

Joint Forum of Financial Market Regulators

Forum conjoint des autorités de réglementation du marché financier

FINANCIAL PRODUCT DEVELOPMENT STANDARDS AND PRACTICES

Report prepared by:

Joint Forum Product Disclosure and Regulation Committee

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EXECUTIVE SUMMARY

There are many factors driving the introduction of new products in the marketplace. These include financial innovation, increased cross-sectoral competition amongst both product manufacturers and intermediaries, and the changing needs of consumers as Canadians live longer.

The range of financial products and services that consumers can choose from is increasing. Some new products are complex in nature with risks not easily understood by consumers themselves or the intermediaries that advise them. The need for consumers to purchase suitable products with a full understanding of the features of these products and associated risks is of critical importance. Product manufacturers, intermediaries, and investors themselves all bear responsibility in meeting this objective.

The Joint Forum established a Product Disclosure and Regulation Committee to undertake an initiative to examine the responsibilities of financial product manufacturers, intermediaries and consumers in ensuring that Canadian consumers are offered suitable products and are able to make informed decisions, particularly in this uncertain financial environment. The initial focus of the work of the Committee was on product manufacturers and their risk assessment and product disclosure practices at they relate to consumers.

In 2010, as a first step, a research paper was prepared on the issues described in the objective, examining both international and Canadian practices. A draft survey questionnaire for product manufacturers was circulated to industry associations for feedback. Based on the feedback, a roundtable discussion was held with Advocis, CBA, CLHIA, IFIC and IIAC and representatives from their member organizations in September 2011. It was agreed that the next step would be to redesign a fact-finding survey that would be focused on the processes and controls around product development as they relate to impact on consumers, with the involvement of the industry associations.

A Joint Regulator/Industry Product Manufacturer Working Group was established and started meeting in November 2011. The Working Group acknowledged that there is currently a greater degree of uncertainty in financial markets, together with increasing consumer expectations and increasing complexity of products. Firms are managing in this environment with various risk assessment practices, while regulators continue to need to understand how firms are responding to these challenges. Both regulators and firms have a common interest in ensuring a competitive market where consumers' needs are met. Consequently, there is a desire for regulators to have an understanding of the practices and processes involved in manufacturing a product, as it relates to consumers.

The advice from the industry representatives on the Working Group was that a survey was not the most suitable first step in obtaining information from manufacturers. They felt that, in the absence of a greater level of understanding, a survey would be constructed too broadly resulting in inconsistent interpretations and responses from participants.

To that end, the CLHIA and IFIC each submitted detailed written reports that described the product development practices used by the life insurance industry and the mutual funds industry to manage risk in IVICs and mutual funds, respectively.

The Committee has now completed its work and prepared the following materials which are included in this report:

1. **Research Paper**
   The paper reflects the current requirements, standards and practices for product manufacturers in the United Kingdom, United States and Canada, as summarized below:
   - United Kingdom - A principles-based regulatory scheme whereby the regulator has the ability to impose penalties on those that fail to meet regulatory requirements, while providing firms with the autonomy to decide how to meet such requirements.
   - United States - A mix of mandatory regulatory requirements and suggested 'best practices'.
   - Canada - An overview of the practices and processes presented in the CLHIA and IFIC reports.

2. **Summary of Findings**
   The document is a summary of the findings on international practices and standards in the research paper and the practices and processes detailed in the CLHIA and IFIC reports. These reports describe product development practices used by the life insurance industry and the mutual funds industry to manage risk in IVICs and mutual funds, respectively. In preparing this material, the CLHIA and IFIC conducted a broad consultation with their member companies. About 25 companies were given an opportunity to provide input. This document reflects input received from the CLHIA and IFIC.

3. **Product List**
   Mutual funds and segregated funds are the most mature financial products with established risk practices and processes. A comprehensive list of other financial products for which risk practices and processes could be examined was prepared and circulated to the Working Group for comment. Upon completion of the review, the Working Group has recommended that rather than creating a new list, the list of financial products most commonly held by Canadian households for the purpose of accumulating wealth, as derived from the Investor Economics' Household Balance Sheet Report, could be used.

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ATTACHMENTS:

- **CLHIA Report**
- **IFIC Report**

PRODUCT MANUFACTURERS REGULATORY REQUIREMENTS AND GOVERNANCE STANDARDS FOR CONSUMER PRODUCTS (RESEARCH PAPER)

Global Practices

A 2008 report by the international Joint Forum (Basel Committee on Banking Supervision, International Organization of Securities Commissions, and International Association of Insurance Supervisors) surveyed both regulator and firms regarding customer suitability[1]. While the report does not cover specifically regulatory requirements / firm governance standards for product manufacturers on identification and disclosure of risks to consumers, it sheds light on the extent suitability is examined by manufacturers in product design.

Regulatory practices

The international Joint Forum report reflects the results of a survey of bank, securities and insurance regulators in eleven countries.

Product Design

In product design, the report notes, in general, countries do not have regulations that impose requirements on the product design process, particularly retail products. With few exceptions, there are generally no restrictions on the design of new products. The exceptions noted in the report are:

- The US Financial Industry Regulatory Authority (FINRA)[2] has issued guidance on product design for structured products.

- The UK Financial Services Authority (FSA) expects firms to ensure products are soundly designed, even where manufacturers distribute solely or mainly through intermediaries. The Joint Forum report notes this expectation is derived from an outcome under the FSA's "Treating Customers Fairly Initiative,"[3] which states that products sold in the retail market should be designed to meet the needs of identified consumer groups and targeted accordingly.

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[1] The Joint Forum, "Customer suitability in the retail sale of financial products and services." April 2009. Available at http://www.bis.org/publ/joint20.htm. The report was prepared by a working group that included AMF participation.

[2] The Financial Industry Regulatory Authority (FINRA), is the largest independent regulator for all securities firms doing business in the United States.

[3] Under this initiative, although the FSA does not regulate the design of financial products, it does expect firms to treat their customers fairly when considering the design of those products.

- US insurance regulators review insurance products for compliance with applicable laws, including the requirement that the product meet actuarial standards.

Evaluation of Risk Posed by Mis-selling

Although regulations or restrictions of product design are not common, the report notes that several jurisdictions require firms to have risk management systems that include the evaluation of legal and reputational risk.

Firm practices

The international Joint Forum report also includes the results of a survey of 90 firms (asset managers/mutual fund companies, financial planners/advisers, investment/securities firms, banks, insurance companies).

The survey covered product design practices. The survey found that almost all firms across all sectors take into account legal and reputation risks in the design or approval process of new products as shown in Table 1.

