

CRM Phase 2 – Cost and Performance Reporting *A Primer on Implementation*

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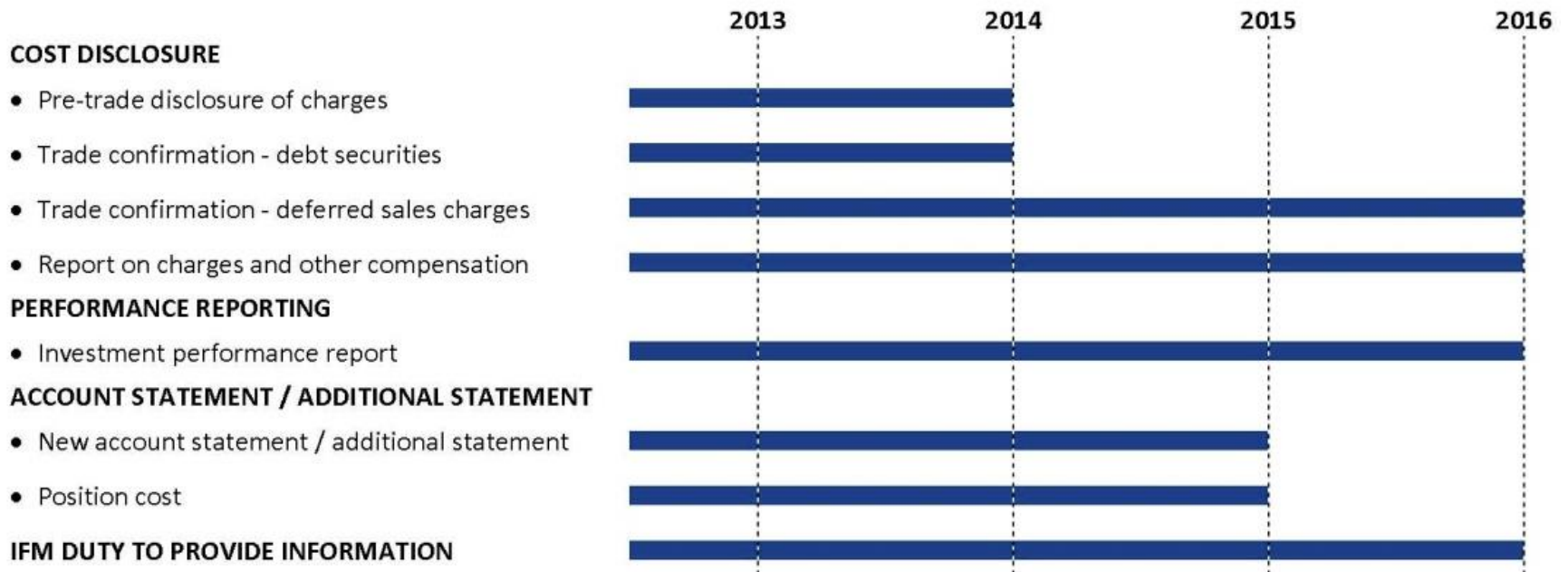
Presentation outline

- **Update**
 - * **relationship disclosure information**
 - * **cost disclosure**
 - * **client statements**
 - * **market valuation methodology**
 - * **performance reporting**

Themes

- * **Focus on retail investors**
 - carve-outs for “permitted clients” that are not individuals
- * **Applicable to all dealers and advisers**
 - requirements almost all the same regardless of registration category
- * **Flexible delivery requirements**
 - new disclosures can be combined or separate
 - no prescribed forms for reports
 - prescribed notifications in “substantially” the form in the rule

Transition



IIROC harmonization

- **Consistent with the majority of IIROC's CRM1 Amendments, the proposed IIROC CRM2 Amendments will apply only to Retail Customers**
- **Proposed other differences with CSA CRM2 requirements are as follows:**
 1. Disclosure of compensation taken debt security trades will be limited to trades involving Retail Customers
 2. The IIROC "market value" definition, which is materially the same as the CSA's, will be used for both:
 - * Dealer Member solvency reporting to IIROC (including the calculation of client account margin deficiencies); and
 - * Security position valuation and overall investment performance reporting to clients.

IIROC harmonization

- **Proposed other differences with CSA requirements are as follows** *(continued)*:
 3. The IIROC version of “book cost” and “original cost” definitions provides further detail on how these cost amounts are to be determined for both long and short security positions
 4. The IIROC version of the additional statement, entitled “Report on client positions held outside of the Dealer Member”, does not contemplate reporting on cash balances that are neither held or controlled by the Dealer Member
 5. IIROC is proposing a later implementation date for the new relationship disclosure requirement relating to investment performance benchmarks – July 15, 2016

IIROC harmonization

- **Proposed other differences with CSA requirements are as follows** *(continued)*:
 6. The IIROC requirements clarify that if the client is sent both a consolidated report on charges and other compensation and a consolidated investment report, both reports must consolidate information for the same accounts, such that the reports may be compared
 7. The IIROC requirements do not require the sending of an annual report on charges and other compensation when there are no charges or compensation to report for the year

Relationship disclosure information

- **Notification of new or increased operating charge**
[s. 14.2(5.1)]
- **Reduced requirements for dealer executing trades as directed by PM** [s.14.2(7)]
- **Carve-out for permitted client that is not an individual**
[s.14.2(6)]
- **Minor enhancements to existing relationship disclosure**
[s. 14.2(2)] - in force July 15, 2014
 - * general explanation of benchmarks and options available to client
 - * for SPDs, explanation of terms that if those terms are not met, might cause loss in the plan

