Draft Regulation

Securities Act
(R.S.Q. c. V-1.1, s. 331.1, pars. (1), (3), (4.1), (8), (11), (26) and (34), and s. 331.2)

Regulation to amend Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations

Notice is hereby given by the *Autorité des marchés financiers* (the "Authority") that, in accordance with section 331.2 of the *Securities Act*, R.S.Q. c. V-1.1, the following Regulation, the text of which is published hereunder, may be made by the Authority and subsequently submitted to the Minister of Finance for approval, with or without amendment, after 90 days have elapsed since its publication in the Bulletin of the Authority:

- *Regulation to amend Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations.*

Draft amendments to the following policy statement are also published hereunder :

- *Amendments to Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations.*

Request for comment

Comments regarding the above may be made in writing by **September 14, 2012**, to the following:

M^{e} Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^{e} étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
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Further information

Further information is available from:

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June 14, 2012

NOTICE AND REQUEST FOR COMMENT ON PROPOSED AMENDMENTS TO

REGULATION 31-103 RESPECTING REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

AND TO

POLICY STATEMENT TO REGULATION 31-103 RESPECTING REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

June 14, 2012
(2nd Publication)

Cost Disclosure, Performance Reporting and Client Statements

Introduction

The Canadian Securities Administrators (CSA or we) are seeking comment on proposed amendments to *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (Regulation 31-103) as well as *Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (the Policy Statement). We refer to Regulation 31-103 and Policy Statement as the "Regulation".

The proposed amendments set out requirements for reporting to clients, relating to investment charges, investment performance and client statements. These requirements are relevant to all categories of registered dealer and registered adviser, with some application to investment fund managers.

The proposed amendments would apply in all CSA jurisdictions, and we would expect the requirements for members of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) (together referred to as the self-regulatory organizations or SROs) to be materially harmonized.

The purpose of this Notice is to summarize and explain the significant changes in this proposal (the 2012 Proposal) compared with the proposal published for comment on June 22, 2011 (the 2011 Proposal). We reviewed the 83 comment letters received on the 2011 Proposal, conducted further research on investor behaviour, knowledge and practices, and held additional consultations with industry groups. In formulating the 2012 Proposal, we have taken into account the comments and have undertaken further research on investor issues and consultation with industry. We thank everyone who participated for their input.

Among the key issues to be discussed in this Notice:

- Establishing a common baseline for registrant requirements
- Disclosing trailing commissions and some commissions in fixed-income transactions
- Expanding the account statement into a client statement
- Establishing a method for determining market value
- Mandating the dollar-weighted method of calculating percentage return
- Requiring additional disclosure information for scholarship plans

The comment period ends on **September 14, 2012.**

Purpose of the proposed amendments and impact on investors

This project, aimed at the disclosure of charges and other compensation and reporting on performance of investments, is an important investor-protection initiative. Research conducted by the CSA shows that investors often don't know the answers to two basic questions about their investments – (1) What did you pay? and (2) How did your investments perform? We believe that this is a large hole in investor understanding that must be filled. The 2012 Proposal is designed to give investors fundamental information that they can use to assess their investments.

Information about charges related to investments is crucial – we believe that investors want this information and are entitled to receive it. Charges and other compensation received by a dealer or adviser are often embedded in the cost of a product or buried in the prospectus, or are only briefly referenced when an account is opened. Under the 2011 and 2012 Proposals, this information would be provided at relevant times, such as at account opening, at the time a charge is incurred and on an annual basis.

The same situation exists with reporting on investment performance. If investors receive performance information at all, it is often complex and difficult to understand. We expect that providing investors with clear and meaningful investment performance reporting will assist them in making decisions about meeting their performance goals and objectives, and in evaluating the investment advice they receive from their registrants.

In addition to revising some of the 2011 Proposal, the 2012 Proposal would expand current account statement requirements to provide for a more comprehensive "client statement".

Background

The CSA have been developing requirements in a number of areas related to a client's relationship with a registrant. This initiative is referred to as the Client Relationship Model (CRM) Project. The first phase of the CRM Project included relationship disclosure information delivered to clients at account opening and comprehensive conflicts of interest requirements, and was incorporated into the Regulation when it came

into force on September 28, 2009. The 2011 and 2012 Proposals represent the second phase of this project.

Summary of comments to the 2011 Proposals and CSA responses

A summary of comments on the 2011 Proposal, together with our responses, is contained in Appendix A to this Notice.

Contents of this Notice

This Notice is organized into the following sections:

1. Key issues and decisions since the 2011 Proposal

Our review of comments received, combined with further research and industry consultation, has led us to make certain key decisions which are found in the 2012 Proposal.

(i) Disclosure of trailing commissions

We continue to propose that registered firms be required to disclose the dollar amount of trailing commissions they have received. Research shows that most investors are not aware of this type of compensation. When trailing commissions are disclosed, in the Fund Facts document and in a mutual fund prospectus, they are shown as a percentage of fund assets. We believe that this information expressed in dollar terms will provide investors with a better understanding of the fees they pay and the incentives their dealer or adviser receives.

Trailing commissions are typically associated with mutual fund products, but this proposal is not limited to mutual funds. The proposed disclosure would apply to all investment products that pay commissions that are similar in substance to trailing commissions.

This aspect of the 2011 Proposal sparked the largest number of comments, both in letters and our industry consultations. Most industry comments suggested that requiring registrants to disclose the dollar amount of trailing commissions was unnecessary, would be confusing to investors and would result in a sizable cost to industry without providing an overall benefit. We do not agree. We acknowledge the potential costs to industry, but believe that informing the investing public is worth this cost.

Our research suggests that mutual fund investors do not understand trailing commissions, which are a significant component of the ongoing price of a typical mutual fund investment. Research shows that most retail investors

- rely heavily on the advice of their registered dealer when deciding when to buy, sell or hold securities
- do not realize that they are being indirectly charged trailing commissions on an ongoing basis
- do not realize that trailing commissions are paid to their dealer by the investment fund manager of their mutual funds for as long as they stay invested in the fund

Some regulators in other countries are moving to ban compensation models such as those involving trailing commissions altogether. We are not proposing to do so. We believe different dealer compensation models can offer benefits to investors. However, it is essential that there be a significant increase in the transparency to investors of the compensation their dealers or advisers receive. We think this means disclosure that is complete, upfront and understandable to the average investor

A one-time mention in an offering document of trailing commissions expressed as a percentage of the client's investment in a single fund does not meet this test. Adding a compensation report delivered to a client every year that includes the actual dollar amount of all trailing commissions generated by the client's portfolio would go a long way towards the goal of providing real transparency.

The purpose of trailing commissions is to compensate registered dealers (which the mutual fund industry refers to as "advisors") for advice they give their clients. The industry says that there is value in that advice. We agree that advice is valuable. It is our belief that, if implemented, this proposal will help investors understand and assess the costs and benefits of the advice they receive and in so doing, become more informed consumers of that advice. The industry in turn, will benefit from a deepened advisory relationship with its clients.

We acknowledge that investment products sold by financial services firms that are not under CSA or CSA and SRO oversight would not have the same requirement to disclose their compensation. While we are sympathetic, we note that we can only make regulations within our jurisdiction. The fact that other segments, including banks and insurance companies, would not be required to comply with corresponding requirements for non-securities investments is not a reason to reduce the level of disclosure that we believe is necessary for securities investors.

Investment fund managers

We understand that currently, dealers and advisers may not have all of the information they would need to comply with the proposed disclosure of the dollar amount of trailing commissions paid to dealers in respect of clients' investments. We therefore propose to require that investment fund managers provide that information to them.

(ii) Disclosure of fixed-income commissions

Investor advocates commented that pricing and compensation in the fixed-income world are difficult to understand and any attempt at providing transparency in this regard would be welcomed. We also heard from those in the mutual fund industry that the proposals related to reporting on embedded compensation were disproportionately related to their products.

We are proposing to require registrants to report the dollar amount of commissions paid to dealing representatives on fixed-income transactions. Industry consultation indicates that these amounts are readily available and are at least a significant part of the incentives for a dealing representative.

Issue for comment

In the interest of making fixed-income transactions more transparent, we invite comments on whether it is feasible and appropriate to mandate the disclosure of all of the compensation and/or income earned by registered firms from fixed-income transactions. This would include disclosure of commissions earned by dealing representatives as well as profits earned by dealers on the desk spread and through any other means.

(*iii) Expanded client statement*

In the notice of publication of the 2011 Proposal, we indicated our intention to conduct continuing work on what securities should be included in reporting to clients. We discuss the research we undertook in connection with this issue in section 2 of this Notice. It shows that retail investors do not understand the ways in which their investments may be held (i.e. in nominee name or client name), and want regular reporting on all of the securities they own.

The proposed client statement would have three principal sections. The client would see transactions carried out during the reporting period in the first section; reporting on securities held by the registrant in nominee name or certificate form in the second section; and reporting on some securities held in client name in the third section. The third section of the client statement would cover any securities of a client that are held in client name with the issuer of the security where any of the following apply:

- the registrant has trading authority over the security

- the registrant receives continuing payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the issuer or any other party

- the security is a mutual fund or labour sponsored fund

A client statement only needs to include the sections that are relevant to the client. There is no requirement to include blank sections.

Clients would also receive information about any investor protection fund coverage that applies to the account.

Issue for comment

We understand that all securities transactions are carried out through an account, even when the securities are not held in that account. We have drafted the Regulation 31-103 on this understanding and invite comments on the practicality of this or other approaches to including the securities listed in section 14.14(5.1) in client statements and performance reports.

Exempt-market securities

We recognize that it is not always possible for a registrant to determine reliably whether a client still owns a security that was issued in client name, as is often the case in the exempt market. It is also often the case that a market value for exempt market securities cannot be reliably determined. We do not believe it is in the interests of clients to receive unreliable information. The criteria we have set out for client statements would mean that, in many cases, investors who own exempt market securities would only receive transaction information about those securities in the client statements sent by their dealers.

Investors in the exempt market that we surveyed are generally satisfied with the level of reporting they receive and understand how their investments are held. Our research also suggests that many of these investors do not expect the amount of information about exempt market securities in their client statements to be the same as it is for publicly traded securities if they do not have an ongoing relationship with the registrant that sold them the securities, as is sometimes the case with exempt market dealers.

Book cost information

Under the 2012 Proposal, investors would see the book cost information for each security position included in the client statement, and would be able to assess how well individual securities are performing by comparing their book cost to their current market value. A definition of book cost is included in Regulation 31-103. This is a change from the 2011 Proposal, where we had proposed that original cost be provided as the comparator for market value. We made the change because original cost is not adjusted for reinvested earnings, returns of capital or corporate reorganizations. We have found that original cost is not a term that is familiar to most investors and it would be potentially confusing for registrants to have to explain the uses and limits of the original cost measurement to their clients. Book cost is a more widely used measure, familiar already to some investors, that takes the adjustments noted above into consideration

The requirements in section 14.14 [*client statements and security holder statements*] for investment fund managers in respect of security holders for whom there is no dealer or adviser of record are carried forward with additions to the information to be disclosed that correspond to the requirements for other registered firms.

(iv) Common baseline requirements for registrants

One of the goals of this project is to arrive at a proposal with respect to reporting on charges and other compensation and performance that establishes a common baseline across registration categories. This has not always been the case. In fact, both self-regulatory organizations (IIROC and MFDA) have adopted performance-reporting proposals that were different from each other and different from the CSA proposals. A large number of comment letters addressed this issue, specifically asking that standards be harmonized so that registrants who operate in more than one registration category are not asked to adopt one set of rules, only to have to adopt a different set of rules shortly thereafter. Both SROs have representatives on this project committee, and both have agreed to suspend implementation of their performance-reporting requirements as they await the results of the CSA project.

(v) Percentage return calculation method

We are proposing to mandate that registrants use the dollar-weighted method in calculating the percentage return on a client's account or portfolio, in order to promote consistency and comparability in investor reporting from one registrant to another.

We had previously considered permitting registrants to choose between a time-weighted and dollar-weighted performance calculation method. We have decided to mandate the dollar-weighted method because it most accurately reflects the actual return of the client's investments. This is in keeping with one of the main themes of the project – allowing investors to measure how their investments have performed.

Time-weighted methods are generally used to evaluate the registrant's performance in managing an account, as the returns are calculated without taking into consideration any external cash flows. These methods isolate the portion of an account's return that is attributable solely to the registrant's actions. The philosophy behind time-weighted methods is that a registrant's performance should be measured independently of external cash flows, because contributions and withdrawals by an investor are out of the registrant's control.

Issue for comment

We invite comments on the benefits and constraints of the proposal to mandate the use of the dollar-weighted method, in particular as they relate to providing meaningful information to investors.

We are not prohibiting the use of the time-weighted method, but if a registered firm uses such a method, it must be in addition to the dollar-weighted calculation.

(vi) Market valuation methodology

The 2012 Proposal sets out a methodology for registrants to use to determine the market value of securities in client reports. This replaces the guidance that was proposed in the 2011 Proposals and would ensure that consistent and reliable standards will apply in client reports.

Proposed section 14.11.1 [*determining market value*] would apply a hierarchy of methodologies reflecting available information:

- wherever possible, data from a marketplace would be used
- for securities not traded on a marketplace, other market reports such as inter-broker quotes would be used
- where neither of these methods is available, a firm must use observable market data or inputs and failing that, unobservable inputs and assumptions, consistent with International Financial Reporting Standards
- if no price for a security can be reliably determined using these methods, the firm must report that its market value is not determinable and exclude it from calculations of change in value and performance returns

The proposal requires that registrants reasonably believe the market value they are presenting is reliable. This will require the dealer or adviser to exercise some professional judgment.

For illiquid private issuer securities, application of the proposed methodologies may often lead to a good faith determination that market value cannot be reliably determined. We think this is appropriate. In our view, it is better that investors not be misled by an accounting assessment of value when there is in fact no market for a security. Research shows that exempt market investors generally understand that market values may not always be available.