Factors Taken into Account in the Design and Approval Process of a new Product

	Legal and Reputation Risks	Potential Conflicts of Interest	Other
Bank or DTI	94%	91%	62%
Insurance company	94%	65%	18%
Investment/securities firm	94%	89%	67%
Asset manager / mutual funds	95%	89%	63%
Financial planner	75%	75%	25%
Total	93%	84%	53%

Table 1: Factors Taken into Account in the Design and Approval Process of a new Product

Under the "Other" category, ten firms indicated they took into account other risks, including risks for customers. Eight firms indicated that they were making sure that the product was coherent with the needs of the targeted customers. A Swiss bank noted they assess the need for "specific risk warnings, disclosures, limitations to specific client segments, requirements for independent controls."

Although there was no specific question in the survey regarding approval processes, one third of banks and investment firms noted in their comments the existence of a special committee (seven firms), the necessity of approval by the compliance function (3 firms) or the existence of a formal approval process (10 firms).

IOSCO

The International Organization of Securities Commissions (IOSCO) released in September 2009 a report on Unregulated Financial Markets and Products[4]. The report focused on two systemically markets: securitization and credit default swaps. The report's recommendations to regulators for the securitization market include considering requiring originators and/or sponsors to retain a long-term economic exposure to the securitization to align interests, provide regulatory support for improvements in disclosures by issuers to investors, review investor suitability requirements as well as the definition of sophisticated investor, and encourage the development of tools by investors to assist in understanding complex financial products.

UK Financial Services Consumer Panel

The Financial Services Consumer Panel (FSCP) is an independent statutory body in the UK that was set up to represent the interests of consumers in the development of policy for the regulation of financial services. On October 14, 2009, the FSPC released a press release[5] calling for the financial services industry to develop product design criteria to improve consumer confidence in the industry. The press release noted an excerpt from a speech by the FSCP Chairman, "We need to find a way to regulate product design which will provide better products that can be described fairly simply and which do 'what it says on the tin'. Consumer confidence would be hugely improved if there was a range of financial products from different providers that were presented in a way which is simple and honest, with prices that can be easily compared with other products of the same type. The industry should consider developing design criteria for particular types of product which would guide 'good' product innovation and restrict innovation that conceals cost or risk in the pursuit of providing an apparently better price or higher rate of return. Doing this would be a major step towards improving consumer confidence in financial services."

[4]IOSCO "Unregulated Financial Markets and Products; Final Report" September 2009. Available at http://www.iosco.org/CDBCFBF5-CCCB-48D6-AE7D-D21490A411A9/FinalDownload/DownloadId-C7966F05AD1932BDFD8001277D476BB3/CDBCFBF5-CCCB-48D6-AE7D-D21490A411A9/library/pubdocs/pdf/IOSCOPD301.pdf

[5]FSPC "Consumer Panel calls on financial services industry to agree common standards of product design" October 14, 2009. Available at http://www.fs-cp.org.uk/newsroom/2009/143.shtml#

Practices in Canada

Regulatory

OSFI

For federally regulated financial institutions, OSFI published a Corporate Governance Guideline[6] in 2003 that includes a section on risk management. The Guideline states that "Risk management systems and practices will differ, depending on the scope and size of the institution and the nature of risk exposures. But whatever the particular approach, every institution should have integrated policies that, taken together, apply to the organization's significant activities regarding the corporate philosophy on risk management, the institution's permissible exposure to risk, objectives of risk management, delegation of authorities and responsibilities, and processes for identifying, monitoring and controlling/managing risk. The Guideline does not attempt to identify specific risks. Hence, there is no reference to legal or reputational risks that may be associated with product design. An earlier OSFI standard for the life insurance industry on Product Design and Pricing Management[7] outlined a product design process and included a list of risks to be assessed including contingent risk.

In January 2013, OSFI officially published a revised version of their Corporate Governance Guideline, which will help boards of directors and senior management to identify and manage risks being undertaken by their financial institutions. The updated guideline reflects OSFI's supervisory observations, the results of a cross-system review and enhancements to international best practices. The most significant changes to the guideline from the 2003 publication are in the areas of board effectiveness - its composition and competencies; risk governance, including risk appetite frameworks; and the roles of the chief risk officer and the audit committee. The 2013 guideline provides a comprehensive enterprise-wide risk governance section, which is broader in scope than the Risk Management section previously provided.

Securities and Insurance Regulation

While the regulation of mutual funds and IVICs does not extend to the product design process, disclosure requirements under securities regulation[8] and the CLHIA IVIC Guideline[9] of product risks would require product manufacturers to assess these risks in the

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[6] OSFI "Corporate Governance Guideline" January 2013. Available at http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=5330

[7] OSFI "Standards of Sound Business and Financial Practices – Product Design and Pricing Management" February 1998 Available at http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/archives/f7_e.pdf

[8] Ontario Securities Commission "Final Rule: National Instrument 41-101 General Prospectus Requirements and Related Amendments" March 7, 2008. Available at http://www.osc.gov.on.ca/documents/en/Securities-Category4/rule_20080307_41-101_gen-prospectus-final-sup2.pdf

[9] CLHIA "Guideline G2; Individual Variable Insurance Contracts Relating to Segregated Funds" Available at

design process. The disclosures required in a mutual fund prospectus include risk factors as described in Table 2. The IVIC Guideline states the information folder should include information on each segregated fund on the principal risks applicable (9.1c).

Information Required in an Investment Form Prospectus: Risk Factors (12.1)

1. Under the heading "Risk Factors", describe the risk factors material to the investment fund that a reasonable investor would consider relevant to an investment in the securities being distributed, such as the risks associated with any particular aspect of the fundamental investment objectives and investment strategies.
2. Include a discussion of general market, political, market sector, liquidity, interest rate, foreign currency, diversification, leverage, credit, legal and operational risks, as appropriate.
3. Include a brief discussion of general investment risks applicable to the investment fund, such as specific company developments, stock market conditions and general economic and financial conditions in those countries where the investments of the investment fund are listed for trading.
4. If derivatives are to be used by the investment fund for non-hedging purposes, describe the risks associated with any use or intended use by the investment fund of derivatives.
5. If there is a risk that purchasers of the securities distributed may become liable to make an additional contribution beyond the price of the security, disclose the risk.

