

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

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

Registrant Outreach Seminar
November 21, 2013

OSC

ONTARIO SECURITIES COMMISSION

Disclaimer

The views expressed in this presentation are the personal views of the presenting staff and do not necessarily represent the views of the Commission or other Commission staff.

The presentation is provided for general information purposes only and does not constitute legal or accounting advice.

Information has been summarized and paraphrased for presentation purposes and the examples have been provided for illustration purposes only.

Information in this presentation reflects securities legislation and other relevant standards that are in effect as of the date of the presentation.

The contents of this presentation should not be modified without the express written permission of the presenters.

Presentation Outline

- Substance of amendments
 - limited application to IFMs
 - 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

COST DISCLOSURE

- Pre-trade disclosure of charges
- Trade confirmation - debt securities
- Trade confirmation - deferred sales charges
- Report on charges and other compensation

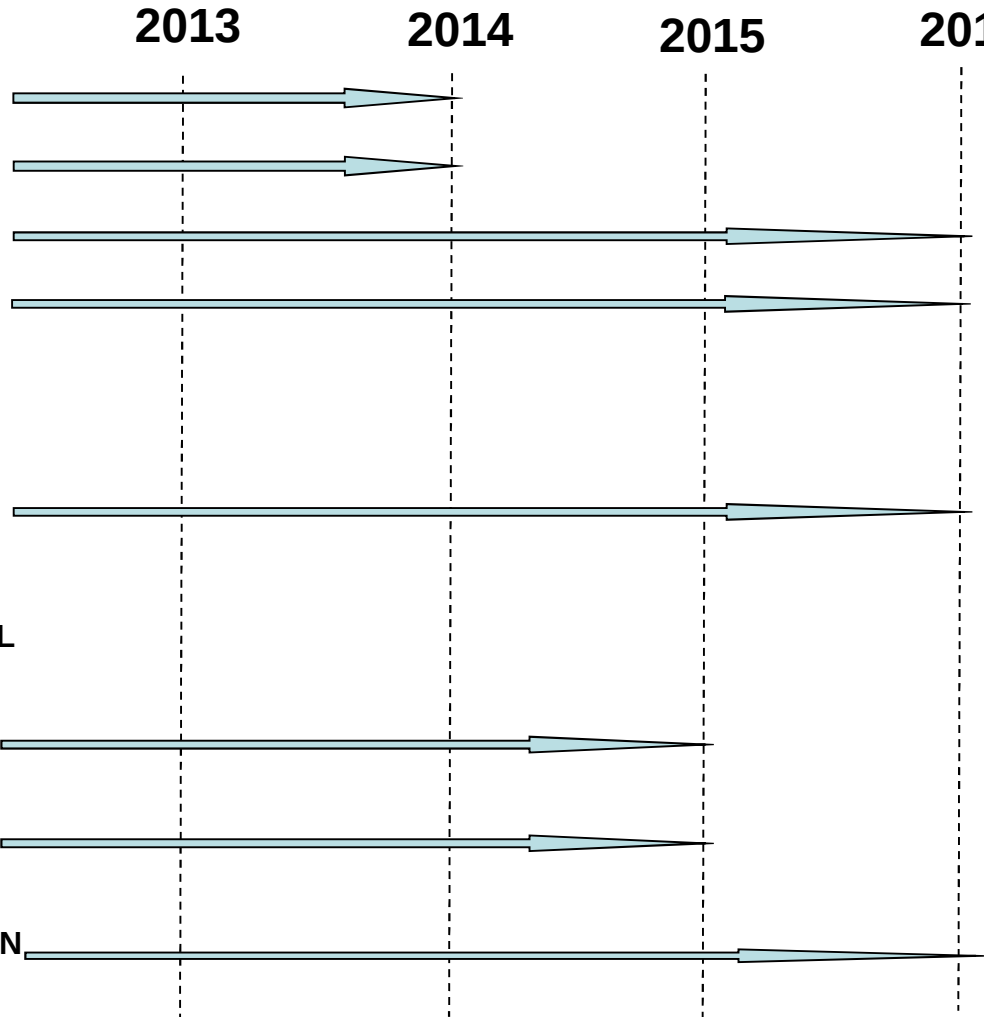
PERFORMANCE REPORTING

- Investment performance report

ACCOUNT STATEMENT / ADDITIONAL STATEMENT

- New account statement / additional statement
- Position cost information

IFM DUTY TO PROVIDE INFORMATION



Limited application to IFMs

- Limited application of Part 14 to IFMs [s. 14.1]
- Duty to provide information [s. 14.1.1]
 - In force July 15, 2016
 - IFMs to provide dealers and advisers with information they need to comply with new client reporting requirements
 - deferred sales charges and any other charges deducted from the net asset value of securities
 - trailing commissions