(vii) Issues related to reporting

This section contains information on more changes included in the 2012 Proposal that relate to client reporting.

Client statements

We have amended Regulation 31-103 with respect to advisers to make it clear that they must deliver client statements and have made it consistent with the requirement for dealers, other than a mutual fund dealer or a scholarship plan dealer, in allowing clients to require monthly statements from advisers.

Investment performance reporting

The 2012 Proposal continues to require firms to provide clients with account performance reporting on an annual basis, as part of, or together with, the client statement.

Performance reports would be account-based, although the 2012 Proposal specifically permits the consolidation of performance reports for more than one account for a client in limited circumstances.

The 2012 Proposal removes net amount invested in performance reports as the starting point for calculating the change in value of a portfolio of securities over time. Instead, we are requiring reporting of the constituent elements of deposits and withdrawals, which we think will be clearer to investors.

Opening market value, deposits and withdrawals

Registered firms would be required under the 2012 Proposal to disclose the opening market value of the account, the market value of deposits and transfers of cash and securities into the account, and the market value of withdrawals and transfers of cash and securities out of the account, for the latest 12-month period and since the inception of the account.

Change in value

The 2012 Proposal provides formulas for calculation of change in value. Essentially, clients would be shown the opening market value of an account, plus deposits into the account, less withdrawals from the account (at market value), which would be compared to the closing market value of the account to determine the change in value of their account over the past 12-month period and also since the inception of the account. This will tell investors how much money they have actually made or lost in dollar terms.

Registered firms can provide more detail about the activity in the client's account that has caused the change in value figure, as described in the Policy Statement.

Sample reports

We are not prescribing the format for the new client reports in Regulation 31-103. However, we expect dealers and advisers to present this information in a clear and meaningful manner. They will be required to use a combination of written information with text and tables, and graphical presentation using charts. We encourage registrants that are already providing such information to continue to do so.

We are providing a revised sample investment performance report in the 2012 Proposal that builds on the sample that was published with the 2011 Proposal. We are also including a new sample report on charges and other compensation in the proposed Appendix D of the Policy Statement.

(viii) *Scholarship plans*

In the notice of publication of the 2011 Proposals and in discussions with industry, we asked whether scholarship plans were sufficiently different that they merited special reporting. We have concluded that they are. In a scholarship plan, the account and the product are essentially the same. They have unique risks and conditions that do not exist for other investment products or portfolios of investments.

In order to highlight the unique risks to investors inherent in these products, we propose to add, at the account opening stage, a requirement for a specific discussion of the consequences to the client of certain circumstances, including the client failing to maintain prescribed plan payments or a beneficiary not participating in or completing a qualifying educational program.

The annual report on charges and other compensation sent to a client who has invested in a scholarship plan would include information about any outstanding front-loaded fees that are a typical feature of scholarship plans.

The investment performance report for a client who has invested in a scholarship plan would provide the relevant information in a scholarship plan:

- how much has been invested
- how much would be returned if the client stopped paying into the plan
- a reasonable projection of the income the client should expect to see if they stay invested to maturity and their designated beneficiary attends a designated educational institution

(ix) Disclosure of new or increased operating charges

We have added a requirement that firms must provide their clients with 60 day written notice of any new or increased operating charge. This is consistent with SRO requirements.

2. Investor research and industry consultations

In addition to the 83 comment letters received in response to the 2011 Proposal, we sought feedback from investors and industry participants to help us to develop the 2012 Proposal. We thank all of those who provided comments and also appreciate the input provided by the SROs during the development of the proposals.

Investor research

From July 2011 through January 2012, The Brondesbury Group conducted research of retail investors and of investors in the exempt market in connection with our continuing work on what securities should be included in client reporting. Some of the findings included:

- retail investors generally do not understand the ways in which their investments are held (i.e., in nominee name or client name) and do not think this should affect the reporting they get
- investors want regular information about all of the securities they own
- expectations may be lower where the investor's relationship with a dealer or adviser is not ongoing
- investors in the exempt market generally are satisfied with the level of reporting they currently receive and have a better understanding
    - of how their investments are held (nearly always in client name)

- that a market value for exempt-market securities often cannot be reliably determined

The investor research provided us with useful information on what investors want to receive from their dealers and advisers. The research also identified areas where investors need more guidance or disclosure. The reports on our investor research are or will be available on the websites of CSA jurisdictions (see section 10 of this Notice, Where to find more information).

Industry consultations

Groundwork for the 2011 Proposals included consultations with dealers and advisers to learn about current industry practices and to identify issues and concerns related to providing performance information.

Since the end of the comment period in September 2011, we have held consultation sessions with the Investment Funds Institute of Canada, the Investment Industry Association of Canada, the Portfolio Management Association of Canada and the RESP Dealers Association of Canada (RESPDAC) to explore issues raised in their comment letters.

We thank all of those who participated in these consultations, which helped us to further develop and refine our proposals in many areas.

3. Transition

We originally proposed a transition time of two years for most of the new requirements, taking into account the systems that firms would need to build to accommodate the new processes. Investor advocates suggested that one year was sufficient time to get information on charges and performance into the hands of investors.

However, our consultations with industry have convinced us that the effort required to build systems and train personnel is a substantial undertaking. As a result, we have decided to lengthen the proposed transition period for the implementation of some requirements of the 2012 Proposal to three years. The transition period for some other requirements will be one or two years.

4. Impact on SRO members

The CSA are working with both SROs to materially harmonize the proposed amendments to the Regulation and SRO rules that will be proposed or amended. The SROs currently have performance reporting requirements that differ from each other and those in the proposed amendments. Neither has come into effect yet, and both have been suspended pending finalization of CSA requirements for performance reporting and disclosure of charges and other compensation.

We anticipate exempting the SROs and their members from some or all of the proposed amendments if the SROs adopt materially harmonized requirements.

5. Alternatives considered

We did not consider alternatives to the use of Regulation 31-103 amendments to achieve the goal of providing more information to investors about charges and other compensation, investment performance and expanded client statements.

6. Anticipated costs and benefits

The anticipated investor protection benefits of the proposed amendments are discussed above. We think the potential benefits to investors would outweigh the costs to registered firms of providing additional disclosure to investors.

7. Unpublished materials

We have not relied on any significant unpublished study, report, or other written materials in preparing the proposed amendments.

8. Request for comments

We welcome your feedback on the proposed amendments. We need to continue our open dialogue with all stakeholders if we are to achieve our regulatory objective of furthering our investor-protection mandate while taking into account the interests of registrants.

All comments will be posted on the Ontario Securities Commission website at www.osc.gov.on.ca and on the Autorité des marchés financiers website at www.lautorite.qc.ca.

All comments will be made publicly available.

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period. Some of your personal information, such as your e-mail and residential or business address, may appear on the websites. It is important that you state on whose behalf you are making the submission.

Thank you in advance for your comments.

Deadline for comments

Your comments must be submitted in writing by September 14, 2012.

Send your comments electronically in Word, Windows format.

Where to send your comments

Please address your comments to all CSA members, as follows:

British Columbia Securities Commission

Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Please send your comments **only** to the addresses below. Your comments will be forwarded to the remaining CSA member jurisdictions.

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9. Where to find more information

The proposed amendments and the research reports are or will be available on websites of CSA members, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.msc.gov.mb.ca
www.gov.ns.ca/nssc
www.nbsc-cvmnb.ca
www.sfsc.gov.sk.ca

June 14, 2012

Appendix A

Summary of Comments on the 2011 Proposal and Responses to comments

This appendix summarizes the public comments we received on proposed amendments to *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (Regulation 31-103) and *Policy Statement to Regulation 31-103 respecting Requirements, Exemptions and Ongoing Registrant Obligations* (the Policy Statement) related to cost disclosure and performance reporting as published on June 22, 2011 (the 2011 Proposal). It also summarizes our responses to those comments.

Drafting suggestions

We received a number of drafting comments on Regulation 31-103 and the Policy Statement. While we incorporated many of the suggestions, this document does not include a summary of the drafting changes we made.

Categories of comments and single response

In this document, we have consolidated and summarized the comments and our responses by the general theme of the comments.

Contents of this summary

This summary is organized into the following sections:

1. Harmonization with self regulatory organizations

We received comments concerning harmonization with corresponding requirements of the self regulatory organizations (SROs), the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA), particularly in regard to performance reporting. We believe that all retail clients should have the same information, so harmonization is an important objective.

We are working closely with the SROs to harmonize requirements and to have a single implementation period across registration categories. This will be especially helpful for firms registered in multiple categories, as the same requirements will apply across all categories.

We also received some comments that the regulatory and financial burden on smaller firms required to adopt the new standards will be onerous. We cannot agree to a lower standard for any firms. Retail investors are entitled to the same quality of reporting, regardless of the size of their dealer or adviser (as discussed below, we are prepared to accept that institutional investors may not need or want the same level of reporting).

2. Cost-benefit analysis

Several comment letters predict that it would be expensive for registered firms to implement the 2011 Proposal. We acknowledge that there will be a potentially significant cost to the industry to produce the proposed new documents. However, we believe they represent the addition of fundamental information that investors need in order to make informed investment decisions. We have addressed concerns regarding costs and time by proposing longer transition periods.

There were also suggestions for tiered reporting, with less rigorous reporting to clients with smaller amounts invested. We disagree with this suggestion for several reasons:

- our proposal will provide fundamental information that is beneficial to all retail investors
- if we adopted the commenters' suggestions, it is likely that the majority of retail accounts would fall into the category that would receive less reporting
- investors with smaller amounts invested may be in more need of this information than those in the higher net worth categories
- once systems are in place to meet the proposed requirements, the ongoing cost to produce the new documents should not be significantly different for larger than for smaller accounts

3. Fairness

We received comments suggesting that the mutual funds segment of the securities industry was unfairly singled out under the 2011 Proposal, with their costs unduly emphasized compared with those of competing products. This is not our intention. However, mutual funds have evolved over time into products with complex compensation structures that are potentially difficult to understand. One of our primary goals is to help investors understand all of the costs associated with their investments. If products other than mutual funds are sold with complex compensation structures and dealer incentives, they too will be subject to the requirements to disclose costs for transparency purposes.

There were also some comments to the effect that the 2011 Proposal would result in an uneven playing field, as investment products that do not fall under the jurisdiction of the CSA and SROs will not be subject to similar requirements. These commenters argue that this could cause investors to believe that

mutual funds, for example, are more costly than similar products created and sold by financial institutions that are not subject to the securities regulatory regime.

We can only make rules within our jurisdiction. The fact that other segments, including banks and insurance companies, will not be required to comply with corresponding requirements for non-securities investments is not a reason to reduce the level of disclosure that we believe is necessary for those who invest in securities.

4. Industry consultation

Some commenters encouraged us to undertake more industry consultation. As part of our consideration of the comments on the proposals, we held consultation sessions with four industry associations – the Investment Funds Institute of Canada, the Investment Industry Association of Canada, the Portfolio Management Association of Canada and the RESP Dealers Association of Canada. These sessions were extremely helpful in providing us with a deeper understanding of industry viewpoints, and a more comprehensive look at various issues from the perspective of industry participants. We made several changes following these consultations.

5. Duplication of disclosure

We received a number of comments suggesting that the 2011 Proposal would require disclosures that duplicate information provided in documents that must be delivered to clients under existing requirements, or would use different terminology to describe similar things.

We disagree with the comments that our proposals represent duplication with other disclosure documents, such as point of sale documents. There is in fact little overlap between the reporting requirements in our proposals and existing disclosure requirements. There is a fundamental difference between one-time disclosure to investors about the *products* they purchase (e.g. in a prospectus or Fund Facts document) and ongoing disclosure about their *relationship* with the registrant that advises them about their investments in multiple products – including the costs of the investment portfolio assembled with the registrant's advice and its performance.

Regarding the disclosure of deferred sales charges (DSC) in particular, commenters suggested that this disclosure duplicates information provided in Fund Facts, and is therefore unnecessary. In addition to the considerations set out above, we note that Fund Facts is not currently required to be delivered to investors at the time of the transaction. Our proposals require cost disclosure at the point of sale. The Fund Facts document may be used to comply with the pre-trade disclosure of charges requirement contained in Regulation 31-103.

We have reviewed the June 2011 Proposals against other disclosure requirements and ensured that the terminology used across the various disclosure documents is as uniform as possible.

6. Relationship disclosure information

Spending sufficient time with clients

There was a request to define how a registrant would spend sufficient time with a client to meet the requirements for disclosure of relationship disclosure information. Whether or not sufficient time has been

spent with a client will vary from one situation to the next and depend on a variety of factors requiring the exercise of professional judgement. We believe that evidence in this regard will be the same as for all registrant-client meetings. For example, detailed notes, tapes of telephone calls, email messages and the like may be used as support to demonstrate that sufficient time has been spent with a client. Guidance to this effect has been added to the Policy Statement.

Managed accounts

We agree with a comment that advisers and dealers that charge one all-in fee for the services they provide should not be required to break out the component costs, and have clarified that this is our intention.

Responsibility to report to the client

We agree with the comments that our proposals should make clear which registrant has the responsibility to disclose information to a client in situations where more than one registrant provides services to the client. We have clarified that the registered firm with the client-facing relationship is the entity that has the obligation to provide performance reporting to clients. For example, responsibility for performance reporting rests with an adviser with trading authority over a client's account, and not the dealer who conducts trades at the direction of the adviser and provides custodial services in respect of the account.

Order execution only (discount brokerage) accounts

We received some comments in favour of exempting order execution (discount brokerage) accounts from the proposed new disclosure rules, as well as one comment opposed to doing so. This type of account is provided under an IIROC rule, approved by the CSA, which exempts investment dealers from the usual obligation to assess a trade's suitability for the client. If our proposals come into force, IIROC will amend its rules to materially harmonize. We would consider the applicability of the proposed new disclosure rules to discount brokerage accounts at that time.