Table 2: *Information Required in an Investment Form Prospectus: Risk Factors (12.1)*

Securities regulation[10] and the IVIC Guideline both also both also include investment restrictions for mutual funds and IVICs. For instance, mutual funds are restricted from holding real property (2.3a) and IVICs are restricted in their use of leverage (9.2).

http://www.clhia.ca/download/Guideline_G2.pdf

[10] Ontario Securities Commission "Unofficial Consolidated National Instrument and Companion Policy as of September 28, 2009: NI - 81-102 81-102CP - Mutual Funds and Rescission of National Policy Statement No. 34 and National Policy Statement No. 39" September 18, 2009. Available at http://www.osc.gov.on.ca/documents/en/Securities-Category8/rule_20090918_81-102_unofficial-consolidated.pdf

Individual Firms

To assess the extent manufacturers in Canada examine risks to consumers in their product design, publicly available information was reviewed by the Joint Forum Secretariat for a selection of banks, life insurers and mutual fund companies. Information available varied from company to company reviewed.

Corporate Governance Practices

As required under OSFI's Corporate Governance Guideline, banks and life insurers have integrated risk management processes. The review of public information disclosed by these institutions indicates that it is standard practice for a committee of the Board to be assigned responsibility for risk management including policies implemented for the management and control of risk. The information disclosed on the activities of these committees was mostly general about risks examined. However, some explicitly noted reputational risk. Sun Life's Charter[11] for its Risk Review Committee specifically refers to product design and the management of risk to reputation. The charter[12] for TD Bank's Risk Committee notes seven risks including reputational and legal/regulatory.

Information in the disclosures of the selection of mutual companies reviewed tended to be more succinct about Board committees and contained little or no information on management of risk.

Codes of Conduct

The Joint Forum Secretariat also reviewed codes of conduct for a selection of companies. Product design, including addressing risk to consumers, was not mentioned in any of the codes reviewed. However, some codes included general principles or values that could apply. For example, Sun Life's code[13] lists, as a value, "we provide sound financial solutions for our customers and always work with their interests in mind." Desjardin's[14] code includes, under its principle for respect for persons, "meet the needs of people in the most effective way." Manulife's code[15] states that "Every employee and representative of

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[11] Sun Life Financial "Charter of the Risk Review Committee" Available at http://www.sunlife.com/static/global/files/about_us/Static%20files/pa_e_2008_RRC_charter.pdf.

[12] TD Bank Financial Group "Risk Committee of the Board of Directors of the Toronto-Dominion Bank Charter." Available at http://www.td.com/governance/risk_charter.pdf

[13] Sun Life Financial "Sun Life Financial Code of Conduct; Acting Ethically" Available at http://www.sunlife.com/static/global/files/Code%20of%20business%20conduct/pa_e_code_of_business_conduct.pdf

[14] Desjardins Group "Desjardins Group Code of Ethics and Professional Conduct." Available at http://www.desjardins.com/en/a_propos/profil/difference/codethi2.pdf.

[15] Manulife Financial "Code of Business Conduct and Ethics" Available at http://www.manulife.com/public/files/201/1/businessConductEthics2008.pdf

the Company must conduct their business activities in a manner that protects and enhances the Company's reputation."

Corporate Responsibility and Public Accountability Statements[16]

The Royal Bank of Canada (RBC) publishes a Corporate Responsibility Report. The 2008 version[17] states, regarding development of products and services, "RBC has a formal policy that sets out a defined, rigorous process for launching any new product or significantly changing an existing one. We evaluate products for a range of risks and ensure they align with client needs, out Code of Conduct, laws and regulations, and voluntary consumer protection codes that we have signed. Approval levels within RBC correspond to the level of risk identified for a particular product or service."

Manulife's Public Accountability Statement[18] states regarding prudent risk management "We have a rigorous risk management framework that is applied globally and ensures all the Company's risk-taking activities are measured, monitored and managed. This framework requires each individual product in every market to meet strict enterprise- wide criteria on its own stand-alone basis." TD Bank's Public Accountability Statement[19] states, under Product Responsibility, that the Bank designs and delivers all the products it offers in a responsible manner. That means ensuring its products and services: align with TD's corporate values and Guiding Principles, adhere to strict internal development standards, risk management processes and industry codes of conduct; and meet or exceed all applicable laws and regulations where TD operates.

Conclusions

Based on a review of the international Joint Forum report and public information on a selection of Canadian banks and insurers, it appears that it is common practice to have policies and procedures for reviewing the risk inherent in products that are designed for retail consumers. Key drivers for this include managing reputational / legal risk as well as adherence to internal codes of conduct.

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[16] All federally regulated financial institutions with equity greater than $1 billion are required to publish annually a public accountability statements

[17] Royal Bank of Canada "RBC Blueprint for doing better; 2008 Corporate Responsibility Report and Public Accountability Statement" Available at http://www.rbc.com/responsibility/pdf/RBC-CRR-Report-2008-e.pdf

[18] Manulife Financial "2008 Public Accountability Statements" Available at http://www.manulife.com/public/files/201/1/2008PAS.pdf

[19] TD Bank Financial Group "2008 Corporate Responsibility Report" Available at http://www.td.com/corporateresponsibility/crr2008/pdf/2008_tdcrr_report.pdf

While the review of public disclosures provides some insight into the practices of product manufacturers, more information would be useful in ascertaining what are best practices and consistency in practices across sectors and firms.

INTERMEDIARIES – UNDERSTANDING AND EXPLAINING RISKS

Global

The 2008 international Joint Forum report on customer suitability also discussed regulatory and firm practices of distributors.

Regulatory Practices

It is common practice for jurisdictions to have continuing education/training requirements. For example, the EU Markets in Financial Instruments Directive (MiFID) requires investment firms to employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them. Regarding disclosure of risks for specific investment products, the international Joint Forum report notes that in the banking and insurance sectors, in general, there are no additional suitability obligations. However, some examples of disclosure obligations were noted in the securities sector. In Switzerland, whenever investment funds pose a materially distinct risk when compared to securities and real estate funds, that distinct risk needs to be specifically disclosed. MiFID requires firms to provide clients with a general description of nature and risks of financial instruments including an explanation of the nature of the specific type of instrument concerned, as well as the risks particular to that specific type of instrument in sufficient detail to enable the client to make decisions on an informed basis.

Firm Practices

The international Joint Forum's survey of firms included training practices. As shown in the table below, the sale of specific products limited to specifically trained sales agents / advisers.

Training Provided to Sales Agents or Advisors

	Compliance training provided	Suitability is part of the training	Sale of specific products limited to specifically trained sale agents / advisers	Verification that agents understand compliance training and products offered
Bank or DTI	94%	88%	84%	84%
Insurance company	94%	82%	82%	76%
Investment/securities firm	94%	94%	78%	89%
Asset manager / mutual funds	89%	63%	47%	68%
Financial planner	100%	100%	100%	100%
Total	**93%**	**83%**	**76%**	**81%**

Table 3: *Training Provided to Sales Agents or Advisors*

The survey included questions on what information firms provide customers including investment risk. Information about investment risks was provided in 95% of cases.