Relationship disclosure information

- Clarifications to existing relationship disclosure [s. 14.2(2)], including
 - “operating charge” – defined in s. 1.1
 - *any amount charged to a client by a registered firm in respect of the operation, transfer or termination of a client’s account and includes any federal, provincial or territorial sales taxes paid on that amount*
 - “transaction charge” – defined in s. 1.1
 - *any amount charged to a client by a registered firm in respect of a purchase or sale of a security and includes any federal, provincial or territorial sales taxes paid on that amount*
 - delivery format (mostly in writing)

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

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 – at least quarterly, covering some securities held in client name

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
 - Covering
 - *all* transactions carried out during the period
 - note: securities *held* by the dealer/adviser *in the account* (e.g., nominee name securities)

Client statements

- Account statement [s. 14.14] (*continued*)
 - Additions to account portion of statement
 - 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 account portion 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

- Additional statement [s. 14.14.1] (*continued*)
 - Every 3 months (for advisers, client may request monthly)
 - Flexible delivery
 - combined with account statement
 - accompany account statement
 - within 10 days of account statement
 - Carve-outs
 - Permitted client that is not an individual

Client statements

- Position cost information [s. 14.14.2]
 - In force July 15, 2015
 - Either book cost or original cost (must include definition)
 - Deliver position cost information for securities reported in account statement and additional statement every 3 months
 - combined with an account/additional statement
 - as a separate document accompanying statement
 - as a separate document within 10 days of statement (must include market value information)
 - Carve-outs
 - Permitted client that is not an individual

Client statements

- Position cost information [s. 14.14.2] (*continued*)
 - Cost of security positions as comparator for market value
 - “book cost” – defined in s. 1.1
 - *the total amount paid to purchase a security, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations*
 - “original cost” – defined in s. 1.1
 - *the total amount paid to purchase a security, including any transaction charges related to the purchase*

Client statements

- Security holder statements [s. 14.15]
 - In force July 15, 2015
 - If there is no dealer or adviser of record for a security holder on the records of an IFM
 - Annually
 - transactional information in account statement
 - information in additional statement
 - position cost information
- Scholarship plan dealer statements [s.14.16]
 - In force July 15, 2015
 - If not registered in another dealer or adviser category, may deliver annually
 - transactional information in account statement
 - information in additional statement

Market valuation methodology

- In force July 15, 2015
- Prescribed methodology [s.14.11.1]
 - 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 cannot determine market value, must say so and exclude from calculations in client statements and investment performance report

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 dealer or adviser
- When transacting, new disclosure of actual charges
- Annually, new summary of
 - all charges actually incurred by a client
 - dollar amount of trailing commissions or similar compensation tied to a client’s investments

Cost disclosure

- 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

- Pre-trade disclosure of charges [s. 14.2.1]
(*continued*)
 - For mutual funds, we expect a description of each of the following and how they may affect the investment
 - the management fee
 - the sales charge or deferred sales charge and any other redemption fees or short-term trading fees
 - any trailing commission, or other embedded fees
 - any options regarding front load ends
 - switch or change fees

Cost disclosure

- 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 annual yield (*purchase only*)
 2. compensation 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)

Cost disclosure

- 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
 - unpaid amount of enrolment fees - SPDs

Cost disclosure

- Report on charges and other compensation [s. 14.17]: (*continued*)
 - Delivery
 - together with investment performance report
 - 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
 - ... *sample annual 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

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 annual report in CP*

Performance reporting

- Investment Performance Report [s. 14.18, s. 14.19] (*continued*)
 - Delivery
 - together with report on charges and other compensation
 - flexible (combined with/accompany/within 10 days of client statements)
 - account-based (option for consolidated report)
 - client name securities reported with account traded through

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

Performance reporting

- Scholarship plans [subsection 14.19(4)]
 - total amount client has invested
 - total amount returned to the client if the client ceased to make prescribed payments
 - reasonable projection of future payments to designated beneficiary
 - a summary of any terms of the plan that, if not met by the client or the client's designated beneficiary, might cause loss

Questions?