Electronic delivery

We confirm that acceptable delivery of disclosure documents includes, with client consent, reports sent by direct email and by enabling clients to access such information on a firm's website, as long as reminders are sent to clients at relevant times. For further guidance on this issue, please refer to NP 11-201 *Delivery of Documents by Electronic Means*.

Permitted client exemption

Several comment letters noted that the type of reporting desired by, and required for, retail investors is different from that required by institutional clients. Consultations with industry also pointed out that institutions routinely hire consulting firms to analyze their portfolios and the services provided by registered firms. As a result, they are receiving cost and performance information from other sources. We also think institutional investors will generally be in a position to arrange the type and breadth of reporting that they want to receive.

Institutions also often deal with more than one registrant and these relationships are likely to be custodial in nature. Consequently, a given registrant may not have access to all of the information necessary to produce the client reports required in our proposals.

For these reasons, we have revised our proposals to exempt registered firms from the requirement to deliver cost and performance reports where the client is a "permitted client" that is not an individual.

Inappropriate switch transactions

We received a small number of comments from industry arguing that the guidance we propose in regard to inappropriate switch transactions should not be included in the Policy Statement. We disagree. The opportunity to receive a larger trailing commission should not be the reason for a dealer to switch a client's investment from one mutual fund to another. A dealer's incentives should be disclosed to its clients, and the dealer should provide an explanation to the client as to why the switch is appropriate. In contrast, one industry commenter agreed with our position, but argued that guidance would be insufficient to address the problem.

7. Charges

Third party charges

We received comments that third party charges such as custodian fees should not be included in the charges that our proposals would require a registered firm to report to its clients. We agree and have clarified this.

Disclosure of charges at point of sale

We have responded to comments about the difficulty of satisfying the point of sale disclosure of charges requirement in the 2011 Proposal by removing the words "makes a recommendation". Our intention is that clients should receive this disclosure before non-discretionary trades are made. Conversations with clients that involve recommendations but do not end in an instruction to make a trade do not need to include disclosure of potential charges.

It was also suggested that compliance with the proposed requirements for the disclosure of charges could be fulfilled by providing a fee schedule at account opening and/or periodically afterwards. We do not consider this sufficient. It is not realistic to expect clients to retain a fee schedule or to remember the applicable parts of it when considering trading recommendations, and we believe it is appropriate for clients to receive annual reminders about operating charges. The same reasoning applies to our proposed requirement that the annual reports on charges/compensation and performance be provided together. We do not think it is reasonable to expect investors to have all previously disclosed information at their fingertips when making comparisons or assessing performance.

In addition, some of the comments relating to the purported duplication of disclosures discussed above touched on disclosure of charges at point of sale.

Trailing commission disclosure

In their comment letters and in our consultations with industry associations, registered firms made clear their opposition to the disclosure of dollar amounts of trailing commissions. They assert that:

- information about trailing commissions is included in other disclosure documents so providing it in an annual statement would be duplicative

- mutual-fund companies do not currently provide dollar amounts of trailing commissions to registered dealers and advisers that sell their products on a client or account basis, so the selling firm may not be able to make the proposed disclosure

- it will be expensive for mutual-fund companies and the registered firms selling their products to alter their systems to provide the proposed information

- estimated, rather than actual, disclosure of the dollar amounts of trailing commissions associated with clients' investments would be a sufficient and less costly alternative

We have carefully considered this feedback, and we acknowledge that there may be a significant cost imposed on firms. However, we believe that investors need disclosure of the actual dollar amount of trailing commissions paid in respect of their investments to properly evaluate the value of the advice provided by their registered firm. We propose mandating that investment fund managers provide dealers and advisers with the information necessary for them to comply with a requirement to disclose the dollar amount of trailing commissions. Our views on comments about the duplication of disclosure are set out above.

Industry commenters suggested that the proposed disclosure of trailing commissions will be confusing and that investors will think they are being charged twice for the same thing because trailing commissions are paid out of the management fee. We have revised the proposed client disclosure notification in the annual report on charges in order to make clear that trailing commissions do not represent an additional cost to the client.

Deferred sales charges

Some comment letters pointed out that it is not always possible to know how much a DSC will be at the time of a trade. We have revised our proposals to provide that:

- at the time of purchase, the registered firm would have to inform the client that the fund is subject to a DSC, and provide the DSC fee schedule

- at the time of a sale, the registered firm would be allowed to provide an estimate of the DSC, if that is all that is known at the time. The exact amount of the DSC must appear on the trade confirmation.

Yield disclosure

We received one comment letter which stated that some funds include a partial return of capital when calculating yield, which would be misleading. In response, we have included guidance in the Policy Statement clarifying that the return on investment is meant to show returns *on* capital and not returns *of* capital.

Disclosure of fixed-income commissions

We received comments that charges embedded in fixed income products should be disclosed in the same way that we propose for other charges. Investor advocates commented that pricing and compensation in the fixed-income world are difficult to understand and any attempt at providing transparency in this regard would be welcomed.

We are now proposing to require registrants to report the compensation paid to dealing representatives on fixed-income transactions. Industry consultation indicates that these amounts are readily available. We realize that this might not be the entirety of fixed-income compensation but this information will nonetheless be helpful to investors. With respect to the disclosure of other compensation embedded in the price of a fixed-income security, we are requiring that a prescribed notification (similar to that in the annual report on charges and other compensation) be included in the trade confirmation.

This requirement would also address comments from some in the mutual-fund industry who suggest that the June 2011 Proposals related to reporting on charges were disproportionately focused on their products.

Sales taxes and withholding taxes

There was a request for clarification of whether sales taxes on charges should themselves be treated as charges. We believe they should and have clarified the proposals in this regard.

We do not consider withholding taxes to be a charge.

Allocation of charges for multiple accounts

It was suggested that the allocation of costs for a client with multiple accounts could be problematic because the client may have set up one account to pay all of the costs, for tax reasons. We have revised our proposals so that a registered firm would have the option of reporting charges on a portfolio basis if the client agrees.

8. Delivery of reports

Integrate report on charges into quarterly client statements

One comment letter suggested that the report on charges be integrated in each quarterly account statement, and not just provided annually. We note that some information on charges is already provided to clients in quarterly statements. We believe that annual disclosure of this information is sufficient. Registrants are always free to provide more than the minimum requirement.

Sending report on charges and performance report with client statement

One comment letter suggested that requiring the proposed annual reports on charges and investment performance with or in the account statement (now “client statement”) is overly prescriptive and that the focus should be on ensuring that the information is delivered, rather than on the delivery method. We believe it is important for the information contained in the two annual reports to be included in the same package as the client statement – either in the same envelope or fully integrated into a single document – because together, they will allow clients to assess the status of their investments, the costs associated with them, progress toward their investment goals and the value added by their registrant.

Several comment letters requested clarification about the proposed requirement to deliver the annual charges and performance reports every 12 months. We have clarified we are not proposing that the delivery requirement be tied to the anniversary of the opening date of a client's account.

Our revised proposals would permit the first report on charges to be for a period of less than 12 months and would permit the first performance report to be sent more than 12 months, but less then 24 months, after the first trade for a client. These provisions would allow a firm to bring a new client into its regular reporting cycles. A firm also has the option to deliver a performance report for a stub period of less than 12 months during the first year of a client's relationship with the firm, so long as performance is not presented on an annualized basis, which could be misleading to the client.

Report on charges and performance report should be combined

One commenter suggested that annual reports on charges and performance should be combined. For the reasons set out above, we believe they should accompany one another and the client statement. However we do not believe it is necessary that they be combined into a single document. We anticipate they will be combined by some registered firms. But, for others, it may be challenging to change legacy systems to accomplish this. We do not think the benefits of an integrated document would outweigh the extended transition period that would be necessary if we made it a mandatory requirement.

9. Client statements

In the notice of publication of the 2011 Proposal, we indicated our intention to do continuing work on what securities should be included in reporting to clients. We consulted investors, did investor research and reviewed the comments on this subject.

We are proposing to expand the current account statement into a multi-section client statement that will consist of three principal sections:

- the first section would continue to include a list of transactions made for the client during the reporting period
- the second section would include reporting on securities held by a dealer or adviser in a client account in nominee name or certificate form
- the third section would include reporting on any securities of a client that are not held in an account of the dealer or adviser where:
    - the registrant has trading authority over the security
    - the registrant receives continuing payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the security or any other party
    - the security is a mutual fund or labour sponsored fund

A client statement will only need to include the sections that are relevant to the client. There is no requirement to include blank sections.

The information that is reported to clients would include any investor protection fund coverage that applies to their accounts.

We believe our proposals with respect to client statement reporting will provide clients with more comprehensive information about the securities in their portfolio with a dealer or adviser, regardless whether they are held in an account at the registrant or otherwise. At the same time, we recognize that it is not always possible for a registrant to determine reliably whether a client still owns a security that was issued in client name, as is often the case in the exempt market. It is also often the case that a market value for exempt-market securities cannot be reliably determined. We do not believe it is in the interests of clients to receive unreliable information. The criteria we have set out for client statements would mean that in many cases, investors who own exempt-market securities would only receive transaction information about those securities in the client statements sent by their dealers.

Investors in the exempt market that we surveyed are generally satisfied with the level of reporting they receive and understand how their investments are held. Our research also suggests that many of these investors do not expect the amount of information about exempt-market securities in their client statements to be the same as it is for publicly traded securities if they do not have an ongoing relationship with the registrant that sold them the securities, as is sometimes the case with exempt market dealers.

Valuation

We asked for comments on the guidance proposed for the Policy Statement with respect to determining market value, and whether further guidance was required. In general, comment letters stated the guidance provided now is sufficient.

We are nonetheless concerned that there should be more specific requirements and guidance for determining market value, so that registrants will have greater certainty as to our expectations and investors can expect consistency in reporting.

Our proposals are based on a hierarchy of methodologies reflecting available information. We have included concepts from International Financial Reporting Standards (IFRS) in the valuation of securities for which there is no public market or substitute for a public market such as brokers' quotes. However, the methodology we are prescribing still permits a registered firm to report that a value cannot be determined, if this is the case. In all cases, we expect that a firm will exercise its judgment reasonably, based on measures considered reliable in the industry.

One investor advocate suggested that a registrant should always provide a client with a valuation. Another comment letter suggested that, in situations where a market value cannot be obtained, an estimated market value should be provided as long as it is clearly disclosed as an estimate. This letter stated that such estimates should be subject to independent review by auditors and regulators.

We do not propose requiring a valuation in all circumstances, as we believe it can sometimes be misleading for investors to receive an accounting valuation where no market exists for a security. For illiquid private issuer securities, a registrant may, depending on the facts, arrive at a good faith determination that market value cannot reasonably be determined. Research indicates that exempt market

investors are generally sophisticated and understand that information available for exempt market investments may not always be the same as the information available for other investments. Less sophisticated investors may not understand that the accounting estimate may not be an accurate reflection of what they would receive if they sold the security.

Book cost

The 2011 Proposal included a requirement to provide the original cost of securities in the account statement. We asked for specific comments on the issue of permitting the use of tax cost as an alternative to original cost, and invited comments on the benefits and constraints of each approach to cost reporting as they relate to providing meaningful information to investors and their usefulness as a comparator to market value for assessing performance. We received a wide range of comments on this issue.

Some commenters supported original cost with arguments that:

- original cost is more meaningful to investors
- tax cost may not be meaningful or accurate at the account level as taxes are not filed on an account-by-account basis, but rather on a per investment basis
- tax cost may lead to investor confusion

Industry comments in letters and our consultations very strongly supported disclosure of tax cost, arguing that:

- tax cost is the more current and accurate cost number for comparing to market value
- original cost would provide a misleading comparison in situations involving reinvested income, returns of capital and corporate reorganizations
- tax cost is the historical cost figure that is already being provided by many firms and it would be confusing for clients to receive reporting of both amounts
- there would be a significant expense involved in providing original cost

Some commenters suggested that we allow for a flexible approach and permit registered firms to choose whether they disclose original cost or tax cost, and one comment letter suggested that we require the provision of both original and tax cost.

We have considered all the comments and the information gathered from our consultations with industry. We are now proposing a requirement to disclose the “book cost” of securities. Book cost is similar to the concept of tax cost, and will often, but not always, be equivalent to tax cost. We have defined book cost as the total amount paid for a security, including any transaction charges related to its purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations. We think that the use of book cost as a comparator to market value will provide investors with a meaningful comparison, and give them a more accurate view of the capital appreciation or depreciation of each security position.

We also think that this information will be readily available for most investments in clients' portfolios today, unlike original cost which, for most existing clients, would only have been available in respect of new investments.

10. Investment performance report

Consolidated performance reports

We received several comment letters asking that performance reporting at the portfolio level be permitted where a dealer or adviser constructs a portfolio for a client made up of more than one account, on the basis that it is the performance of the overall portfolio that is most meaningful to the client and reporting on the performance of individual accounts may be misleading.

We also heard from some firms that wish to provide consolidated performance reporting for more than one person (e.g. spouses or family members) as an alternative to performance reporting for each individual. These commenters stated that some clients have integrated investment objectives and strategies whose accounts are managed as a whole and that some clients have asked for consolidated portfolio reporting.

Our revised proposals would allow a registered firm to provide a consolidated portfolio performance report for a client *instead* of account-by-account reports, if the client consents. However, we do not think it appropriate that a client would only receive performance reporting that is integrated with that of other clients. Under our proposals, if a firm wished to provide consolidated reporting that combines the portfolios of more than one client, it may do so, but only as an additional, supplemental report.

