

# Client Relationship Model Phase 2 (CRM2): Cost and Performance Reporting Requirements

Amendments to National Instrument 31-103  
*Registration Requirements, Exemptions and  
Ongoing Registrant Obligations*

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# Background

- Applicable to all dealers and advisers, with some application to investment fund managers
- Limited application to many exempt market client relationships, where:
  - No securities are held by the dealer
  - Client relationship is not ongoing
  - Dealer may not be in a position to know whether the client still owns securities
  - No reliable market value for exempt market securities can be determined

- CRM Phase I
  - Relationship disclosure information
  - Conflict of interest requirements
- CRM Phase II
  - Cost disclosure
  - Performance reporting

# Background

- Amendments effective July 15, 2013
- Harmonization
  - IIROC and MFDA to make amendments to their rules and guidance to materially conform to CRM2

# Transition period

IFM: Duty to provide information

Relationship disclosure information

Clarifications

Benchmarks

Cost disclosure

Pre-trade disclosure of charges

Trade confirmation - debt securities

Trade confirmation - deferred sales charges

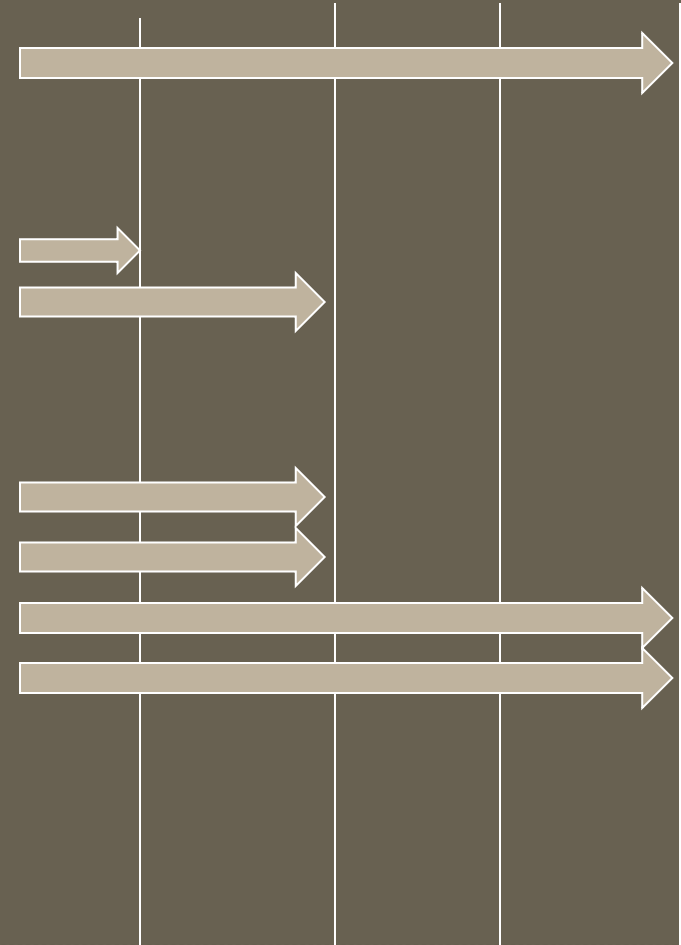
Report on charges and other compensation