Practices in Canada

Both securities and insurance advisers have requirements for suitability which create a need for advisers to know their products including risks associated with them. In a stakeholder consultation by the Intermediary Regulation Committee in 2009, some stakeholders noted that, while product knowledge training is available, there are some products that are complex and not always fully understood by advisers.

Joint Forum Practice Standards

The following standards[20] are relevant to the issue of advisors understanding risks and explaining them to clients:

Needs of Client

In order to understand the client's interests, the intermediary must obtain or confirm information about the needs of the client and, when making a recommendation, must reasonably ensure that any product or service offered is suitable to fulfill those needs.

Commentary: In assessing the needs of the client, the intermediary should take into account the financial significance and complexity of the product or service being sold.

Professionalism

Intermediaries must act in good faith at all times. They must acquire an appropriate level of knowledge relating to their particular business and meet professional ethical standards, including acting with honesty, integrity, fairness, due diligence and skill. The concept of professionalism includes but is not limited to the following:

- Education - In a rapidly changing financial marketplace, intermediaries must keep abreast of changes in products, regulations and other factors that will affect their ability to provide high standards of service to clients. Education, including continuing education, is a necessary component of professional skill.

- Advertising and all other Client Communications - Intermediaries must ensure that all references to their business activities, services and products are clear, descriptive and

[20] Joint Forum of Financial Market Regulators "Principles and Practices for the Sale of Products and Services in the Financial Sector" January 2005 Available at: http://www.jointforum.ca/JF-WWWSite/attachment/final%20docs/PS%20Principles&Practices%20-%20Eng.pdf

not misleading.

General Information Disclosure

The intermediary has the responsibility to ensure that the client is fully informed of all relevant information before the client makes a decision. The client is entitled to disclosure of the risks and benefits of the financial products being considered and information about the intermediary's business relationships that are relevant to the transaction.

Commentary: There are two aspects to disclosure and both must be satisfactorily taken into account under these principles and practices: (1) "product information" regarding product or service features, as well as the main risks and benefits inherent in the transaction or purchase; and (2) "intermediary information" regarding relationship issues which are important to the consumer.

- Product Information - In addition to clearly describing the product or service for the client and the ways in which the transaction will fulfill the needs of the client, product information includes disclosure of important assumptions underlying any illustrations or examples that have been provided to the client, as well as the fact that actual results may differ significantly from those shown. The intermediary should avoid using examples or illustrations which he or she knows, or ought to know, are based on unusual results or a period that generated much better than normally anticipated performance.

Securities

Know your client and product suitability requirements exist under CSA requirements as well as self-regulatory organizations (SROs). These regulators have paid greater attention to this issue subsequent to developments such as problems with asset backed commercial paper (ABCP).

Canadian Securities Administrators

Securities regulatory requirements include "know your client" and product suitability rules.[21] Under these requirements, registrants must take reasonable steps before making a recommendation or accepting a client instruction to ensure the purchase is suitable for the client (13.3 1). Before following a client instruction, a registrant must advise the client if the registrant's opinion is that the security is unsuitable (13.3 2).

[21] OSC "National Instrument: NI - 31-103 - Registration Requirements and Exemptions and Consequential Amendments to Related Instruments " September 18, 2009. Available at http://www.osc.gov.on.ca/documents/en/Securities-Category3/rule_20090918_31-103_3238-supplement.pdf

Meeting suitability requirements requires in-depth knowledge of all products that a registrant buys, sells or recommends to clients.[22]

In September 2009, the Canadian Securities Administrators (CSA) released Staff Notice 33-315[23] regarding suitability and know your product. The intent of the notice was to remind registrants of their duties under securities law to satisfy their suitability obligations to clients, including the requirement the products recommended to clients.

The notice stated, regarding know your product, that registrants must understand the structure and features of each investment product they recommend including risks. The notice also stated that complex investment products may require a more extensive review than more straightforward products.

Mutual Fund Dealers Association

The Mutual Fund Dealers Association (MFDA) published a notice in October 2005 on know your product.[24] In approving products, the notice states that, "Member procedures should provide for different levels of analysis for different types of products. For example, an extensive formal review may not be required for many conventional mutual funds. However, a more comprehensive review should be performed on products that are novel or more complex in structure." It also states that members must follow up on any questions they have raised until they are satisfied that they have a complete understanding of the products they propose to sell. The due diligence review of a product should include an assessment of the risks associated with the product.

In April 2008, the MFDA published a notice with suitability guidance that provides additional guidance regarding know your product.[25] The notice states that members and Approved Persons must understand the salient facts about the products they offer to their clients in order to fulfill their suitability obligation.

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[22] OSC "Companion Policy: NI - 31-103 - Registration Requirements and Exemptions" July 17, 2009 Available at http://www.osc.gov.on.ca/documents/en/Securities-Category3/rule_20090717_31-103_companion-policy.pdf

[23] CSA "Canadian Securities Administrators Staff Notice 33-315 Suitability Obligation and Know Your Product" September 2, 2009 Available at http://www.albertasecurities.com/securitiesLaw/Regulatory%20Instruments/3/Suitability%20Obligation%20and%20Know%20Your%20Product%20%20%5BCSA%20Notice%5D/3289293-v1-CSA_Staff_Notice_33-315_-_Suitability_and_KYP_-_Final.pdf

[24] MFDA "Member Regulation Notice MR-0048; Know-Your-Product" October 31, 2005. Available at http://www.mfda.ca/regulation/notices/MR-0048.pdf

[25] MFDA "Member Regulation Notice MR-0069; Suitability Guidelines" April 14, 2008 Available at http://www.mfda.ca/regulation/notices/MR-0069.pdf

MFDA rules on advertising and sales communications[26] state regarding risks to consumers:

> "2.7.2 General Restrictions. No Member shall issue to the public, participate in or knowingly allow its name to be used in respect of any advertisement or sales communication in connection with its business which:
>
> (e) fails to fairly present the potential risks to the client."

Investment Industry Regulatory Organization of Canada

The Investment Industry Regulatory Organization of Canada (IIROC) released in March 2009 a notice on product due diligence.[27] The notice stated that dealer member's suitability obligation in recommendations to clients requires knowledge of the products sold to those clients, and all dealer members that sell new products must have formal written policies and procedures appropriate to their business to ensure that no new product is introduced to the marketplace before it is has been vetted from a regulatory, risk management and business perspective. The notice includes a section on new product identification that states these guidelines are not directed at listed equities and fixed income products, but to more complex and non-transparent products having features such as embedded derivatives, variable maturities, complex fee structures or opaque assets.