Include other measures, such as comparisons to goals

There was a suggestion that performance reports could include other measures, such as a comparison to the client's investment goals. We do not think it is necessary to prescribe additional information in the performance report but encourage registrants to exceed the minimum requirements and provide additional information to clients, as long as they do so in a way that is understandable to the clients.

Allow more frequent delivery of reports at firms' discretion

Some commenters were under the impression that registrants would not be permitted to provide performance reports to clients more frequently than the proposed requirement for annual reporting. The proposed requirements would set *minimum* standards, but registered firms are always free to deliver more information than the minimum requirements, including providing more frequent or more detailed reporting.

Content of performance report

We received a number of comments about the content of performance reports that lead us to revisit the subject. We reviewed these comments with reference to the investor research we previously conducted on the content of the sample performance report.

We no longer think the concept of net amount invested will be sufficiently clear to investors. Consequently, our revised proposals do not use net amount invested in performance reports as the starting

point for calculating the change in value of a portfolio of securities over time. We now propose to present its constituent elements of deposits and withdrawals.

Under our revised proposals, investment performance reports would include these parts:

(a) Opening market value, deposits and withdrawals

Registered firms would be required to disclose the opening market value of deposits and transfers of cash and securities into the account, and the market value of withdrawals and transfers of cash and securities out of the account, for the latest 12-month period and since the inception of the account.

(b) Change in value

The proposal provides formulas for calculation of change in value. Firms must provide the opening market value of an account, plus deposits into the account, less withdrawals from the account (at market value) to determine the change in the market value of their account over the past 12-month period and since the inception of the account. This will tell investors how much money they have actually made or lost in dollar terms.

Registered firms would be permitted to break out the change in value figure into more detail as described in the Policy Statement.

(c) Percentage returns

Dealers and advisers would be required to provide clients with annualized total percentage returns of their accounts for specified time periods.

Percentage return calculation method

We received comments suggesting that we should prescribe one method of calculating percentage returns for performance reporting purposes in order to promote consistency from one registrant to another. We had previously proposed to permit registrants to choose between a time-weighted or dollar-weighted performance method for calculating annualized total percentage returns. Commenters differed as to which we should require.

We now propose mandating that registrants use the dollar-weighted method in calculating the percentage return on a client's account or portfolio.

The two methods can produce significantly different results, and the differences hinge on whether there are external cash flows. If there are no external cash flows, the two methods will produce identical percentage returns. When there are external cash flows (contributions to, and withdrawals from, an account), there can be a significant difference in the rate of return calculated under the two methodologies.

The dollar-weighted method most accurately reflects the actual return of the client's account, while the time-weighted method shows how much value a registrant has added to the performance of the investor's account. Time-weighted methods are generally used to evaluate the registrant's performance in managing an account. These methods isolate the portion of an account's return that is attributable solely to the

registrant's actions. The philosophy behind time-weighted methods is that a registrant's performance should be measured independently of external cash flows, because contributions and withdrawals by an investor are out of the registrant's control.

Given that the two methods are used for different purposes and can produce materially different results, we think there is a compelling reason to choose between the two methods. We have decided to mandate the dollar-weighted method because it most accurately tells an investor how an account has performed. We believe that giving investors information that allows them to measure progress toward their investment goals is essential.

Registrants may provide percentage returns calculated using a time-weighted method in addition to the dollar-weighted calculation. Those who provide both calculations should take care to avoid client confusion over the two calculation methods.

We have expressly invited comment on this issue.

11. Benchmarks

The 2011 Proposal did not include a requirement for registered firms to include benchmark information in the performance reports provided to clients. While the *potential* usefulness of benchmarks is clear to us, investor research carried out on behalf of the CSA indicated that a significant proportion of investors are likely to misunderstand the use of benchmarks, especially benchmarks that do not directly correspond to their investment portfolio.

In general, industry comments supported this decision.

However, we do not agree with the comment that the use of benchmarks should be discouraged.

The arguments in favour of prescribing benchmarks were best summarized by one comment letter which states that the use of benchmarks will allow retail investors to have a context within which they will be able to assess performance of their account. This letter added that the fact that many investors do not presently understand benchmark information should not suggest that it is not crucial information or that the investor should not be provided with benchmarks. The letter suggested that a discussion about benchmarking between registrants and their clients would provide a good opportunity for investor education.

We continue to propose that the relationship disclosure information provided at account opening should include a general description of benchmarks, the factors that should be considered when using them and whether the firm offers any options for benchmark reporting to clients. We have added guidance in the Policy Statement that encourages firms to include an historical five-year GIC rate in performance reports as an easily understood comparator that shows how a very low-risk investment alternative performed vs securities investments. We propose to keep the Policy Statement guidance on ensuring that any benchmarks a firm chooses to provide are meaningful and relevant to the client and are not misleading.

We have considered comments regarding our proposed requirement that registrants obtain written agreement from clients in order to provide benchmark information, and have decided to remove this proposed requirement. We have concluded that the burdens associated with this requirement would outweigh the benefits.

12. Presentation of charges and performance reports

Prescribe the form of the performance and charge reports

We received a number of comments asking that we prescribe the form of the annual charges and compensation and performance reports. It was argued that a standardized, uniform presentation would be more accessible and meaningful for clients and facilitate comparability year over year and between registered firms.

While we understand this view, we do not believe it is necessary to be that prescriptive. Also, it would be difficult and time consuming to come up with one form of presentation that meets universal approval. We do not think the delay would be warranted. We further understand that individual firms often wish to distinguish themselves with the format and presentation of their reporting.

We are providing *sample* performance and charge reports, and firms are free to use them as the basis for their reports. As well, third-party service providers may use the sample reports as the basis for offering standardized forms for registrants.

Require that cost and performance reports be in plain language

A couple of comment letters suggested that cost disclosure and performance reporting documents should be written in plain language. We agree and the Policy Statement contains guidance to registrants about their obligation to communicate with clients in a manner that is clear and understandable.

Performance reports should be generated by the firm, not the individual representative

We agree with comments that the firm, not the individual representative, should be responsible for producing performance reports. We have provided clarification in the Policy Statement that it is the firm's responsibility to ensure that its representatives are presenting the reports generated by the firm in an accurate fashion, and not providing misleading information to clients.

13. Scholarship plan dealers

We invited comments on the application of cost and performance reporting requirements for scholarship plan dealers, recognizing that there are unique features to these plans, and asked whether other types of performance reporting would be useful to clients with investments in these plans.

Investor advocates generally support the same cost disclosure and performance reporting requirements for scholarship plans as for all other accounts, reasoning that investors in these accounts require the same amount of information as all other investors. However, we also heard from the RESP Dealers Association of Canada that they believe scholarship plans are significantly different and do merit different performance reporting requirements.

We have concluded that there is no compelling reason to exempt scholarship plan dealers from the proposed requirements for the disclosure of charges. We have also added a specific requirement for the disclosure of unpaid enrolment fees or other instalment fees, as these are a unique feature of scholarship plans.

However, we will require different performance reporting for scholarship plans, which is aimed at providing investors with information we believe matters most for these unique investments:

- how much has been invested
- how much would be returned if the investor stopped paying into the plan
- a reasonable projection of how much the beneficiary might receive if the investor stays in the plan to maturity and if the beneficiary attends a designated educational institution

We are also proposing to add, at account opening, a requirement for a detailed discussion of the risks that are unique to scholarship plan investments, such as loss of earnings if:

- the client fails to maintain prescribed plan payments
- the beneficiary does not participate in or complete a qualifying educational program

14. Transition

The 2011 Proposal provided for an implementation period of two years for most of the proposed new requirements. Most industry comments argue for an implementation period of at least three years, while investor advocates generally stated that one year would be sufficient.

We would like to see the proposed new disclosures in the hands of investors as soon as possible. However, after holding further consultations with industry groups, we are persuaded that the technological challenges posed by the new requirements would be such that it will be very difficult for some of the necessary systems to be developed, tested and implemented in two years. As a result, we are now proposing to mandate a three-year transition period for some of the proposed new reporting requirements.

REGULATION TO AMEND REGULATION 31-103 RESPECTING REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

Securities Act
(R.S.Q., c. V-1.1, s. 331.1, par. (1), (3), (4.1), (8), (11), (26) and (34))

1. Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended:

(1) by inserting, after the definition of "Canadian financial institution", the following:

""book cost" means the total amount paid for a security, including any transaction charge related to purchasing the security, adjusted for reinvested distributions, returns of capital, and corporate reorganizations;";

(2) by inserting, after the definition of "mutual fund dealer", the following:

""operating charge" means any amount charged to a client by a registered firm in respect of the operation, transfer or termination of an account of the client and includes any sales taxes paid on any of these amounts;";

(3) by inserting, after the definition of "subsidiary", the following:

""total percentage return" means the cumulative capital gains and losses and income of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage;

"trailing commission" means any ongoing payment to a registered firm in respect of a security purchased for a client that is paid out of a management fee or other charge to the investment;

"transaction charge" means any amount charged to a client by a registered firm in respect of a purchase or sale of a security and includes any sales taxes paid on any of these amounts;".

2. Section 8.7 of the Regulation is amended, in the French text:

(1) by replacing, in paragraph (3), the words "d'aucune commission de souscription" with the words "d'aucuns frais d'acquisition";

(2) by replacing, in subparagraph (a) of paragraph (4), the words "frais de souscription différés ou éventuels" with the words "frais d'acquisition différés".

3. Section 11.2 of the Regulation is amended by replacing, in the French text of subparagraph (c) of paragraph (2), the words "activités commerciales" with the words "activités professionnelles".

4. Section 11.5 of the Regulation is amended by replacing, in the French text of subparagraph (a) of paragraph (1), the words "activités commerciales" with the words "activités professionnelles".

5. Section 11.6 of the Regulation is amended by adding, in the French text of subparagraph (a) of paragraph (1) and after the word "ans", the words "à compter de la date de leur établissement".

6. The title of Division 1 of Part 14 and section 14,1 are replaced with the following:

"**Division 1 Investment funds managers**

"**14.1. Investment fund managers exempt from Part 14**

"(1) Other than subsection (2), section 14.6, subsection 14.12(5) and section 14.14, this Part does not apply to an investment fund manager in respect of its activities as an investment fund manager.

"(2) An investment fund manager for an investment fund, in which a client of a registered dealer or registered adviser has invested, must provide the dealer or adviser with the information concerning charges deducted from the net asset value of securities upon their redemption, and the information concerning trailing commissions paid to the dealer or adviser, that is required by the dealer or adviser in order to comply with paragraphs 14.12(1)(c) and 14.15(1)(h).".

7. Section 14.2 of the Regulation is amended:

(1) in paragraph (2):

(a) by replacing the part preceding subparagraph (a) with the following:

"(2) Without limiting subsection (1), the information delivered under that subsection must include the following:";

(b) by replacing, in subparagraph (b), the words "discussion that identifies" with the words "general description of" and the words "a client" with the words "the client";

(c) by replacing, in subparagraph (c), the words "a description" with the words "a general description";

(d) by replacing subparagraphs (f) to (h) with the following:

"(f) disclosure of the operating charges the client may pay related to the account;

"(g) a general description of the types of transaction charges the client may be required to pay;

"(h) a general description of any compensation paid to the registered firm by any other party in relation to the different types of products that a client may purchase through the registered firm;";

(e) by deleting, in subparagraph (j) and after the words "available at the," the word "registered";

(f) by adding, after subparagraph (l), the following:

"(m) a general description of investment performance benchmarks and the factors that should be considered by a client when comparing actual returns in the client's account to benchmark returns, and any options for benchmark information that may be made available to clients by the registered firm;

"(n) if the registered firm is a scholarship plan dealer, a specific description of any terms of any scholarship plan offered to a client by the scholarship plan dealer that, if not met by the client or the client's designated beneficiary under the plan, might cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan.";

(2) in paragraph (3), by replacing the part preceding subparagraph (a) with the following:

"(3) A registered firm must deliver the information in subsection (1), if appropriate, and paragraphs (2)(a) and (c) to (n) to the client in writing, and the information in paragraph (2)(b) orally or in writing, before the firm first";

(3) in paragraph (4):

(a) by replacing the part preceding subparagraph (a) with the following:

"(4) If there is a significant change in respect of the information delivered to a client under subsections (1), (2) or (5) the registered firm must take reasonable steps to notify the client of the change in a timely manner and, if possible, before the firm next:";

(b) by replacing, in subparagraph (a), "," with ";";

(4) by replacing paragraphs (5) and (6) with the following:

"(5) Except as provided in subsection (5.1), this section does not apply to a dealer in respect of a client for whom the dealer only purchases or sells securities as directed by a registered adviser acting for the client.

"(5.1) If subsection (5) applies, the dealer must deliver the information required under paragraphs (2)(a) and (e) to (j) to a client in writing, and the information in paragraph (2)(b) orally or in writing, before the firm first purchases or sells a security for the client.

"(6) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

"(7) A registered firm must not impose any new operating charge in respect of an account of a client or increase the amount of any operating charge in respect of an account of a client unless written notice of the new or increased operating charge is provided by the firm to the client at least 60 days before the date on which the new or increased charge would first become applicable in respect of the client's account.".

8. The Regulation is amended by inserting, after section 14.2, the following:

"**14.2.1. Pre-trade disclosure of charges**

"(1) Before a registered firm accepts an instruction from a client to purchase or sell a security in an account other than a managed account, the firm must disclose to the client

(a) the charges the client will be required to pay in respect of the purchase or sale, or a reasonable estimate of the amount if the actual amount of the charges is not known to the firm at the time,

(b) in the case of a purchase to which deferred charges may apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply, and

(c) whether the firm will receive trailing commissions in respect of the security.

"(2) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

"(3) This section does not apply to a dealer in respect of a client for whom the dealer only purchases or sells securities as directed by a registered adviser acting for the client.".

9. The title of Division 5 of Part 14 of the Regulation is replaced with the following:

"**Division 5 Reporting to clients**".