2013

2014

2015

2016



# Transition period

Account statement

Clarifications

New account statement/additional statement

Position cost information

Performance reporting

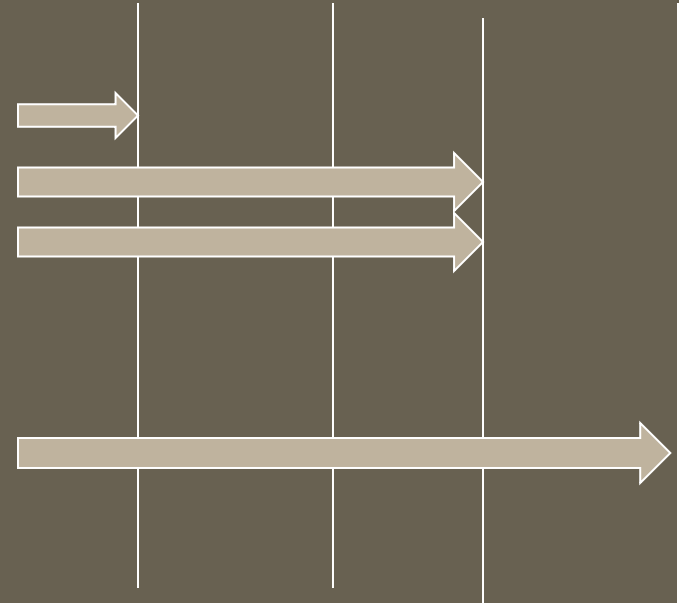
Investment performance report

2013

2014

2015

2016



# Application to IFMs

## 14.1.1 *Duty to provide information*

Effective July 15, 2016

- IFMs to provide dealers and advisers with information which includes:
  - 1) DSCs and any other charges deducted from the NAV of securities; and
  - 2) Trailing commission
- Dealers and advisors require this information to comply with client reporting requirements of:
  - 1) 14.12(1)(c) [*content and delivery of trade confirmation*]; and
  - 2) 14.17(1)(h) [*report on charges and other compensation*]
- 14.15 [*security holder statements*] discussed later



# Relationship disclosure information (RDI)

14.2 *Relationship  
disclosure information*

Effective July 15, 2013

- RDI has to be delivered to clients in writing (*except for a description of the products and services offered to clients*) [14.2(3)]
- Descriptions of “operating charge” and “transaction charge” [14.2(2)(f) and 14.2(2)(g)]
- Notification of new or increased operating charges [14.2(5.1)]
- Reduced requirements for dealers executing trades as directed by PMs [14.2(7)]
- Carve-out for permitted clients that are not individuals [14.2(6)]

# Relationship disclosure information (RDI)

14.2(2)(m) *Relationship  
disclosure information*

Effective July 15, 2014

## Investment performance benchmarks

- Explanation of benchmarks and options available to clients

# Cost Disclosure: Keep in Mind

- Focus on retail investors
  - Carve-outs for “permitted clients” that are not individuals
  - Applies to all dealers, advisers and IFMs
- Flexible delivery requirements
  - New disclosures can be combined or separate
  - No prescribed forms for reports
  - Prescribed notifications in “substantially” the form in the rule
  - Reports can be combined or separate

- Account opening:
  - Charges and incentive information pertaining to:
    - Operation of the account
    - Making, holding and selling investments
    - Other compensation received by the dealer or adviser
- Transaction:
  - Actual charges
- Annually:
  - Summary report of:
    - All charges
    - Trailing commissions or similar compensation tied to client's investments

# Cost disclosure: Pre-trade

## 14.2.1 *Pre-trade disclosure of charges*

Effective July 15, 2014

- Disclosure of charges a client will have to pay or a reasonable estimate
- For mutual funds, disclosure of:
  - Management fee;
  - Sales charge or DSC, and other redemption or short-term trading fees;
  - Trailing commissions or embedded fees;
  - Options regarding front-end loads; and
  - Switch or change fees
- Can provide disclosure verbally
- Carve-outs for permitted clients that are not individuals, dealers trading as directed by PMs, and managed accounts

# Cost disclosure: Debt securities

14.12 *Content and  
delivery of trade confirm*

Effective July 15, 2014

- Trade confirmation – disclosure for debt securities transactions
- In force July 15, 2014- must report:
  - (1) Security's annual yield (purchases only)
  - (2) Compensation from debt securities:
    - Total \$ amount of compensation; or
    - Total \$ amount of any commission paid to the firm, plus a general notification (mark- up/mark-down, service charge)

# Cost disclosure: Annual report

14.17 *Report on charges  
and other compensation*

Effective July 15, 2016

- Annual summary of all charges incurred by the client and all other compensation received by the registered firm that relates to the client's account, including:
  - Operating charges
  - Transaction charges
  - Payments received from issuers of securities or other registrants in relation to registerable services to client
  - Trailing commissions
  - Debt security transactions

# Cost disclosure: Annual report

14.17 *Report on charges  
and other compensation*

Effective July 15, 2016

- Sample annual report in NI 31-103CP
- Delivery:
  - With performance report
  - With client statements or within 10 days of client statements
  - Account-based (option for consolidated reporting)
  - Client-name securities reported with account traded through
- Carve-out for permitted clients that are not individuals



# Cost disclosure: First report

- Report on charges and other compensation:
  - If reporting on a calendar year basis, first report for the period from January 1 – December 31, 2016

Examples: If you have a non-calendar year end:

- Earliest date client would receive first report is July 15, 2016
- Latest date client would receive first report is July 14, 2017