The notice also contains a section on best practices that an effective due diligence program includes an assessment of the extent of training in product features and risks necessary to ensure that registered representatives and supervisors can judge the suitability of recommendations and sales to clients and the development and implementation of the necessary training.

IIROC dealer membership rules[28] state the following regarding risks to the client:

> "29.7 (1) No Dealer Member shall issue to the public, participate in or knowingly allow its name to be used in respect of any advertisement, sales literature or correspondence, and no registered or Approved Persons shall issue or send any advertisement, sales literature or correspondence in connection with its or his or her business which:
>
> (e) fails to fairly present the potential risks to the client"

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[26] MFDA "Rules." December 11, 2008 Available at http://www.mfda.ca/regulation/rules/RulesDec-11-08.pdf

[27] IIROC "IIROC Notice 09-0087; Best Practices for Product Due Diligence." March 23, 2009. Available at http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=E4D08D6356174B2B8831CD7D0BEC1780&Language=en

[28] Available at http://iiroc.knotia.ca/Knowledge/Browse/BrowseTOC.cfm?kType=445&firstAccess=1&pageLanguage=En&nc=808230659843

In June 2009, IIROC released a notice relating to leveraged and inverse exchange-traded funds (ETFs).[29] These ETFs are securities that track the performance of an underlying benchmark or index, and take short or leveraged positions through swaps, futures contracts and other derivative instruments. The notice described these products as highly complex financial instruments, and included a reminder that, in accordance with IIROC Dealer Member Rule 29.7, all sales materials and oral presentations used by Dealer Members regarding leveraged and inverse ETFs must present a fair and balanced picture of both the risks and benefits of the funds.

Insurance

A CLHIA October 2007 reference document on needs-based sales practices[30] outlines supporting elements of a needs-based assessment. The element on product information states, "The client should be informed about options available through the advisor and provided with information about the products that the advisor recommends." The document further notes "advisors should be familiar with product information provided by companies and able to relate this information to the needs of their clients." and "specific measures to inform the client about products will vary with channels and circumstances."

Under the CLHIA IVIC Guideline[31] there are standards for advertising (7.10). However, unlike the rules for IIROC and the MFDA, there are no requirements for risk disclosures although the Guideline includes requirements on the display and visibility of warnings (7.9).

Conclusions

There are signs that, subsequent to recent market turbulence and the ABCP issue, that best practices regarding advisors understanding risks embedded in complex products and communicating these risks to consumers are evolving. The IIROC notice on leveraged and inverse ETFs is a good example.

The Joint Forum Practice Standards cover the need for the intermediary to be knowledgeable on the products sold to consumers and ensure that the consumer is fully informed of all relevant information to make a decision. The Standards also note clients are entitled to disclosure of the risks and benefits of the financial products being considered.

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[29] IIROC "IIROC Notice 09-0172: Sales Practice Obligations Relating to Leveraged and Inverse Exchange-Traded Funds." June 11, 2009 Available at http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=E786AB09D19F41B5A63E496352FF040C&Language=en

[30] CLHIA "The Approach: Serving the Client Through Needs-Based Sales Practices." October 2007. Available at http://www.clhia.ca/advisors/The_Approach_RefDoc_EN.pdf

[31] Available at http://www.clhia.ca/IVIC

PENSIONS

Guidance exists in the Joint Forum's CAP Guidelines[32] in areas such as selecting investment items and disclosures to plan members. Factors a CAP sponsor should consider when choosing investment options, including a default option, include the level of risk associated with the investment options (2.2.1). Information provided by CAP sponsors to members should provide sufficient detail so that members can make informed decisions (4.2). This includes risks associated with funds and other investment options.

CAPSA is examining the risks inherent in defined contribution (DC) pension plans. This initiative by CAPSA is a result of feedback on its 2008-2011 Strategic Plan that certain provisions in pension standards legislation may not appropriately distinguish between DC and DB plans and, as a result, inappropriate regulatory requirements may be imposed on DC plans.

[32] Joint Forum of Financial Market Regulators, "Guidelines for Capital Accumulation Plans." May 28, 2004 Available at: http://www.jointforum.ca/JF-WWWSite/attachment/final%20docs/Guidelines-ENG%20final.pdf

CONSUMER BEST PRACTICES IN DUE DILIGENCE

Stakeholder Feedback on Joint Forum 2009-2012 Strategic Plan

Two stakeholder comment letters noted consumer responsibility. A letter from the Independent Financial Brokers of Canada[33] flagged, under the theme of consumer education, a discussion paper by the UK Financial Services Authority on responsibilities of the consumer.

A Quebec based consumer group[34] also provided a letter identifying awareness for consumers of their rights and responsibilities as a priority. The letter recommended increasing awareness on the part of all consumers of financial products with respect to their rights and responsibilities, and urging them to exercise extreme caution in their quest for outstanding performance in order to offset their financial losses of recent months.

UK Financial Services Authority Discussion Paper

In December 2008, the Financial Services Authority (FSA) in the UK released a discussion paper on consumer responsibility.[35] The discussion paper was published to solicit views on the boundaries of responsibility between firms and consumers and how consumers could be better enabled to act in their own interests.

The paper noted that while the FSA does not regulate consumers themselves and cannot make rules to oblige them in some way, the FSA believes it can work with stakeholders to encourage and enable consumers to consider their own interests more effectively in their decision making.

The paper included several actions the FSA could take to help consumers better recognize and engage with their own responsibilities including:

- Reaching more consumers (i.e. alternative communications channels)
- Being more explicit such as warnings for consumers on what could go wrong if they do not take certain actions.
- Developing case studies that help consumers realize the consequences of particular course of action.
- Improving transparency by publishing more information on firm performance and

[33] IFB, "Subject: Joint Forum Strategic Plan 2009-2012" January 19, 2009. Available electronically at http://www.jointforum.ca/JF-WWWSite/attachment/strategic%20plan/IFB.pdf

[34] Mouvement D'Education Et De Defense Des Actionnaires (MEDAC), "Objet : Propositions d'orientations pour 2009-2012." January 15, 2009. Available at http://www.jointforum.ca/JF-WWWSite/attachment/strategic%20plan/MEDAC%20-%20FRENCH.pdf

[35] FSA, "Discussion Paper 08/5; Consumer Responsibility." December 2008. Available at http://www.fsa.gov.uk/pubs/discussion/dp08_05.pdf

FSA expectations.
- Sharing best practices.
- Simplifying the decisions consumers have to make.