10. The Regulation is amended by inserting, after section 14.11, the following:

“**14.11.1. Determining market value**

“(1) For the purposes of this Division, the market value of a security

(a) other than an investment fund which is not listed on an exchange or a commodity futures contract, is the amount that a registered firm reasonably believes to be a reliable market value of the security

(i) after referring to a price quotation on a marketplace, if one is published for the security, using the last bid price in the case of a long security and the last ask price in the case of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading day prior to the relevant date, subject to adjustments considered by the registered firm to be necessary to accurately reflect the market value;

(ii) if no reliable price for the security is quoted on a marketplace, after referring to a published market report or inter-dealer quotation sheet, on the relevant date or last trading day prior to the relevant date, subject to adjustments considered by the registered firm to be necessary to accurately reflect the market value;

(iii) if no reliable price for the security can be determined in accordance with subparagraphs (i) or (ii), after applying a valuation policy that is consistently applied, includes procedures to assess the reliability of valuation inputs and assumptions, and

(A) uses inputs that are observable, or

(B) if observable inputs are not reasonably available, uses unobservable inputs and assumptions;

(b) that is an investment fund which is not listed on an exchange must be determined by reference to the net asset value provided by the investment fund manager of the fund on the relevant date or the last trading day prior to the relevant date;

(c) that is a commodity futures contract must be determined by reference to the settlement price on the relevant date or last trading day prior to the relevant date.

“(2) If a registered firm determines the market value of a security in accordance with subparagraph (1)(a)(iii), when it refers to the value in a client statement under section 14.14 the registered firm must include the following notification or a notification that is substantially similar:

“There is no active market for this security, so we have estimated its value.”

“(3) If a registered firm does not believe it can reasonably determine a reliable market value for a security, the market value of the security must be reported in a client statement or security holder statement delivered under section 14.14 and in an investment performance report delivered under section 14.16 as not determinable, and the security must be excluded from the calculations in paragraphs 14.14(5)(b) and 14.14(5.2)(b) and subsection 14.17(1).”.

11. Section 14.12 of the Regulation is amended:

(1) in paragraph (1):

(a) by inserting, after subparagraph (b), the following:

“(b.1) in the case of a purchase of a fixed income security, the security’s annual yield;”;

(b) by replacing subparagraph (c) with the following:

"(c) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction, and the total amount of all charges in respect of the transaction;";

(c) by inserting, after paragraph (c), the following:

"(c.1) in the case of a purchase of a fixed income security, the total amount of compensation paid to dealing representatives out of the price paid by the client and the following notification or a notification that is substantially similar:

"Dealer firm compensation may have been added to the price of this security. This amount was in addition to any commission this trade confirmation shows was paid to individual dealing representatives";

"(c.2) in the case of a sale of a fixed income security, the total amount of compensation paid to dealing representatives out of the price received by the client and the following notification or a notification that is substantially similar:

"Dealer firm compensation may have been deducted from the price of this security. This amount was in addition to any commission this trade confirmation shows was paid to individual dealing representatives"";

(d) by inserting, in subparagraph (f) and after the words "if any," the word "involved";

(e) by replacing subparagraph (h) with the following:

"(h) if applicable, that the security is a security issued by the registered dealer, a security issued by a related issuer of the registered dealer or, if the transaction occurred during the security's distribution, a security issued by a connected issuer of the registered dealer.";

(2) by replacing, in the French text of subparagraph (c) of paragraph (5), the words "frais de vente" with the words "frais d'acquisition".

12. The Regulation is amended by replacing section 14.14 with the following:

"**14.14. Client statements and security holder statements**

"(1) A registered dealer must deliver a client statement that includes the information in subsection (5) and if applicable, subsection (6) to a client at least once every 3 months.

"(2) Despite subsection (1), a registered dealer must deliver a client statement to a client at the end of a month if any of the following apply:

(a) the client has requested receiving statements on a monthly basis;

(b) during the month, a transaction was effected in the account other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan.

"(3) Subsection (2) does not apply to a mutual fund dealer in connection with its activities as a dealer in respect of the securities listed in paragraph 7.1(2)(b).

"(4) A registered adviser must deliver a client statement that includes the information in subsection (5) and, if applicable, subsection (6) to a client at least once every 3 months, except that if the client has requested receiving statements on a monthly basis, the adviser must deliver a statement to the client at the end of the month.

"(5) If a registered dealer or registered adviser made a transaction for a client during the period covered by a client statement delivered under subsection (1), (2) or (4), the client statement must include the following:

(a) the date of the transaction;

(b) the type of transaction;

(c) the name of the security;

(d) the number of securities;

(e) the price per security;

(f) the total value of the transaction;

(g) if the transaction was a purchase for the client, the party that held the security when the transaction was completed and how it was held.

"(6) If a registered dealer or registered adviser holds securities owned by a client in an account of the client, a client statement delivered under subsection (1), (2) or (4) must indicate that the securities are held for the client by the registered firm and must include the following information about the account determined as at the end of the period for which the statement is made:

(a) the name and quantity of each security in the account;

(b) the market value of each security in the account and, if applicable, the notification in subsection 14.11.1(2);

(c) the total market value of each security position in the account;

(d) any cash balance in the account;

(e) the total market value of all cash and securities in the account;

(f) which securities in the account may be subject to a deferred sales charge if they are sold;

(g) whether the account is covered under an investor protection fund approved or recognized by the securities regulatory authority and, if it is, the name of the fund.

"(7) Subsections (1) and (2) do not apply to a scholarship plan dealer if both of the following apply:

(a) the dealer is not registered in another dealer or adviser category;

(b) the dealer delivers to the client a statement at least once every 12 months that provides the information required under subsections (5) and (6).

"(8) If there is no dealer or adviser of record for a security holder on the records of a registered investment fund manager, the investment fund manager must deliver to the security holder at least once every 12 months a security holder statement that includes the following:

(a) the information required under subsection (9) about each transaction that the registered investment fund manager made for the security holder during the period;

(b) the information required under subsection (10) about the securities of the security holder that are on the records of the registered investment fund manager.

"(9) For purposes of paragraph (8)(a), the security holder statement must include the following:

(a) the date of the transaction;

(b) the type of transaction;

(c) the name of the security;

(d) the number of securities;

(e) the price per security;

(f) the total value of the transaction.

"(10) For purposes of paragraph (8)(b), the security holder statement must include the following as at the end of the period for which the statement is made:

(a) the name and quantity of each security;

(b) the market value of each security;

(c) the total market value of each security position;

(d) the total market value of all the securities;

(e) which securities may be subject to a deferred sales charge if they are sold;

(f) whether the account is covered under an investor protection fund approved or recognized by the securities regulatory authority and the name of the fund.".

13. The Regulation is amended by replacing section 14.14 with the following:

"**14.14. Client statements and security holder statements**

"(1) A registered dealer must deliver a client statement that includes the information in subsection (5) and if applicable, subsections (6) and (6.1) to a client at least once every 3 months.

"(2) Despite subsection (1), a registered dealer must deliver a client statement to a client at the end of a month if any of the following apply:

(a) the client has requested receiving statements on a monthly basis;

(b) during the month, a transaction was effected in the account other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan.

"(3) Subsection (2) does not apply to a mutual fund dealer in connection with its activities as a dealer in respect of the securities listed in paragraph 7.1(2)(b).

"(4) A registered adviser must deliver a client statement that includes the information in subsection (5) and, if applicable, subsections (6) and (6.1) to a client at least once every 3 months, except that if the client has requested receiving statements on a monthly basis, the adviser must deliver a statement to the client at the end of the month.

"(5) If a registered dealer or registered adviser made a transaction for a client during the period covered by a client statement delivered under subsection (1), (2) or (4), the client statement must include the following:

(a) the date of the transaction;

(b) the type of transaction;

(c) the name of the security;

(d) the number of securities;

(e) the price per security;

(f) the total value of the transaction;

(g) if the transaction was a purchase for the client, the party that held the security when the transaction was completed and how it was held.

"(6) If a registered dealer or registered adviser holds securities owned by a client in an account of the client, a client statement delivered under subsection (1), (2) or (4) must indicate that the securities are held for the client by the registered firm and must include the following information about the account determined as at the end of the period for which the statement is made:

(a) the name and quantity of each security in the account;

(b) the market value of each security in the account and, if applicable, the notification in subsection 14.11.1(2);

(c) the total market value of each security position in the account;

(d) any cash balance in the account;

(e) the total market value of all cash and securities in the account;

(e.1) for each security position opened in the account after [implementation date], the book cost of the position presented on an average cost per unit or share basis or on an aggregate basis or, if the security position was transferred from an account of another registered firm, the registered firm may use the market value of the security position as at the date of its transfer if that fact is disclosed to the client in the statement;

(e.2) for each security position opened in the account before [implementation date], the book cost of the position presented on an average cost per unit or share basis or on an aggregate basis or, if the same date and value are used for all clients of the firm holding that security and that fact is disclosed to the client in the statement, the registered firm may use the market value of the security position as at [implementation date] or an earlier date;

(e.3) the total book cost of all of the security positions;

(e.4) for each security position for which the registered firm does not reasonably believe it can determine a reliable book cost, disclosure of that fact in the statement;

(e.5) which securities in the account may be subject to a deferred sales charge if they are sold;

(e.6) whether the account is covered under an investor protection fund approved or recognized by the securities regulatory authority and, if it is, the name of the fund.

"(6.1) If any of the following apply in respect of a security owned by a client that is held by a party other than the registered dealer or registered adviser, a client statement delivered under subsection (1), (2) or, (4) must include the information referred to in subsection (6.2):

(a) the registered firm has trading authority over the security or the account of the client in which the security is held or was transacted;

(b) the registered firm receives continuing payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the security or any other party;

(c) the security is a mutual fund or an investment fund that is a labour-sponsored investment fund corporation or labour sponsored venture capital corporation under legislation of a jurisdiction of Canada and was purchased for the client by the registered firm.

"(6.2) If any of the circumstances set out in subsection (6.1) apply, a client statement delivered under subsection (1), (2) or (4) must include the following in respect of the securities referred to in subsection (6.1), determined as at the end of the period for which the statement is made:

(a) the name and quantity of each security;

(b) the market value of each security and, if applicable, the notification in subsection 14.11.1(2);

(c) the total market value of each security position;

(d) the total market value of all of the securities;

(e) for each security position opened after [implementation date], the book cost of the position presented on an average cost per unit or share basis or on an aggregate basis or, if the security position was transferred from another registered firm, the registered firm may use the market value of the security position as at the date of its transfer if that fact is disclosed to the client in the statement;

(f) for each security position opened before [implementation date], the book cost of the position presented on an average cost per unit or share basis or on an aggregate basis or, if the same date and value is used for all clients of the firm holding that security and that fact is disclosed to the client in the statement, the registered firm may use the market value of the security position as at [implementation date] or an earlier date

(g) the total book cost of all of the security positions;

(h) for each security position for which the registered firm does not reasonably believe it can determine a reliable book cost, disclosure of that fact in the statement;

(i) the name of the party that holds each security and a description of the way it is held;

(j) which of the securities may be subject to a deferred sales charge if they are sold.

"(6.3) In this section,

(a) a security is held by a registered firm for a client if it is held in either of the following ways:

(i) the firm is the registered owner as nominee on behalf of the client;

(ii) the firm has physical possession of a certificate evidencing ownership of the security.

(b) a security is held for a client by a party other than the registered firm if any of the following apply:

(i) the other party is the registered owner as nominee on behalf of the client;

(ii) ownership of the security is recorded on the books of its issuer in the client's name;

(iii) the other party has physical possession of a certificate evidencing ownership of the security;

(iv) the client has physical possession of a certificate evidencing ownership of the security.

"(7) Subsections (1) and (2) do not apply to a scholarship plan dealer if both of the following apply:

(a) the dealer is not registered in another dealer or adviser category;

(b) the dealer delivers to the client a statement at least once every 12 months that provides the information required under subsections (5), (6) and (6.1).

"(7.1) A client statement delivered under subsections (1), (2), or (4) must present the information required under subsections (5), (6) and (6.1) in separate sections.

"(7.2) If a registered dealer or registered adviser is required to provide a client statement under subsection (1), (2) or (4) in respect of more than one account of a client, the information specified in subsection (6.2) must be included in the statement for the account through which the securities were transacted.

"(8) If there is no dealer or adviser of record for a security holder on the records of a registered investment fund manager, the investment fund manager must deliver to the security holder at least once every 12 months a security holder statement that includes the following:

(a) the information required under subsection (9) about each transaction that the registered investment fund manager made for the security holder during the period;

(b) the information required under subsection (10) about the securities of the security holder that are on the records of the registered investment fund manager.

"(9) For purposes of paragraph (8)(a), the security holder statement must include the following:

(a) the date of the transaction;

(b) the type of transaction;

(c) the name of the security;

(d) the number of securities;

(e) the price per security;

(f) the total value of the transaction.

"(10) For purposes of paragraph (8)(b), the security holder statement must include the following as at the end of the period for which the statement is made:

(a) the name and quantity of each security;

(b) the market value of each security;

(c) the total market value of each security position;

(d) the total market value of all the securities;

(d.1) the book cost of each security position presented on an average cost per unit or share basis, or on an aggregate basis;

(d.2) the total book cost of all of the security positions;

(d.3) for each security position for which the registered firm does not reasonably believe it can determine a reliable book cost, disclosure of that fact in the statement;

(d.4) which securities may be subject to a deferred sales charge if they are sold;

(d.5) whether the account is covered under an investor protection fund approved or recognized by the securities regulatory authority and the name of the fund.

"(11) A client or security holder statement delivered under subsections (1), (2), (4) or (8) must include the definition of "book cost" in section 1.1 where that term is first used in the statement.".

