Canadian Securities Administrators | Autorités canadiennes en valeurs mobilières

CSA Staff Notice 31-345
Cost Disclosure, Performance Reporting and Client Statements – Frequently Asked Questions and Additional Guidance

April 14, 2016

Background

Amendments to *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**Regulation 31-103**) and *Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**Policy Statement 31-103** or the **Policy Statement**) implementing phase 2 of the Client Relationship Model (**CRM2**) came into force on July 15, 2013 (the **CRM2 Amendments**). Staff of the Canadian Securities Administrators (**CSA staff** or **we**) have compiled these frequently asked questions and our responses as well as further guidance (**FAQs**) in addition to that which we published in CSA Staff Notice 31-337 *Cost Disclosure, Performance Reporting and Client Statements – Frequently Asked Questions and Additional Guidance as of February 27, 2014* (**CSA SN 31-337**). FAQs from CSA SN 31-337 have been consolidated with the further FAQs in this notice. For that reason, CSA SN 31-337 is hereby withdrawn. Some of the earlier FAQs have been superseded in part by the further FAQs or left out of this consolidation because they are no longer necessary. Among other things, this notice includes a section on the applicability of the CRM2 Amendments to exempt market dealers. Some parts of this guidance were previously published in *CSA Staff Notice 31-324 Exempt market dealers and account statement requirements in Regulation 31-103 respecting Registration Requirements and Exemptions* (**CSA SN 31-324**). With the publication of the updated guidance in this notice, CSA SN 31-324 is also hereby withdrawn.

In this notice, "**registered firm**" or "**firm**" includes both registered dealers and registered advisers unless otherwise specified, and we refer to mutual fund dealers as "**MFDs**", exempt market dealers as "**EMDs**", portfolio managers as "**PMs**" and investment fund managers as "**IFMs***"*.

All references in this notice to sections, subsections, paragraphs and subparagraphs are to Regulation 31-103, unless otherwise noted.

CRM2 Transition
These FAQs concern ongoing CRM2 Amendments. The CRM2 Amendments are being phased-in over a three-year transition period from 2013 through 2016. Certain transitional relief has been published in the form of blanket or omnibus orders issued by all Canadian Securities Administrators (**CSA**) members and in housekeeping amendments to member rules of the self-regulatory organizations **(SROs)**, the Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**). The CSA and the SROs have also published CRM2 implementation planning tips documents. Registrants should refer to these publications for information that may be relevant to their transition planning.

CRM2 Amendments and EMDs

With the exception of a few provisions specific to IFMs and a few provisions relating to scholarship plans that will have unique implications for scholarship plan dealers, the CRM2 Amendments do not differentiate between categories of registrant. Any differences in the application of the CRM2 Amendments between different registered dealers or registered advisers will be the result of their different operating models, which may bring different CRM2 Amendments into play for them.

The CRM2 Amendments include exemptions with respect to permitted clients that are not individuals and there are corresponding exemptions in IIROC member rules. Consequently, firms that focus exclusively on institutional investors may not be significantly affected by the introduction of the CRM2 Amendments.

Questions about how the CRM2 Amendments will apply to a category of registrant are most often asked with regard to EMDs that are not also registered as advisers or in another category of dealer (**sole EMDs**). The guidance below discusses how the CRM2 Amendments may affect a sole EMD. It in no way supersedes the provisions in Regulation 31-103.

Overview:

Holding client assets and other specified criteria

The applicability of some of the CRM2 Amendments depends on whether a registered firm holds client assets (account statements) or, if it does not, whether certain other specific criteria apply (additional statements). Other CRM2 Amendments may or may not apply depending on whether a registered firm has a "client" at the relevant point in time (annual report on charges and other compensation, and annual report on investment performance).

Sole EMDs do not normally hold client assets and where that is the case, they can disregard provisions that only apply where client assets are held by a registered firm. In circumstances where a sole EMD holds client assets (as may be the case with mortgage syndications), it must deliver account statements with the information required under subsections 14.14(4) and 14.14(5) along with position cost information under section 14.14.2. Furthermore, since holding client assets is a clear indication of an ongoing client relationship, a sole EMD is also subject to the requirement to deliver an annual report on charges and other compensation under section 14.17 and an annual investment performance report under section 14.18.