The paper included an annex on "Sensible Actions" which consumers might take to protect their own interests. Some examples include:

- Read and make efforts to understand advertisements and other promotional material before acting upon it;
- Help adviser understand needs where applicable;
- Check the authorized status of the adviser firm on the FSA website;
- Ask questions if you don't understand; and
- Complain promptly when problems occur.

The table of sensible actions also included what the FSA and firms could do in communicating these actions to consumers.

The FSA published a Feedback Statement[36] in December 2008 that summarized the commentary it received on the discussion paper and its reaction. The feedback indicated that there is a lack of consensus over the balance of responsibilities between firms and consumers with some firms stating the current balance is skewed in the consumer's favour while consumer representatives do not (and should not) have responsibilities in the sense that firms do. A submission by the Financial Services Consumer Panel (FSCP)[37] described consumer responsibility as a flawed concept and unhelpful in discussions about how to create an effective and efficient retail market that delivers real benefit to the consumer, the industry and to society. The FSCP also expressed concern that the concept of consumer responsibility as described in the discussion paper reflects an approach that places unrealistic expectations on consumers and too little emphasis on the industry delivering products that are fit for purpose and designed to genuinely serve consumer needs.

The FSA's Feedback Statement also noted that there was a broad consensus that consumers should be helped to protect their own best interests. The FSCP submission acknowledged that consumers do need to be more empowered to look out for their own interests and encourages the FSA to communicate sensible actions consumers might take. However, the submission argues that the list in the discussion paper highlights the extent to which firm behaviour is the root of the problem.

[36] FSA, "Feedback Statement 09/2; Consumer Responsibility; Feedback on DP08/5." September 2009. Available at http://www.fsa.gov.uk/pubs/discussion/fs09_02.pdf

[37] Financial Services Consumer Panel, "Consumer Responsibility; The Financial Services Consumer Panel Response to Discussion paper 08/5." June 2009. Available electronically at: http://www.fs-cp.org.uk/publications/pdf/dp0805_response.pdf

Existing Consumer Responsibilities in Canada Related to Financial Products

Member Responsibilities under CAP Guidelines

The Joint Forum's CAP Guidelines outline and clarify the rights and responsibilities of CAP sponsors, service providers and CAP members. The responsibilities of CAP members include making decisions within the plan and for using the information and decision-making tools made available to assist them in making these decisions (1.3.3). CAP members should also consider obtaining investment advice from an appropriately qualified individual in addition to using any information or tools the CAP sponsor may provide. In introducing the CAP plan to members, the sponsor should provide information to the new member with information outlining their rights and responsibilities (4.1.2).

When a roundtable was held with industry stakeholders in January 2009 as part of a review of the CAP Guidelines, service providers noted that best practices included reminding members of their responsibilities on a regular basis.

A Consumer's Guide to Financial Transactions

When the Joint Forum released the Practice Standards in 2005, a companion piece for consumers was also published.[38] The consumer guide (see Appendix One) sets out basic principles of fair transactions consistent with the Practice Standards. Although not generally described as a set of rights and responsibilities, it includes both. For instance, it states, "You have the responsibility to provide fair and honest information about your financial needs' and that "in your dealings with a salesperson or a company, you should always seek further information if you do not feel comfortable with your level of understanding of products or services that you are purchasing."

IBC Code of Rights and Responsibilities

The Insurance Bureau of Canada (IBC) has a Code of Consumer Rights and Responsibilities.[39] The contents of the one page Code for insurance companies, brokers and agents are listed in Appendix Two.

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[38] Joint Forum of Financial Market Regulators "A Consumer's Guide to Financial Transactions" Available at http://www.jointforum.ca/JF-WWWSite/attachment/final%20docs/PS%20Consumer%20Guide%20-%20Eng.pdf January 28, 2005

[39] Insurance Bureau of Canada "Code of Consumer Rights and Responsibilities" Available at: http://www.ibc.ca/en/otherdocs/code_consumer_rights_responsibilities.pdf

Financial Consumer Agency of Canada Website

The Financial Consumer Agency of Canada (FCAC) website includes in its consumer section of its website a page on rights and responsibilities with links for further information on topics such as accounts, branch closures, cheques, and debit card fraud (refer to Appendix 3).[40]

[40] FCAC "Your Rights and Responsibilities" Available at http://www.fcac-acfc.gc.ca/eng/consumers/rights/default.asp

APPENDIX ONE - A CONSUMER'S GUIDE TO FINANCIAL TRANSACTIONS

As a financial consumer, it is in your interest to find a suitable company and/or accredited financial salesperson to handle your business. You have the responsibility to provide fair and honest information about your financial needs. If you do not fully disclose your needs, it is possible that the salesperson may unknowingly offer products which are not suited to your financial requirements.

Salespeople may be insurance agents or brokers, investment advisors, educational savings plan salespeople, loan brokers, mortgage brokers, deposit brokers, financial planners or other advisors, securities sales representatives and others. You may want to take the time to meet with several salespeople to find the right person for your particular needs. You may also choose to deal directly with companies through telephone, mail or the Internet.

In your dealings with a salesperson or a company, you should always seek further information if you do not feel comfortable with your level of understanding of products or services that you are purchasing. Asking questions will help you avoid any potential misunderstandings regarding the information that is being presented to you.

This document sets out basic principles of fair transactions which you, as a consumer, should expect when you buy a financial product, whether you deal directly with a company or through a salesperson.

1. Your interests come first, before the interests of salespeople and companies.
2. If you choose to have a salesperson, you should expect to have your financial needs assessed by the salesperson and, when he or she makes a recommendation, to be offered products that meet your needs.
3. You should expect your instructions to be carried out faithfully. Your salesperson or company must not transact business which is unlawful.
4. You should expect your transactions to be handled with professionalism by a qualified salesperson. If you have any doubts you may inquire about the salesperson's qualifications or conduct with the appropriate regulatory body.
5. You should expect to have your personal information safeguarded and only used for the purpose for which it was originally collected, unless you have given permission for it to be used for other reasons. Your personal information may be divulged without your consent to law enforcement agencies when required or authorized by law.
6. If you choose to have a salesperson, you should expect to be informed if he or she has a "conflict of interest", and be given the opportunity to halt further dealings with the salesperson.
7. You are entitled to receive all relevant information before making a decision about a financial product. This includes product features, risks and benefits, the company(ies) involved, all fees that will be charged to you, how the salesperson is paid, and whether he or she may receive benefits from sales incentive programs. It also includes information on the existence of any business relationships that the salesperson knows of, with other companies or people, which may be relevant to your purchase.

8. You should expect to have any complaints dealt with in a timely and forthright manner. In the event that a dispute with your salesperson or company cannot be resolved, you should be given information, preferably in writing, about available avenues for resolving your complaint.