14. The Regulation is amended by adding, after section 14.14, the following:

"**14.15. Report on charges and other compensation**

"(1) A registered firm must deliver a report on charges and other compensation containing the following information to a client every 12 months:

(a) the registered firm's current operating charges which may be applicable to the client's account;

(b) the total amount of each type of operating charge related to the account paid by the client during the period covered by the report, and the aggregate amount of those charges;

(c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client to the firm during the period covered by the report, and the aggregate amount of those charges;

(d) the total amount of the operating charges reported under paragraph (b) and the transaction charges reported under paragraph (c);

(e) the total amount of compensation paid to dealing representatives of the firm out of the price of fixed income securities purchased or sold for the client during the period covered by the report, and the following notification or a notification that is substantially similar:

"For some of the fixed income securities purchased or sold for you during the period covered by this report, dealer firm compensation may have been included in the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). These amounts were in addition to any commissions this report shows paid to individual dealing representatives";

(f) if the registered firm is a scholarship plan dealer, the unpaid amount of any enrolment fee or other charge that is payable by the client;

(g) the total amount of each type of payment to the registered firm or any of its registered individuals by any person in relation to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(h) if the registered firm received trailing commissions in connection with securities held by the client during the period covered by the report, the following notification or a notification that is substantially similar to the following:

"We received $ ● in trailing commissions on the investment funds you held during the period.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions from that management fee for the service and advice we provide you. The amount of the trailing commissions depends on the sales charge option you chose when you purchased the fund. You are not charged the trailing commission or the management fee. But, as is the case with any investment fund expense, trailing commissions are likely to affect you because, in most cases, they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is in included in the prospectus or Fund Facts document for each fund."

"(2) A registered firm may provide a report on charges and other compensation that consolidates the information required under subsection (1) for more than one of a client's accounts into a single report, if both of the following apply:

(a) the client has consented in writing;

(b) the consolidated report specifies which accounts it consolidates.

"(3) A report under subsection (1) must

(a) be delivered with or in the client statement that is accompanied by or includes the investment performance report required under section 14.16 , and

(b) cover the 12 months period that immediately precedes the date of the report except that the first report on charges and other compensation delivered after a client has opened an account may cover a period of less than 12 months.

"(4) This section does not apply to a registrant in respect of a permitted client that is not an individual.

"**14.16. Investment performance report**

"(1) A registered firm must deliver an investment performance report to a client every 12 months with or in a client statement referred to in section 14.14, except that the first investment performance report delivered after a registered firm first makes a trade for a client may be sent more than 12 months but less than 24 months after the trade.

"(2) The information required under subsection (1) must be delivered with or in a separate investment performance report for each account of the client and must include

(a) all securities owned by the client that are held by the registered firm in the account, and

(b) all securities owned by the client that are reported in the client statement under subsection 14.14(6.2) and were transacted through the account.

"(3) Despite subsection (2), a registered firm may provide an investment performance report that consolidates into a single report the required information for more than one of a client's accounts and any securities of the client required to be reported under subsection 14.14(6.2), if both of the following apply:

(a) the client has consented in writing;

(b) the consolidated report specifies which accounts and which securities held outside of an account it consolidates.

"(4) This section does not apply to

(a) an account that has existed for less than a 12 month period;

(b) a dealer in respect of an account in which a dealer only executes trades as directed by a registered adviser acting for the client;

(c) an investment fund manager in respect of its activities as an investment fund manager; and

(d) a registered firm in respect of a permitted client that is not an individual.

"**14.17.Content of investment performance report**

"(1) An investment performance report delivered under section 14.16 by a registered firm must include all of the following in respect of the securities referenced in a client statement in respect of which subsections 14.14(6.1) and (6.2) apply:

(a) subject to paragraph (b), the opening market value of all cash and securities in the client's account as at the beginning of the 12 month period preceding the date of the investment performance report;

(b) the account was opened before [implementation date] and the registered firm reasonably believes reliable market values are not available for all deposits, withdrawals and transfers since the date when the account was opened, the market value of all cash and securities in the account as at [implementation date];

(c) the closing market value of all cash and securities in the account;

(d) the market value of all deposits and transfers of cash and securities into the account and the market value of all withdrawals and transfers of cash and securities out of the account, in the 12 month period immediately preceding the date of the investment performance report;

(e) subject to paragraph (f), the market value of all deposits and transfers of cash and securities into the account and the market value of all withdrawals and transfers of cash and securities out of the account, since account opening;

(f) if the account was opened before [implementation date] and the registered firm reasonably believes reliable market values are not available for all deposits, withdrawals and transfers since the account was opened, the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, since [implementation date];

(g) the annual change in value of the account for the 12 month period preceding the date of the investment performance report, determined by the formula

A – B – C + D

where

A = the closing market value of all cash and securities in the account as at the end of the 12 month period immediately preceding the date of the investment performance report,

B = the opening market value of all cash and securities in the account at the beginning of that 12 month period,

C = the market value of all deposits and transfers of cash and securities into the account in that 12 month period, and

D = the market value of all withdrawals and transfers of cash and securities out of the account in that 12 month period;

(h) subject to paragraph (i), the cumulative change in value of the account determined by the formula

A – E + F

where

A = the closing market value of all cash and securities in the account as at the end of the 12 month period immediately preceding the date of the investment performance report,

E = the market value of all deposits and transfers of cash and securities into the account since account opening, and

F = the market value of all withdrawals and transfers of cash and securities out of the account since account opening;

(i) if the registered firm reasonably believes reliable market value information required in paragraph (f) is not available to the registered firm, the cumulative change in the value of the account determined by the formula

A – G – H + I

where

A = the closing market value of all cash and securities in the account as at the end of the 12 month period immediately preceding the date of the investment performance report,

G = the opening market value of all cash and securities in the account as at [implementation date],

H = the market value of all deposits and transfers of cash and securities into the account since [implementation date], and

I = the market value of all withdrawals and transfers of cash and securities out of the account since [implementation date];

(j) the amount of the annualized total percentage return, expressed as a percentage, for the client's account calculated net of charges, using a dollar weighted method;

(k) the definition of "total percentage return" in section 1.1 and a notification that the total percentage return in the investment performance report was calculated net of charges, using a dollar weighted method.

"(2) The information delivered for the purposes of paragraph (1)(j) must be provided for each of the following periods preceding the date of the performance report:

(a) the previous year;

(b) the previous 3 years;

(c) the previous 5 years;

(d) the previous 10 years;

(e) the period since the account was opened if the account has been open for more than one year before the date of the report or, if the account was opened before [implementation date] and the registered firm reasonably believes a reliable annualized total percentage return for the period prior to [implementation date] is not available, the period since [implementation date].

"(3) Despite subsection (2), if any portion of a period referred to in paragraphs (2)(c) or (d) was before [implementation date], the registered firm is not required to report the annualized total percentage return for that period.

"(4) Despite subsection (1), the information a scholarship plan dealer is required to deliver under section 14.16 [investment performance report] in respect of each scholarship plan in which a client has invested through the scholarship plan dealer is the following:

(a) the total amount that the client has invested in the plan as at the date of the investment performance report;

(b) the total amount that would be returned to the client if, as of the date of the investment performance report, the client ceased to make prescribed payments into the plan;

(c) a reasonable projection of future payments that the plan might pay to the client's designated beneficiary under the plan, or the client, upon the maturity of the client's investment in the plan;

(d) a summary of any terms of the plan that, if not met by the client or the client's designated beneficiary under the plan, might cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan.

"(5) The information delivered under section 14.16 must be presented using text, tables and charts, and must be accompanied by notes in the investment performance report explaining:

(a) the content of the performance report and how a client can use the information to assess the investment performance of the client's investments; and

(b) the changing value of the client's investments as reflected in the information in the investment performance report.

"(6) If a registered firm delivers investment performance information to a client for a period of less than one year, the firm must not calculate the performance information on an annualized basis.

"(7) If the registered firm reasonably believes a reliable market value cannot be determined for a security position in a client statement, the security position must be assigned a value of zero in the calculation of the information delivered under subsection 14.16(1) and the reason for doing so must be disclosed to the client.

"(8) If the registered firm reasonably believes there are no security positions in the client statement for which a reliable market value can be determined, the firm is not required to deliver investment performance information to the client for the period.".

15. (1) Subject to paragraph (2), this Regulation comes into force on (*insert the date of coming into force of this Regulation*).

(2) The provisions of this Regulation listed in column 1 of the following table come into force as set out in column 2 of the table:

1 **Section(s)**	**2** **Effective Date**
Subparagraph (f) of paragraph (1) of section 6, section 7, paragraphs (1) and (3) of section 10	One year after the implementation date
Section 13	Two years after the implementation date

Section 14	Three years after the implementation date

AMENDMENTS TO *POLICY STATEMENT TO REGULATION 31-103 RESPECTING REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

1. Section 2.2 of the French text of *Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* is amended by replacing, in the second bulleted item of the third paragraph, the words “peuvent l’exercer” with the words “peuvent exercer ces activités”.

2. Section 11.1 of the French text of the Policy Statement is amended by replacing, in the first paragraph, the words “système de contrôle” with the words “système de contrôles”.

3. **S**ection 14.2 of the Policy Statement is replaced with the following:

“**14.2. Relationship disclosure information**

There is no prescribed form for the relationship disclosure information required under section 14.2. A registered firm may provide this information in a single document, or in separate documents, which together give the client the prescribed information. If a client consents, delivery of documents can be made in electronic form by direct email to a client or through client access to information on a website, so long as reminders are sent at relevant times. For further guidance, see *Policy Statement 11-201 respecting Delivery of Documents by Electronic Means*.

Relationship disclosure information should be communicated in a manner consistent with the guidance on client communications under section 1.1 of this Policy Statement. To satisfy the delivery obligation in subsections 14.2(3) and (5), registered individuals must spend sufficient time with clients as part of an in-person or telephone meeting to adequately explain the information that is delivered under subsections 14.2(1), (2) or (5). We expect a firm to have policies and procedures requiring its registered individuals to demonstrate they have done so. What is considered “sufficient” will depend on the circumstances, including a client’s understanding of the delivered documents.

Evidence of compliance with client disclosure requirements at account opening, prior to trades and at other times, can include detailed notes of meetings or discussions with clients, signed client acknowledgements and tape-recorded phone conversations.

Promoting client participation

Registered firms should help their clients understand the registrant-client relationship. They should encourage clients to actively participate in the relationship and provide them with clear, relevant and timely information and communications.

In particular, registered firms should help and encourage clients to:

- **Keep the firm up to date.** Clients should be encouraged to

  - provide full and accurate information to the firm and the registered individuals acting for the firm

  - promptly inform the firm of any change to their information that could result in a change to the types of investments appropriate for them, such as a change to their income, investment objectives, risk tolerance, time horizon or net worth

- **Be informed.** Clients should be

  - helped to understand the potential risks and returns on investments

- encouraged to carefully review sales literature provided by the firm

- encouraged to consult professionals, such as a lawyer or an accountant, for legal or tax advice where appropriate

- **Ask questions.** Clients should be encouraged to

  - request information from the firm to resolve concerns about their account, transactions or investments, or their relationship with the firm or a registered individual acting for the firm

- **Stay on top of their investments.** Clients should be encouraged to

  - review all account documentation provided by the firm

  - regularly review portfolio holdings and performance

Disclosure of charges and other compensation

Under paragraphs 14.2(2)(f), (g) and (h), registered firms must provide clients with a description of the operating and transaction charges they will pay in making, holding and selling investments, including a general description of any compensation paid to the firm by any other party. We expect this disclosure to include all charges a client may pay during the course of holding a particular investment.

A registered firm's charges to a client and the compensation it may receive from third parties in respect of the client will vary depending on the type of relationship with the client and the nature of the services and investment products offered. At account opening, registered firms must provide clients with general information on the operating charges and transaction charges that the clients may be required to pay, as well as other compensation the firms may receive as a result of their business relationship. A firm is not expected to provide information on all the types of accounts that it offers and the fees related to these accounts if it is not relevant to the client's situation.

"Operating charge" is defined broadly in section 1.1 and examples include (but are not exclusive to) service charges, administration fees, safekeeping fees, management fees, transfer fees, account closing fees, annual registered plan fees and any other charges associated with maintaining and using an account that are paid to the registrant. For registered firms that charge an all-in fee for the operation of the account, such as a percentage of assets under management, that fee is the operating charge. We do not expect firms with an all-in operating charge to provide a breakdown of the items covered by the fee.

"Transaction charges" is also defined broadly in section 1.1 and examples include (but are not exclusive to) commissions, transaction fees, switch or change fees, performance fees, short-term trading fees, sales charges or redemption fees, and foreign exchange spreads that are paid to the registrant.

Operating and transaction charges include only charges paid to the registered firm. Third-party charges, such as custodian fees that are not paid to the registered firm, are not included in operating charges or transaction charges. Operating and transaction charges include any sales taxes that are paid on the amounts charged to the client. Registrants may wish to inform clients where a charge includes sales tax, or separately disclose the components of the charge. Withholding taxes would not be considered a charge.

Providing general information on charges is appropriate at the time of account opening. However, section 14.2.1 requires that, before a registered firm accepts an instruction from a client to purchase or sell a security, the firm must provide more specific information as to the nature and amount of the actual charges that will apply. Registrants are encouraged to explain charges to their clients as part of the process of deepening the relationship between the registered firm and the client.

For example, if a client will be investing in a mutual fund security, the description should briefly explain each of the following and how they may affect the investment:

- the management expense ratio

- the sales charge or deferred sales charge option available to the client and an explanation as to how such charges work. This means registered firms should advise clients that mutual funds sold on a deferred sales charge basis are subject to charges upon redemption that are applied on a declining rate scale over a specified period of years, until such time as the charges decrease to zero. Any other redemption fees or short-term trading fees that may apply should also be discussed

- any trailing commission, or other embedded fees

- any options regarding front end loads

- any fees related to the client changing or switching investments ("switch or change fees")

Registrants may also wish to explain to clients that trailing commissions are included in the management fees that are charged to their investment funds and are not additional charges paid by the client to the registrant.

