profit sharing plans.

The Joint Forum released the proposed guidelines for comment on April 25, 2003. They are on the websites of CAPSA (www.capsa-acor.org) and CCIR (www.ccir-ccrra.org). They are also on the websites of individual securities regulators, the Financial Services Commission of Ontario, and the Saskatchewan Financial Services Commission. A separate but parallel consultation was launched in the province of Quebec.

The proposed guidelines:

- describe the rights and responsibilities of CAP sponsors, service providers and CAP members;
- outline the information and assistance that should be available to CAP members when making investment decisions; and
- ensure that regardless of the regulatory regime, there is a similar regulatory result for all CAP products and services.

Development of the Guidelines

The first phase of this project was the development of draft principles for investment disclosure in CAPs. A consultation paper on the draft principles was published for comment in April 2001. At the close of the comment period, revisions were made to reflect the substance of the submissions received. The revised principles were brought back to the Joint Forum and its constituent groups for approval in April 2002.

Shortly thereafter, an Industry Task Force was created to work collaboratively with the Committee in the development of the guidelines that would be needed to implement the principles. The Task Force was drawn from the membership of insurance, pension and securities industry stakeholder associations. These associations nominated individuals to provide input and represent the various interests of the industry groups. As the guidelines were being developed, the committee also sought input from small employers, consumer advocates, labour and retiree groups. With the assistance of the Task Force, the Joint Forum Committee developed and finalized the guidelines.

Members of the Industry Task Force brought their invaluable experience to the table and devoted a great deal of time and effort to the task at hand. The Joint Forum could not have advanced as quickly or as well without this partnership.

Consultation

The Joint Forum has sent the guidelines to national pension, insurance and securities stakeholder groups, inviting their comments. Over the summer, Joint Forum representatives will also meet with stakeholders to discuss the impact and implementation of the guidelines. The Committee will be asking employers, administrators, members, and service providers the following questions:

Do the guidelines work for your CAP?

Do the guidelines outline your responsibilities?

Do the guidelines strike the right balance in describing the responsibilities of employers, service providers and members?

Will the guidelines assist plan members?

Will the guidelines and the implementation strategy provide a level playing field for service providers?

How would the guidelines affect the cost to the employer of providing a CAP?

Does the implementation strategy address all of your issues?

The consultation period ends on August 31, 2003. At that time, the Joint Forum Committee will consider the comments received, and develop final guidelines and strategies for implementation of the guidelines for adoption by CAPSA, CSA, CCIR and the Joint Forum.

Regulatory Harmonization of IVICs and Mutual Funds

This Joint Forum project has as its goal the implementation of comparable standards in the regulatory regimes that apply to mutual funds and individual variable insurance contracts (IVICs) or segregated funds.

Toward this end, the Joint Forum released in May 1999 a document entitled *Comparative Study of Individual Variable Insurance Contracts (Segregated Funds) and Mutual Funds*.

Later that year, the Joint Forum published *Recommendations for Changes in the Regulation of Mutual Funds and Individual Variable Insurance Contracts*. At the time, there were 15 recommendations. An additional recommendation was added in October 2000, to address personal trading regulatory guidelines for employees of product manufacturers. A majority of the 16 recommendations has now been implemented.

The Joint Forum has focussed for the past year on three of the original recommendations – those dealing with point of sale disclosure. Our research and analysis led us to conclude that our disclosure systems had become disconnected from industry practice and consumer needs. This led to the design of a system that would bring information to consumers when they need it, in a form they can use, and in a cost-effective practical manner.

This new approach, outlined in the Joint Forum consultation paper *Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds*, was released for comment on February 13, 2003.

One of the four cornerstones of the new approach is a consumers' guide that contains objective educational information about segregated funds and mutual funds. Industry stakeholders, working together with the Joint Forum Regulatory Sub-committee, developed this guide.

The comment period for the consultation paper closed on April 30, 2003. Comment letters were received from close to 30 industry participants, including consumers and investor advocates. Submission have been posted on the OSC and CCIR websites.

(<http://www.osc.gov.on.ca/en/HotTopics/jointforum.html#expanded> and http://www.ccir-ccra.org/publications/index_en.htm)

Work is now underway to analyse the comments received. The Joint Forum Committee is also working with industry to develop mock-ups of the disclosure documents. These documents will be reviewed by a plain language consultant, and will undergo focus group testing with consumers and sales representatives.

Intermediary Proficiency And Licensing Initiatives

In March the Joint Forum released a consultation paper titled *Principles and Practices for the Sale of Products and Services in the Financial Sector*. The Joint Forum's objective in undertaking this project was to develop a Canada-wide practice standard that would apply to all financial service intermediaries. The goal is to harmonize to the highest possible practice standards across jurisdictions, regardless of the product or service that is being offered.

The comment period closed on May 29 and the Joint Forum Committee responsible for the project is currently reviewing submissions to determine whether any additional changes are necessary. Initial responses to the proposals have been generally supportive.

The proposed practice standards are being introduced on a voluntary basis and it is expected that they will be endorsed by industry organizations on behalf of their members.

Contact Information

The Joint Forum meets four times a year, twice by conference call and twice in person. The Joint Forum summer conference call occurred on June 25, 2003. The next "in person" meeting will be held in Regina, Saskatchewan, on October 17, 2003.

Joint Forum newsletters are intended to keep interested stakeholders abreast of the Joint Forum's initiatives and plans, and to foster an important and continuing dialogue among those with an interest in Canada's financial services sector.

Toward that end, we would be pleased to hear any views, comments or questions you might have about the role of the Joint Forum, and any suggestions you have for future collective initiatives. Your comments can be directed to any Joint Forum member or to any of the following staff members of the Joint Forum Project Office:

- ▶ Moira Gill, Policy Manager, Joint Forum Project Office [(416) 590-7067; e-mail: mgill@fSCO.gov.on.ca];
- ▶ Stephen Paglia, Senior Policy Analyst, Joint Forum Project Office [(416) 590-7054; e-mail: spaglia@fSCO.gov.on.ca]; or
- ▶ Isabel Wegg, Senior Manager, Corporate Initiatives, Financial Services Commission of Ontario [(416) 590-7107; e-mail: iwegg@fSCO.gov.on.ca].

Electronic copies of this newsletter are available in English and French, in PDF format only, on the websites of CCIR (www.ccir-ccrra.org), CAPSA (www.capsa-acor.org) and CSA (www.csa-acvm.ca), as well as the website of the Financial Services Commission of Ontario at (www.fSCO.gov.on.ca). Look under "Publications/Joint Forum Releases".

Ce bulletin est aussi disponible en français.