APPENDIX TWO - RIGHTS AND RESPONSIBILITIES NOTED IN IBC'S CODE

Right to be Informed	You can expect to access clear information about your policy, your coverage, and the claims settlement process. You have the right to an easy-to-understand explanation of how insurance works and how it will meet your needs. You also have a right to know how insurers calculate price based on relevant facts. Under normal circumstances, insurers will advise an insurance customer or the customer's intermediary of changes to, or the cancellation of a policy, at least thirty days prior to the expiration of the policy, if the customer provides information required for determining renewal terms of the policy at least forty-five days prior to the expiration of the policy. You have the right to ask who is providing compensation to your broker or agent for the sale of your insurance. Your broker or agent will provide information detailing for you how he or she is paid, by whom, and in what ways. Insurance companies will disclose their compensation arrangements with their distribution networks. Brokers and agents are committed to providing information relating to ownership, financing, and other relevant facts.
Responsibility to Ask Questions and Share Information	To safeguard your right to purchase appropriate coverage at a competitive price, you should ask questions about your policy so that you understand what it covers and what your obligations are under it. You can access information through brochures and websites, as well as through one-on-one meetings with your broker, agent, or company representative. You have the option to shop the marketplace for the combination of coverage and service levels that best suits your insurance needs. To maintain your protection against loss, you must promptly inform your insurance company or broker or agent of any change in your circumstances. Information required to determine the renewal terms of your policy must be provided at least forty-five days prior to the expiration of the policy.
Right to Complaint Resolution	Insurance companies, their brokers and agents are committed to high standards of customer service. If you have a complaint about the service you have received, you have a right to access your company's complaint resolution process. Your insurer, agent or broker can provide you with information about how you can ensure that your complaint is heard and promptly handled. Consumers may also contact the independent General Insurance OmbudService (www.giocanada.org).
Responsibility to Resolve Disputes	You should always enter into the dispute resolution process in good faith, provide required information in a timely manner, and remain open to recommendations made by independent observers as part of that process.
Right to Professional Service	You have the right to deal with insurance professionals who exhibit a high ethical standard, which includes acting with honesty, integrity, fairness and skill. Brokers and agents must exhibit extensive knowledge of the product, its coverage and its limitations in order to best serve you.
Right to Privacy	Because it is important for you to disclose any and all information required by an insurer to provide the insurance coverage that best suits you, you have the right to know that your information will be used for the purpose set out in the privacy statement made available to you by your broker, agent or insurance representative. This information will not be disclosed to anyone except as permitted by law. You should know that insurers are subject to Canada's privacy laws.

APPENDIX THREE - FCAC WEBPAGE ON RIGHTS AND RESPONSIBILITIES

Your Rights and Responsibilities



In Canada there are laws, voluntary codes of conduct and public commitments in place to protect consumers of financial products. FCAC ensures that Federally regulated financial institutions include all banks, and all federally incorporated or registered insurance companies, trust companies, loan companies, and co-operative credit associations that carry on business in Canada. Click on the link to view a list on the website of the Office of the Superintendent of Financial Institutions. Federally Regulated Financial Institutions comply with these.

What should you do if you feel your rights are not being respected?

Every federally regulated financial institution must have a complaint-handling process in place and a copy on file at FCAC. The complaint-handling process includes access to an independent dispute-resolution process, such as an ombudsman. You can use FCAC's complaint-handling process search tool to find a federally regulated financial institution's filed process.

To learn more about the steps involved in making a complaint, visit the Making a Complaint section of our website. If you feel that a federally regulated financial institution is not respecting your rights, contact FCAC.

Click on the links below to learn more about your rights and responsibilities as a consumer when you deal with a bank or a federally regulated trust, loan or insurance company.

- **Banking**
- **Credit cards**
- **Mortgages**
- **Credit and loans**
- **Investments**
- **Fraud**
- **Credit card fraud**
- **Debit card fraud**
- **Other**
- **Negative option billing**
- **Clear disclosure documents**
- **Receiving required documents in electronic format**
- **Tied selling**
- **Small businesses**

For a complete list of the obligations of federally regulated financial entities, visit the Laws, Regulations and Other Obligations section of FCAC's website.

Learn more about the financial industry's voluntary codes of conduct and public commitments.

Code of Conduct for the Credit and debit Card Industry in Canada

FCAC also oversees payment card network operators and the provisions of the Code of Conduct for the Credit and Debit Card Industry in Canada. Payment card network operators have agreed to incorporate the Code of Conduct into their networks' contracts, governing rules and regulations.

FCAC will monitor payment card networks' compliance with the Code of Conduct and issues raised by merchants. If you are a merchant and you have a complaint or a problem with a payment card network operator, visit the Making a Complaint section of our website to learn more about the steps you must take to make a complaint.

2. SUMMARY OF FINDINGS - FINANCIAL PRODUCT MANUFACTURERS RISK ASSESSMENT AND PRODUCT DISCLOSURE PRACTICES

Background

The broader objective of the Joint Forum Product Disclosure and Regulation initiative was to examine the responsibilities of financial product manufacturers, intermediaries and consumers in ensuring that consumers are offered suitable products and are able to make informed decisions. The initial focus of the initiative was on product manufacturers and their risk assessment and product disclosure practices.

This document summarizes the key findings of the research paper prepared by the Joint Forum Secretariat on international practices and standards for product manufacturers of financial products, as well as reports submitted to the Joint Forum by the Canadian Life and Health Insurance Association Inc. (CLHIA) and the Investment Funds Institute of Canada (IFIC) titled Managing Risk in Product Development: A Description of Practices in the Life Insurance Industry and Risk Assessment and Management During the Mutual Fund Product Development and Distribution Process, respectively. (Copies of the CLHIA and IFIC reports are provided as appendices to this document).

This high-level summary of key practices is based on the reports regarding investment funds and segregated funds. It is organized under the headings: Product Development and Approval, Post-Sale Review and Communication of Risk. A manufacturer's decisions about the implementation of specific practices will take into account a number of factors including its size, the number and range of products it manufactures and its history with these products.