Registrants should advise clients with managed accounts whether the registrant will receive compensation from third parties, such as trailing commissions, on any securities purchased for the client and, if so, whether the fee paid by the client to the registrant will be affected by this. For example, the management fee paid by a client on the portion of a managed account related to mutual fund holdings may be lower than the overall fee on the rest of the portfolio.

Description of content and frequency of reporting

Under paragraph 14.2(2)(i), a registered firm is required to provide a description of the content and frequency of reporting to the client. Reporting to clients includes:

- trade confirmations under section 14.12

- client statements under section 14.14

- annual report on charges and other compensation under section 14.15

- investment performance reports under section 14.16

Registered firms must deliver the annual report on charges and other compensation and investment performance reports with a client statement or incorporate them directly into the client statement so that the client receives one comprehensive reporting package on an annual basis. We encourage as a best practice the delivery of client statements that directly integrate the annual reports on charges and investment performance.

It is the responsibility of the registered firm to produce these client reports, not that of individual representatives. Registered firms should have policies and procedures in place to ensure that they are adequately supervising their registered representatives' communications with clients about the prescribed information.

We expect registered firms to ensure that clients know how their investments will be held (for example, by the firm in nominee name or at an issuing fund company in client name) and understand the different implications that this will have for them in such

matters as client reporting, investor protection fund coverage and custody of their assets. If a registered firm trades in exempt products for a client, the firm should also explain the reasons why it is not always possible to determine a market value for products sold in the exempt market or whether the client still owns the security, and the implications that this may have for reporting on exempt-market securities.

KYC information

Paragraph 14.2(2)(l) requires registrants to provide their clients with a copy of their KYC information at the time of account opening. We would expect registered firms to also provide a description to the client of the various terms which make up the KYC information, and explain how this information will be used in assessing the client's financial situation, investment objectives, investment knowledge and risk tolerance in determining investment suitability.

Benchmarks

Paragraph 14.2(2)(m) requires registered firms to provide clients with a general description of investment performance benchmarks, the factors relevant to their use with reference to the client's own investments and any options the firm may offer for providing benchmark information to the client. Other than this general discussion, there is no requirement for registered firms to provide benchmark information to clients. Nonetheless, we encourage firms to do so as a best practice. In particular, we encourage firms to include an historical 5-year GIC rate in performance reports as an easily understood comparator that shows how a very low-risk investment alternative performed. In order to ensure that this is not misleading, we would expect firms to discuss how the low-risk alternative relates to the client's investment goals and risk tolerance. Guidance on the provision of benchmarks is set out in this Policy Statement at the end of the discussion of the content of investment performance reports under section 14.17.

Scholarship plan dealers

Paragraph 14.2(2)(n) requires specific disclosure of the important aspects of the scholarship plan that, if not fulfilled, would cause loss to the client. To be complete, this prescribed disclosure could include any options that would allow the investor to retain notional earnings in the event that they do not maintain prescribed payments under the plan.

Order execution trading

Subsection 14.2(5) provides that only limited relationship disclosure information must be delivered by a dealer whose relationship with a client is limited to executing trades as directed by a registered adviser acting for the client. In a relationship of this kind, each registrant must explain to the client its role and responsibility to the client, and what services and reporting the client can expect of it.

"14.2.1. Pre-trade disclosure of charges

For non-managed accounts, section 14.2.1 requires disclosure to a client of charges specific to a transaction prior to the acceptance of a client's instruction. This disclosure is not required to be in writing. Oral disclosure of charges is sufficient for the purposes of disclosing charges at the time of a transaction. Specific charges should be reported in writing on the trade confirmation as required in section 14.12.

For a purchase of a security on a deferred sales charge basis, disclosure that a deferred sales charge may be triggered upon the redemption of the security, and the schedule that would apply if it is sold within the time period that a deferred sales charge would be applicable, must be presented. The actual amount of the deferred sales charge, if any, would need to be disclosed once the security is redeemed. For the purposes of disclosing trailing commissions, the dealing representative may draw attention to the information in the prospectus or the Fund Facts document if that document is provided at the point of sale.

With respect to a transaction involving a fixed-income security, pre-trade disclosure should include a discussion of any commission the registrant will receive on the trade, which will be added to or embedded in the price of the security. This discussion should include both the number of basis points that the commission represents as well as the corresponding dollar amount.

Switch or change fees

We consider that providing clients with adequate disclosure of the charges at the time of a transaction will also help clients to be aware of the implications of proposed transactions and deter registrants from transacting for the purpose of generating commissions. For example, changing a client's investment from a fund sold on a deferred sales charge basis when the charge period has lapsed to a similar fund sold on a sales charge basis might result in the client paying commissions that would otherwise have been avoided.

We are of the view that a registered firm should not switch the client's investment in the same fund from units sold on a deferred sales charge basis when the charge period has lapsed to those sold on a sales charge basis in order to generate a higher amount of trailing commissions with no corresponding financial benefit to the client. Also, a registered firm should not switch the client's investment in a fund sold on a deferred sales charge basis when the sales charge period has lapsed to a different fund sold on a deferred sales charge basis in order to generate commissions. In our view, these practices would be inconsistent with a registrant's duty to act fairly, honestly and in good faith. Requiring sufficient disclosure of the charges the client may pay and the firm's compensation will provide investors with important information about their investments.

We expect all changes or switches to a client's investments to be accurately reported on trade confirmations by reporting each of the purchase and sale transactions making up the change or switch, as required in section 14.12, with a description of the associated charges.

4. The section of Part 14 of the Policy Statement is replaced with the following:

"**Division 5 Reporting to clients**".

5. The Policy Statement is amended by inserting, after section 14.11, the following:

"**14.11.1. Determining market value**

Subsection 14.11.1(1)(b) requires the market value of an investment fund, not listed on an exchange, to be determined by reference to the net asset value provided by the investment fund manager of the fund on the relevant date or the last trading day prior to the relevant date. Subsection 14.11.1(1)(c) requires the market value of a commodity futures contract to be determined by reference to the settlement price on the relevant date or last trading day prior to the relevant date.

For other securities, a hierarchy of valuation methods that depend on the availability of relevant information is prescribed. Registrants are required to act reasonably in applying these methodologies and we understand that this process will often require a registrant to exercise professional judgement.

Where possible, market value should be determined by reference to a quoted value on a marketplace. The quoted value will be the last bid or ask price on the relevant date or last trading day prior to the relevant date. Registered firms should ensure that any quoted values used to determine market value do not represent stale or old prices that are not reflective of current values. If no current value for a security is quoted on a marketplace, market value should be determined by reference to published market reports or inter-dealer quotes.

We recognize that it is not always possible to obtain a market value by these methods. In such cases, we will accept a valuation policy that is consistently applied and includes procedures that assess the reliability of any valuation inputs and assumptions. If available, valuation inputs and assumptions should be based on observable market data or inputs, such as market prices or yield rates for comparable securities and quoted interest rates. If observable inputs are not available, valuation can be based on unobservable inputs and assumptions. In some cases, it may be reasonable and appropriate to value at cost, where there has been no material subsequent event affecting value (e.g. a market event or new capital raising by the issuer). "Observable" and "unobservable" inputs are concepts under International Financial Reporting Standards (IFRS), and we expect them to be applied consistent with IFRS.

Subsection 14.11.1(3) provides that where the registered firm reasonably believes that no reliable market value can be determined, the firm must report that no value can be determined and the security must not be included in the calculation of the total market value of cash and securities in the client's account or in calculations for the investment performance report (see also subsection 14.17(7)).

If the market value for a security subsequently becomes determinable, a registered firm must begin to report it in client statements and add that value to the opening market values or deposits included in the calculations in subsection 14.17(1). This would be expected if the firm had previously assigned the security a value of zero in the calculation of opening market values or deposits because it could not determine the security's market value, as required by subsection 14.17(7). This would reduce the risk of presenting a misleading improvement in the performance of the investment by only adding the value of the security to the other calculations required under section 14.17. If the deposits used to purchase the security were already included in the calculation of opening market values or deposits, the registered firm would not need to adjust these figures.

6. Sections 14.12 and 14.14 of the Policy Statement are replaced with the following:

"**14.12. Content and delivery of trade confirmations**

Section 14.12 requires registered dealers to deliver trade confirmations. A dealer may enter into an outsourcing arrangement for the delivery of trade confirmations to its clients. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the service provider. See Part 11 of this Policy Statement for more guidance on outsourcing.

Trades in fixed income securities

Under paragraph 14.12(1)(b.1), registered dealers must provide the yield of a fixed income security on trade confirmations. For non-callable fixed income securities, the yield to maturity would be appropriate. For callable securities, the yield to call may be more useful. Paragraphs 14.12(1)(c.1) and (c.2) require disclosure of the total amount of compensation paid to dealing representatives of the firm. There is no requirement for the specific disclosure of other compensation embedded in the price of a fixed income security, but a prescribed notification to clients must be included in the trade confirmation to make clients aware that there may in fact be additional dealer firm compensation embedded in the price of the security.

"**14.14. Client statements and security holder statements**

Section 14.14 requires registered dealers and advisers, other than scholarship plan dealers, to deliver statements to clients at least once every three months. A registered dealer, other than a mutual fund dealer or scholarship plan dealer, and a registered adviser may also be required to deliver a monthly client statement at the client's request, or for a registered dealer other than a mutual fund dealer or scholarship plan dealer, if a transaction is made during the month (unless it is under an automatic withdrawal or payment plan). The requirements set out for the frequency of delivering statements are minimum standards. Firms may choose to provide more frequent statements.

There is no prescribed form for client statements except that under subsection 14.14(7.1), the statement must have separate sections for the presentation of the information required under each of:

- subsection 14.14(5) relating to transactions in the reporting period
- subsection 14.14(6) relating to securities held in an account of the client
- subsection 14.14(6.1) relating to certain securities not held in an account of the client but which were transacted for an account of a client

Consistent with the guidance on clear and meaningful disclosure to clients in section 1.1 of this Policy Statement, we expect registrants to present client statements in an understandable manner and to explain, if applicable, what securities are included in each of the three sections of the client statement.

If there is nothing to report under one or more of these subsections, the client statement is not required to include a section for it. For example, if all of a client's securities are held in nominee name in an account with a registered firm and there are no transactions in the reporting period, the client statement only needs to have a section devoted to the information required under subsection 14.14(5). If there is nothing to report under any of the provisions of section 14.14, a firm is not required to send a client statement.

If a client has more than one account with a registered dealer or adviser, and the registered firm sends the client separate client statements for each of those accounts, the firm should include the information required under subsection 14.14(6.2) concerning any securities of the client which it does not hold in the statement for the account through which those securities were transacted.

There are similar requirements in subsections 14.14(8), (9), (10) and (11) tailored to the situation where a security holder on the records of a registered investment fund manager has no dealer or adviser of record.

The requirement to produce and deliver a client statement may be outsourced. Third-party pricing providers may also be used to value securities for the purpose of client statements. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the service provider. See Part 11 of this Policy Statement for more guidance on outsourcing.

Cost of securities in client statements

Subsections 14.14 (6), (6.2) and (10) require the client statement to include the book cost of each security position. As defined in section 1.1, this is the total amount paid for a security, including any transaction charge related to purchasing the security, adjusted for reinvested distributions, returns of capital and corporate reorganizations. Other related charges include transaction charges directly applicable to the security but not operating charges. Registered firms may choose whether to disclose book cost on an aggregate basis for each security position or on an average per security basis. Book cost information will provide investors with a meaningful comparison to the market value of each security position and give them a more accurate view of the capital appreciation or depreciation of their investment in those securities.

Where the information required to calculate the book cost of a position is unavailable, registrants may elect to substitute market value information as at a certain point in time as the book cost going forward. For example, where the account was transferred in to the registrant firm, the market value assigned to the securities as at the date the account was received in by way of transfer may be used instead of book cost.

For an existing account where security cost records are incomplete or known to be inaccurate, the market value as at the [implementation] date or an earlier date may be used as the initial book cost, provided that the date and value selected for the security is

applied consistently to all client accounts for which cost information is incomplete or inaccurate. If the market value cannot be reliably measured for a security position, the cost information should be reported as not determinable.

The requirement to disclose book cost information does not preclude registered firms from also disclosing the original cost of securities if they wish to do so. However, where a registered firm provides both book cost and original cost information, the information should be clearly separated and presented in a way that is designed to avoid client confusion.

Firms must include in client statements a definition of book cost where that term is first used. Firms can comply with that requirement by making reference to a definition in a footnote.

"**14.15. Report on charges and other compensation**

Registered firms must provide clients with an annual report on the firm's charges and other compensation received by the firm in connection with their investments. Please refer to the discussion of charges and other compensation in section 14.2 for the definition of operating and transaction charges.

Scholarship plans often have enrolment fees payable in instalments in the first few years of a client's investment in the plan. Paragraph 14.15(1)(f) requires that scholarship plan dealers include a reminder of the unpaid amount of any such fees in their annual reports on charges and other compensation.

Where amounts such as referral fees, success fees on the completion of a transaction or finder's fees are paid by a third party to a registered firm or any of its registered individuals in relation to a client of the firm, those amounts are reported under paragraph 14.15(1)(g).

Registered firms must disclose the amount of trailing commissions they received related to a client's holdings. "Trailing commission" is defined broadly in section 1.1 and is not limited to the payments relating to mutual fund investments that are commonly known by that name. The disclosure of trailing commissions received in respect of a client's investments must be included in a notification prescribed in paragraph 14.15(1)(h).

Registered firms may want to organize the annual report on charges and other compensation with separate sections showing the charges paid by the client to the firm, and the other compensation received by the firm in respect of the client's account.