# Client statements: Account statements

14.14 *Account  
statements*

Effective July 15, 2013

- Minor clarifications effective July 15, 2013
  - Adviser to deliver monthly statement if requested
  - Carve-out transfers of securities from requirements to provide price per security and total value of transaction

# Client statements: Account statements

14.14 *Account statements*

Effective July 15, 2015

- New account statement requirements:
  - Must cover *all* transactions carried out during the period, and
  - Securities *held* by the dealer/ adviser in the account (e.g.. Nominee name securities)
- Addition of notification relating to:
  - Estimated market value (if applicable)
  - Coverage by investor protection fund
  - Which securities held are subject to a DSC if sold
- Delivered every 3 months, or monthly if requested or a transaction was effected

# Client statements: Additional statements

14.14.1 *Additional statements*

Effective July 15, 2015

- Additional Statement requirements:
  - At least quarterly, covering securities not held by the dealer/ adviser (e.g. client-name securities) if:
    - The registrant has trading authority
    - The registrant receives trailing commissions or similar continuing payments relating to a security
    - The security is issued by a scholarship plan, mutual fund, or a labour-sponsored fund and the dealer/ adviser is the dealer/ adviser of record
- Content same as required for account statements, but must include the name of the party that holds or controls each security, and a description of the way it is held

# Client statements: Additional statements

14.14.1 *Additional statements*

Effective July 15, 2015

- Delivery:
  - Every 3 months (for advisers, client may request monthly)
  - Combine with account statement (if applicable) or accompany it
  - May be delivered within 10 days of account statement (if applicable)
- Carve-out for permitted clients that are not individuals

# Client statements

- Account statements and additional statements:
  - Additional statements and account statements must be delivered at least quarterly, or monthly if requested. As such, it would apply to the month or quarter immediately following July 15, 2015.

# Position cost

## 14.14.2 *Position cost information*

Effective July 15, 2015

- Must provide either book cost or original cost of securities (must include a definition)
  - Delivery:
    - For every security in an account or additional statement
    - Combine with account/additional statement or in a separate document accompanying statement
    - If delivered in a separate document, within 10 days of statement and must include market value information as a comparator
  - Carve-out for permitted clients that are not individuals

# Security holder statements

14.15 *Security holder statements*

Effective July 15, 2015

- IFM must deliver if no adviser or dealer of record for a security holder
- Annual statement which includes:
  - Same transactional information as account statements
  - Same information as additional statements
  - Position cost information



# Market valuation methodology

## 14.11.1 *Determining market value*

Effective July 15, 2015

- Prescribed methodology
  - If security issued by an investment fund which is not listed on an exchange – determined by reference to NAV
  - Any other security – the amount the firm reasonably believes to be its market value
  - Hierarchy of valuation methods based on availability of relevant information
- If reasonably believe that market value cannot be determined, must say so and exclude from calculations in client statements and performance reports

# Performance reporting

14.18 *Investment performance report /*  
14.19 *Content of investment*  
*performance report*

Effective July  
15, 2016

- Must be account-based (option for consolidated report)
- For each 12-month period, must contain:
  - 1) Market value of cash and securities at beginning and end of period
  - 2) Market value of all deposits/withdrawals/transfers for period and since account opening
  - 3) Change in market value of account for period and since inception using prescribed formulas
  - 4) Annualized total percentage return for 1, 3, 5 and 10 years and since inception, calculated using MWRR

# Performance reporting

*14.20 Delivery of report on charges  
and other compensation and  
investment performance report*

Effective July  
15, 2016

- Delivery:
  - Together with report on charges and other compensation
  - May be combined with, accompany, or delivered within 10 days of client statements
- Carve-outs for:
  - Permitted clients that are not individuals
  - Dealers executing trades as directed by a PM
  - A client's account less than 12 months old

# Performance reporting

- Investment performance report:
  - If reporting on a calendar year basis, first report for the period from January 1 – December 31, 2016

Examples: If you have a non-calendar year end:

- Earliest date client would receive first report is July 15, 2016
- Latest date client would receive first report is July 14, 2017

# Performance reporting

- Additional transition issues:
  - Firms can continue to report a return calculated using TWRR, but must also report using MWRR for annual statement
  - For existing accounts, if the market values since account opening are not available, firms can use the market value as of July 15, 2015 as a baseline

# Planning for CRM2

- Be prepared for changes to processes, systems and business model, if applicable;
- Build compliance into operational processes and systems;
- Update policies and procedures; and
- Train staff.

# Questions