In the case of products such as investment funds and segregated funds, the manufacturer is typically not in a position to directly assess the suitability of a fund to a particular investor; it is advisers that primarily perform this process.41

However, the manufacturer develops products that are designed to meet the needs of various sectors of investors with different risk appetites, investment objective and horizons: the individual investment decision as to which available product will be purchased is made, in most cases, when an investor sits down with an advisor. At this point the advisor is required to conduct a 'know-your-client' interview wherein specific information is obtained that establishes investment objective, time horizon and risk appetite. This information then informs the decision as to which investment is suitable for that individual. The work and processes of dealers and

[41] At the end of 2011, 91% of investment fund assets in Canada were acquired and held by investors through distribution channels involving the intermediation of an advisor, according to Investor Economics, Household Balance Sheet (updated and rebased forecast)(June 2012).

advisors who distribute such funds ensure the advisors know their products, that they know their clients, and that they will recommend funds that are suitable to the objectives, circumstances and risk tolerance of each client. This process occurs separately from the manufacturer but is an integral, and highly regulated, part of ensuring the investor is provided with the appropriate product. This is described in more detail in the CLHIA and IFIC reports in relation to investment funds and segregated funds.

Other products, such as term insurance or GICs, for example, which can be manufactured with a certain investment outcome or to cover a defined period of insurance, also come with certain risks that must be assessed and managed by manufacturers and disclosed to consumers although some of the risk information is left to the individual to consider. One such risk, purely for illustration, is that the rate of interest earned on a GIC may be lower than the rate of inflation resulting in a loss to the consumer in the real value of his investment.

When considering the responsibilities of financial product manufacturers, intermediaries and consumers in ensuring that consumers are offered suitable products and are able to make informed decisions, it should be considered whether the starting point should be to analyze these responsibilities in relation to all products that make up the household financial balance sheet[42]. An examination of that balance sheet shows that Canadians own a range of products that compete with each other in the market place. The ability to make informed decisions as to what products Canadian consumers should own requires, at a minimum, that they have access to comparable information allowing them to understand the risks and benefits of each of the products they own and those that are available to them. This would allow them to re-balance their financial assets as appropriate.

Product Development and Approval

(Primarily manufacturer processes, but in some cases distributor processes are inseparable)

- The product design process typically takes into account a number of factors including the risk profile, investment strategies and objectives, financial situation, financial capability and experience of the target audience. These factors are considered generally as it is not possible for a manufacturer to design the product to meet every possible investor's objectives and circumstances. This suitability analysis will take place, at least in the case of investment funds and segregated funds, between the advisor and the client.

- Written policies and procedures: establish clear roles and responsibilities; incorporate effective scrutiny and challenge; create layers of oversight; manage conflicts of interest; establish criteria for when abridged processes may be used; and account for changes in external environment. Likewise, distributors have policies and procedures in place to

[42] The Joint Forum was provided with an excerpt of the Household Balance Sheet, an analysis prepared by Investor Economics that indicates the relative size of holdings by Canadians of financial wealth products. The report confirms that Canadians hold many different types of financial assets with investment funds and segregated funds together comprising only about 1/3 of the overall total.

manage similar issues that may arise during the product distribution process, including trade reviews to confirm suitability of transactions

- Reviews of these policies and procedures are undertaken on a regular basis to ensure they are not unduly influenced by commercial pressures.

- A preliminary assessment of a proposed product determines the appropriate level of internal review based on, among other things, whether it is a new product or a material modification of an existing product.

- For new products or material modifications to existing products, a more detailed review is usually conducted, led by a committee or working group made up of representatives from all relevant sectors of the firm, including compliance, legal, finance, marketing, sales and operations.

- Decisions to approve, disapprove, or table the proposal are made by the firm's senior management.

- Stress tests built into the product approval process establish how the product is likely to perform under a variety of conditions, both within and outside of the design parameters.

Post-Sale Review

- Once a product has been approved and is being sold, internal controls include a process to review and monitor the actual product as well as the product development process.

- Products are periodically reviewed to determine whether they continue to meet the needs of the target market and whether they are performing in a manner that is consistent with the expectations of the manufacturer. Regular review is undertaken by distributors of the products they sell to ensure continuing compliance and to meet SRO 'know your product' obligations.

- Firms use both proactive and reactive post-sale information to make any necessary changes to the product or the product development process.

- Where a product review discloses issues with a product the manufacturer will, as appropriate, consider what, if any, actions need to be taken with respect to existing customers.

- Firms provide on-going support and help to distributors and customers during the product lifecycle, including resources to deal with questions about the product.

- The distributor/advisor assists the individual investor in understanding the suitability of the product relative to their individual risk tolerance. The processes and information to be collected by the distributor/advisor is highly prescribed by regulators and includes

collecting specific individual personal financial information to inform the purchase or investment decision.

Communication of Risks

- Firms typically develop complementary communications strategies for distributors and consumers based on regulatory requirements and differences in the capability of the two groups to understand information and their respective needs. Manufacturers work to ensure sufficient product information is provided to distributors so that they can meet their "know your product" regulatory obligations and so that they can provide appropriate product suitability assessments and product advice to customers.

- Sufficient detail is provided to consumers at the point of sale and subsequent to their investment, in a fair and balanced manner and in plain language to enable them to identify risks and potential benefits, limitations and features of the product, how it has performed historically, the costs of the product, how changes in the risks associated with an investment in the product affect the suitability or risk tolerance of the product, and recent developments that have affected or may affect the product's performance. The information required to be provided is highly prescribed by regulation[43].

- The release of a product is accompanied by a wide range of supports, including detailed, technical information about the product, sales and marketing materials, advisor training as well as plain language information about the product and its features, risks and other key information. Examples of the documents provided at the point of sale that contain risk disclosure are the Fund Facts and the Prospectus (in the case of mutual funds) and the Fund Facts and IVIC Information Folder (in the case of segregated funds).

- Concrete numerical examples illustrating past performance are accompanied by warnings about relying on this to predict future performance and advice about how this performance might be affected by changing conditions.

- Product information, sales concepts and numerical examples are reviewed and signed off by various business lines. This information is often contained in point of sale and continuous disclosure documents that are filed with regulators and must not contain any materials errors or misrepresentations.

[43] Mutual funds are required to include this information in the Management Report of Fund Performance that is required under National Instrument 81-106, Investment Fund Continuous Disclosure.

3. LIST OF PRODUCTS

Source: Extract of Investor Economics 2011 Household Balance Sheet Report (used with permission)

Mutual funds and segregated funds are the most mature financial products with established risk practices and processes. The following list of financial products is the most commonly held by Canadian households for the purpose of accumulating wealth.

Short-Term

- Cash accounts (savings, chequing, etc)
- Paper (T-bills, etc)
- Money market funds

Long-Term

Fixed-term

- GICs
- GIAs
- Market-linked

Fixed-income

- Canada Savings Bonds
- Provincial Savings Bonds
- Bonds
- Mortgage-backed Securities
- Fixed income investment funds

Equities

- Income trusts
- Common and preferred shares
- Equity and balanced investment funds
- Hedge funds
- Closed-end funds