Cost disclosure

- **Relevant information at the relevant times...**
- **At account opening, enhanced general cost (“charges”) and advisor incentive information**
 - * operation of the account
 - * making, holding and selling of investments
 - * other compensation received by the dealer or advisor
- **When transacting, new disclosure of actual charges**
- **Annually, new summary of**
 - * all charges actually incurred by the client
 - * dollar amount of trailing commissions or similar compensation tied to a client’s investments

Cost disclosure: pre-trade

- **Pre-trade disclosure of charges** [s. 14.2.1]
 - * In force July 15, 2014
 - * Prior to the registrant accepting the client's order, specific disclosure of the charges a client will have to pay or a reasonable estimate
 - * Verbal disclosure sufficient
 - * Carve-outs
 - permitted client that is not an individual
 - dealer executing trades as directed by adviser
 - managed accounts

Cost disclosure: trade confirmation

- **Trade confirmation, disclosure for debt security transactions** [s. 14.12(b.1) and s. 14.12(c.1)]
 - * In force July 15, 2014
 - * Two new requirements
 1. the security's annualized yield (*purchase only*)
 2. compensation taken from debt securities transactions, either
 - (a) total \$ amount of compensation, or
 - (b) total \$ amount of any commission paid to the firm + general notification (mark-up/mark-down, service charge)

Client statements

- **Client statements consisting of**
 - * account statement – at least quarterly, covering
 - transactions carried out during the period
 - securities held by the dealer or adviser
 - * additional statement - quarterly, covering
 - some securities held in client name
 - unlike the account statement, there is no client option to receive this report on a monthly basis

Client statements

- **Account statement [s. 14.14]**
 - * Minor clarifications
 - adviser to deliver monthly statement if requested
 - carve-out transfers from requirements to provide price per security and total value of transaction
 - * “NEW” account statement in force July 15, 2015
 - * Disclosing
 - all account activity during the period
 - all security and other positions held in the account as at the end of the period (e.g., all nominee and client name positions held or controlled by the firm for the client)

Client statements

- **Account statement [s. 14.14]**
 - * In force July 15, 2015
 - * Position cost information [s. 14.14.2]
 - either book cost or original cost (must include definition) *can deliver separately
 - * Notification re: estimated market value, if applicable
 - * Investor protection fund – whether covered and name
 - * Which securities subject to deferred sales charge if sold
 - * Every 3 months, or monthly (if requested or transaction was effected)

Client statements

- **Additional statement [s. 14.14.1]**
 - * In force July 15, 2015
 - * Covering securities not held in account (e.g., client name securities) where
 - the registrant has trading authority
 - the registrant receives continuing payments tied to the securities (e.g., trailing commissions)
 - the security is issued by a scholarship plan, a mutual fund or labour-sponsored investment fund and the dealer/adviser is the dealer/adviser of record
 - * Content corresponds with holdings section of account statement, but also the name of the party that holds or controls each security and description of the way it is held

Client statements

- **Delivery of account statement, additional statement and position cost information**
 - * Every 3 months
 - * Flexible delivery
 - combined or separately within 10 days of account statement
 - if position cost sent in a separate document, must include market value information
 - * Carve-outs
 - Permitted client that is not an individual

Market value methodology

- * In force July 15, 2015
- * Prescribed methodology [s.14.11.1]
 - o security issued by an investment fund which is not listed on an exchange - determined by reference to NAV
 - o any other security – the amount the firm reasonably believes to be its market value
 - hierarchy of valuation methods based on availability of relevant information
 - o if reasonably believe that cannot determine market value, must say so and exclude from calculations in client statements and investment performance report

Cost disclosure: annual report

- **Report on charges and other compensation [s. 14.17]**
 - * In force 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
- ... sample report in CP***

Performance reporting

- **Investment performance report [s. 14.18, s. 14.19]**
 - * In force July 15, 2016
 - * New performance report to be provided annually with the account statement so that investors will know
 - how much they invested and what it is worth today
 - deposits and withdrawals for past year and since inception of account
 - what are their percentage returns for the specified periods
 - * Carve-outs
 - permitted client that is not an individual
 - dealer executing trades as directed by adviser
 - a client's account less than 12-months old
- ... **sample report in CP**

Performance reporting

- **Investment performance report [s. 14.18, s. 14.19] (continued)**
 - * For each 12-month period, an investment performance report containing
 - market value of cash and securities as at beginning and end of period
 - market value of all deposits/transfers, and all withdrawals/transfers, for period as well as since account opening
 - change in market value of account since inception and for period using prescribed formulas
 - annualized total percentage return for 1, 3, 5 and 10 years and since inception
 - using MWRR

... **sample report in CP**

Performance reporting

- **Investment performance report [s. 14.18, s. 14.19] (continued)**
 - * Transition matters
 - for existing accounts, if the market values since account opening are not available, July 15, 2015 can be used as a baseline date
 - earliest date client would receive first report
 - July 15, 2016
 - latest date client would receive first report
 - July 14, 2017
 - if reporting on a calendar year basis, first report for the period from Jan 1, 2016 to Dec 31, 2016

Annual report delivery

- **Report on charges and other compensation and investment performance report**
 - * Delivery
 - separately or together
 - flexible (combined with/accompany/within 10 days of client statements)
 - account-based (option for consolidated report)
 - client name securities reported with account traded through
 - * Carve-outs
 - permitted client that is not an individual