Appendix D of this Policy Statement includes a sample Report on Charges and Other Compensation, which registered firms are encouraged to use as guidance.

"**14.16. Investment performance report**

A performance report must be provided to clients every 12 months as part of, or together with, the client statement. We expect registered firms will give this information sufficient prominence among their client reporting materials so that a reasonable investor can readily locate it. For example, the prominence of this information may be enhanced by putting this information on the first page of the client statement or a bold text cross-reference to the performance reporting on the face of the client statement.

Where more than one registrant provides services pertaining to a client's account, the responsibility for performance reporting rests with the registered firm with the client-facing relationship. For example, if a registered adviser has discretionary authority over a client's account at a registered dealer, the adviser must provide the client with an annual investment performance report; this is not an obligation of the dealer that only executes adviser-directed trades or provides custodial services in respect of the client's account.

Performance reporting to clients is required to be provided on an account basis. However, subsection 14.16(3) provides that with client consent, a registrant may provide consolidated performance reporting for that client, instead of account-by-account reports. A registrant may also provide a consolidated performance report for multiple clients, such as a family group, but only as a supplemental report, in addition to reports required under section 14.16.

With respect to performance reporting on client name securities, for a client with more than one account, the registrant should attach the client name reporting to the account through which the securities were transacted.

"**14.17. Content of investment performance report**

Subsection 14.17(5) requires the use of each of text, tables and charts in the presentation of investment performance reports. Explanatory notes and a plain language definition of "total percentage returns" must also be included. The purpose of these requirements is to make the information as understandable to investors as possible.

To help investors get the most out of their investment performance reports and encourage informed discussion with their registered dealing representative or advising representative, we encourage registered firms to consider including:

- additional definitions of the various performance measures used by the registrant
- additional disclosure that enhances the performance presentation
- a discussion with clients about what the information means to them

Registered representatives are also encouraged to meet with clients, as part of an in-person or telephone meeting, to help ensure they understand their investment performance reports and how the information relates to the client's investment objectives and risk tolerance.

Appendix E of this Policy Statement includes a sample Investment Performance Report which registered firms are encouraged to use as guidance.

Opening market value, deposits and withdrawals

As part of paragraph 14.17(1)(a), registered firms must disclose the opening market value of cash and securities in the client's account as at the beginning of the 12 month period preceding the date of the investment performance report, as well as the opening market value at account opening. The opening market value of cash and securities at account opening may be zero. For pre-existing accounts, if the market values for all deposits, withdrawals and transfers since account opening are not available, under paragraph 14.17(1)(b) registered firms should present the market value of all cash and securities in the account as of [implementation date] as a substitute for opening market value, and disclose this basis of presentation to clients. In these cases and for purposes of calculating the change in value of the account since inception, the opening market value at the implementation date and the deposits and withdrawals since the implementation date will be used.

Under paragraphs 14.17(1)(d) and (e), registered firms must also disclose the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, for the 12 month period preceding the date of the performance report, as well as since account opening. Deposits and transfers into the account (which do not include reinvested distributions or interest income) should be shown separately from withdrawals and transfers out of the account. Where an account was opened before [implementation date] and market values are not available for all deposits, withdrawals and transfers since account opening, the market value of all deposits and transfers of cash and securities into the account, and the

market value of all withdrawals and transfers of cash and securities out of the account, since [implementation date] are required to be disclosed.

Subsection 14.17(7) requires a registered firm that cannot determine the market value for a security position to assign the security a value of zero for the performance reporting purposes. As described in section 14.14 of this Policy Statement, if a registered firm is subsequently able to value that security it may need to adjust the calculation of the opening market values or deposits to avoid presenting a misleading improvement in the performance of the account.

Change in value

The opening market value, plus deposits and transfers in, less withdrawals and transfers out, should be compared to the market value of the account as at the end of the 12 month period for which the performance reporting is provided and also since inception in order to provide clients, in dollar terms, with the performance of their account.

The change in the value of the account since inception is the difference between the closing market value of the account and total of opening market value plus deposits less withdrawals since inception. The change in the value of the account for the 12 month period is the difference between the closing market value of the account and total of opening market value plus deposits less withdrawals during the period. Where market values since inception are not available, registered firms are required to disclose the change in value of a client's account since the implementation date.

Generally, the change in value is a reflection of the market performance of the account and includes components such as income (dividends, interest) and distributions, including reinvested income or distributions, realized and unrealized capital gains or losses in the account, and the effect of operating charges and transaction charges if these are deducted directly from the account. Rather than show the change in value as a single amount, registered firms may opt to break this out into its components to provide more detail to clients.

Percentage return calculation method

The return on an investment means the return *on* capital and does not extend to returns *of* a client's capital.

Paragraph 14.17(1)(j) requires the use of the dollar weighted performance calculation method for percentage returns. A registered firm may, if it so chooses, also provide performance information calculated using a time weighted method in addition to the required Information calculated on a dollar weighted basis. In such cases, the firm should take care to avoid client confusion over the two sets of performance information.

Performance reporting periods

Subsection 14.17(2) outlines the minimum reporting periods of 1, 3, 5 and 10 years and the period since the inception of the account. Registered firms may opt to provide more frequent performance reporting. However performance returns for periods of less than one year can be misleading and therefore, must not be presented on an annualized basis, consistent with subsection 14.17(6).

Scholarship plans

Under paragraph 14.17(4)(c), for scholarship plans, the information required to be delivered in the investment performance report includes a reasonable projection of future scholarship payments that the plan may pay to the client or the client's designated beneficiary upon the maturity of the client's investment in the plan.

A scholarship plan dealer is also required under paragraph 14.17(4)(d) to provide a summary of any terms of the plan, which if not met by the client or the client's designated beneficiary under the plan, may cause the client or the designated beneficiary to

suffer a loss of contributions, earnings or government contributions in the plan. The disclosure here is not intended to be as detailed as the disclosure at account opening. It is intended to remind the client of the unique risks of the plan and the ways in which the client's scholarship plan may be seriously impaired. This disclosure must be consistent with other disclosures required to be delivered to clients under applicable securities legislation.

To the extent that a scholarship plan dealer and the plan itself are not the same legal entity but are affiliates of one another, the dealer may meet obligations to deliver annual investment performance reports by drawing attention to the plan's direct mailing of reports to a client by the plan's administrator.

Benchmarks and investment performance reporting

The use of benchmarks for investment performance reporting is optional. There is no requirement to provide benchmarks to clients in any of the reports required under Regulation 31-103.

However, we encourage registrants to use benchmarks that are relevant to a client's investments as a useful way for a client to assess the performance of their portfolio. Benchmarks need to be explained to clients in terms they will understand, including factors that should be considered by the client when comparing their investment returns to benchmark returns. For example, a registrant could discuss the differences between the composition of a client's portfolio that reflects the investment strategy they have agreed upon and the composition of an index benchmark, so that a comparison between them is fair and not misleading. A discussion of the impact of operating charges and transaction charges as well as other expenses related to the client's investments would also be helpful to clients, since benchmarks generally do not factor in the costs of investing.

We also encourage providing in performance reports an historical five-year GIC rate as a benchmark that represents a very low-risk investment alternative. We expect firms to discuss how the low-risk alternative relates to the client's investment goals and risk tolerance.

If a registered firm chooses to present benchmark information, the firm should ensure that it is not misleading. We expect registrants to use benchmarks that are

- discussed with clients to ensure they understand the purpose of comparing the performance of their portfolio to the chosen benchmarks and determine if their information needs will be met

- reasonably reflective of the composition of the client's portfolio so as to ensure that a relevant comparison of performance is presented

- relevant in terms of the investing time horizon of the client

- based on widely recognized and available indices that are credible and not manufactured by the registrant or any of its affiliates using proprietary data

- broad-based securities market indices which can be linked to the major asset classes into which the client's portfolio is divided. The determination of a major asset class should be based on the firm's own policies and procedures and the client's portfolio composition. An asset class for benchmarking purposes may be based on the type of security and geographical region. We do not expect an asset class to be determined by industry sector

- presented for the same reporting periods as the client's annualized total percentage returns

- clearly named

- applied consistently from one reporting period to the next for comparability reasons, unless there has been a change to the pre-determined asset classes. In

this case, the change in the benchmark(s) presented should be discussed with the client and included in the explanatory notes, along with the reasons for the change

Examples of acceptable benchmarks would include, but are not limited to, the S&P/TSX Composite index for Canadian equities, the S&P 500 index for U.S. equities, and the MSCI EAFE index as a measure of the equity markets outside of North America.”.

7. The Policy Statement is amended by inserting, after Appendix C, the following:

"**Appendix D**
Annual Charges and Compensation Report

[Name of Firm]
Annual Charges and Compensation Report

Client name
Address line 1
Address line 2
Address line 3

Your Account Number: 123456

This report summarizes the compensation that we received directly and indirectly in 20XX. Our compensation comes from two sources:

1. **What we charge you directly. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales and other transactions you make in the account.**

2. **What we receive through third parties.**

Charges are important because they reduce your profit or increase your loss from investing. If you need an explanation of the charges described in this report, your representative can help you.

Charges you paid directly to us

RSP administration fee	$100	
Total charges associated with the operation of your account		**$100**
Commissions on purchases of mutual funds with a sales charge	$101	
Switch fees	$45	
Total charges associated with transactions we executed for you		**$146**
Total charges you paid directly to us		**$246**

Compensation we received through third parties

Commissions from mutual fund managers on purchases of mutual funds (see note 1)	$503
Trailing commissions from mutual fund managers (see note 2)	$286
Total compensation we received through third parties	**$789**

Total charges and compensation we received in 20XX $1,035

Notes:

1. When you purchased units of mutual funds on a deferred sales charge basis, we received a commission from the investment fund manager. During the year, these commissions amounted to $503.

2. During the year, we received $286 in trailing commissions on mutual funds you held in your account.

   Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions from that management fee for the service and advice we provide you. The amount of the trailing commissions depends on the sales charge option you chose when you purchased the fund. You are not charged the trailing commission or the management fee. But, as is the case with any investment fund expense, trailing commissions are likely to affect you because, in most cases, they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or Fund Facts document for each fund.

Our current schedule of operating charges

[*As part of the annual report of charges and compensation, registrants are required to provide their current operating charges that may be applicable to their clients' accounts. For the purposes of this sample document, we are not providing such a list.*]

“Appendix E
Sample Account Performance Report

Your investment performance report

For the period ending December 31, 2030

Investment account 123456789

Client name
Address line 1
Address line 2
Address line 3

This report tells you how your account has performed to December 31, 2030. It can help you assess your progress toward meeting your investment goals.

Speak to your representative if you have questions about this report, It is important that you tell your representative if your personal or financial circumstances have changed. Your representative can recommend adjustments to your investments to keep you on track to meeting your goals.

Total value summary

Amount invested means opening market value plus deposits including:

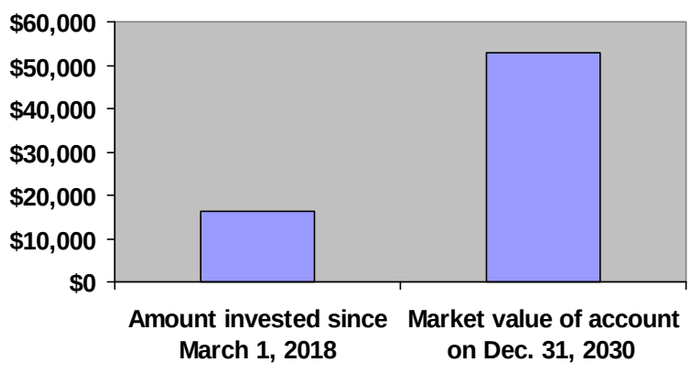
- The market value of all deposits and transfers of securities and cash into your account, not including interest or dividends reinvested.

Less withdrawals including:

- the market value of all withdrawals and transfers out of your account.

Your investments have earned $36,492.34 since you opened the account
Your investments have earned $2,928.85 during the past year

Amount invested since you opened your account on March 1, 2018	$16,300.00
Market value of your account on December 31, 2030	**$52,792.34**



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Change in the value of your account

This table is a summary of the activity in your account. It shows how the value of your account has changed based on the type of activity.

	Past year	Since you opened your account
Opening market value	$51,063.49	$0.00
Deposits	$4,000.00	$21,500.00
Withdrawals	$(5,200.00)	$(5,200.00)
Change in the market value of your account	$2,928.85	$36,492.34
Closing market value	**$52,792.34**	**$52,792.34**

Your personal rates of return

What is a total percentage return? This represents gains and losses of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage.

For example, an annual total percentage return of 5% for the past three years means that the investment effectively grew by 5% a year in each of the three years.

The table below shows the total percentage return of your account for periods ending December 31, 2030. Returns are calculated after charges have been deducted. These include charges you pay for advice, transaction charges and account-related charges, but not income tax.

Keep in mind your returns reflect the mix of investments and risk level of your account. When assessing your returns, consider your investment goals, the amount of risk you're comfortable with, and the value of the advice and services you receive.

	Past year	Past 3 years	Past 5 years	Past 10 years	Since you opened your account
Your account	5.80%	-1.83%	2.76%	8.07%	11.07%

Calculation method
We use a dollar-weighted method to calculate rates of return. Contact your representative if you want more information about this calculation.

The returns in this table are your personal rates of return. If you have a personal financial plan, it will contain a target rate of return, which is the return required to achieve your investment objectives. By comparing the rates of return you actually achieved (shown in the table) with your target rate of return, you can get see whether you are on track to meet your investment objectives. Contact your representative to discuss your rate of return and investment objectives.

8. The French text of the Policy Statement is amended by replacing, in sections 11.2 and 11.5, the words “activités commerciales” with the words “activités professionnelles” and by replacing, in section 13.4, wherever they appear, the words “activités externes” with the words “activités professionnelles externes”.