Transactional vs ongoing client relationship

Some sole EMDs have only limited, transactional relationships with their clients – as opposed to the ongoing client relationships that are typical of most other registrants' operating models. An example of a transactional relationship would be where an EMD's relationship with a client is limited to a specific private placement transaction and does not involve

- a security specified in paragraph 14.14.1(1)(c)
- any trailer fee or similar ongoing compensation in relation to the client's ownership of a security
- the EMD holding client assets
- any expectation on the part of the EMD that there may be further transactions with the client or services provided to the client. For example, if an EMD regularly contacts the client regarding any securities offered by the EMD, this will be considered an ongoing relationship.
- any expectation on the part of the client that the EMD will continue to provide services to the client after the completion of the transaction. The example described above applies in this case as well.

In this example, the EMD would be required to deliver one account statement with transactional information under subsection 14.14(4), but would not be required to deliver any

- further account statements under section 14.14
- additional statements under section 14.14.1
- position cost information under section 14.14.2
- annual report on charges and other compensation under section 14.17
- annual investment performance report under section 14.18

A sole EMD should consider carefully whether it is in an ongoing client relationship before concluding that any of the CRM2 Amendments does not apply to it.

Section-by-section analysis:

Relationship disclosure information, pre-trade disclosure of charges and trade confirmation
A sole EMD always has a client at the time of the transaction and will be subject to CRM2 Amendments (and other Regulation 31-103 requirements) relating to the relationship disclosure (section 14.2), pre-trade disclosure of charges (section 14.2.1) and trade confirmations (section 14.12). However, if it has no other dealings with the investor, the EMD might conclude that it is no longer in a client relationship at the point in time when it would otherwise be required to prepare further client statements and reports, as discussed below.

Account statements
An account statement has two principal elements: transactional information and account position information. Transactional information is specific to the securities involved and is required in almost all circumstances where there has been a transaction. Account position information is a snap-shot of the whole account and is required only where the firm holds client assets.

Subsection 14.14(1) requires an EMD to deliver transactional information prescribed under subsection 14.14(4) to clients on a quarterly basis or, if so requested, each month. This requirement applies regardless of whether the firm holds client assets. For EMDs that hold client assets, account position information under subsection 14.14(5) is also required. Note that subsection 14.14(2) requires an EMD to deliver an account statement with transactional information under subsection 14.14(4) "after the end of ***any month*** in which a transaction was effected in securities ***held*** by the dealer in the client's account" [emphasis added].

The effect of these requirements is that, if one or more transactions occurred in the reporting period, a sole EMD must provide the client with an account statement with transactional information (but not account position information if no clients assets are held) either

- at the end of the month, if requested by a client, or
- at the end of the quarter, by default.

This applies even where an EMD does not have an ongoing client relationship.

Additional statements
An "additional statement" (registered firms subject to the requirements in section 14.14.1 are not required to call it this in client communications – "account statement" would do for those purposes) is the way clients get the equivalent of account position information where the registered firm does not hold their assets. It only applies in certain circumstances.

More specifically, subsection 14.14.1(1) requires a registered dealer or adviser that does not hold client assets to provide an additional statement with account position information under subsection 14.14.1(2) on a quarterly basis if

- it has trading authority over the client's account in which the securities are held or were transacted (not, of course, applicable to a sole EMD),
- it receives certain continuing payments in respect of securities it traded for a client (e.g., trailing commission), or
- it is the dealer of record for a client's securities issued by a mutual fund or certain labour-sponsored investment vehicles (EMDs trading securities of an investment fund should be aware of the definition of "mutual fund" under securities legislation).

In effect, a registered firm is deemed to have an ongoing client relationship in these circumstances. If none of these circumstances apply, there is no requirement for a sole EMD to provide clients with an additional statement.

Position cost information
Subsection 14.14.2(1) requires quarterly delivery of position cost information under criteria which effectively mean that if a sole EMD has to provide account position information to a client, either in an account statement or an additional statement, it also has to provide position cost information to the client.

Annual report on charges and other compensation
Subsection 14.17(1) requires delivery of a report on charges and other compensation to a client every 12 months. This is an instance where a sole EMD must decide whether it has an ongoing client relationship, as discussed above. It certainly does if it is subject to the requirement to provide account position information to a client, either in an account statement or an additional statement.

However, even if the requirement in subsection 14.17(1) is triggered, the EMD would not be required to send a "nil" report if none of the specified charges or other compensation were received by it during the 12-month period.

Annual investment performance report
Subsection 14.18(1) requires annual delivery of an investment performance report to a client. The considerations discussed above will also apply when determining whether an EMD has an ongoing client relationship that would require it to provide an investor with this report.

Note that the elements of the performance report set out in section 14.19 will depend on market values that are contained in the account position information provided in the account statements and additional statements sent under sections 14.14 and 14.14.1, respectively. There is no requirement to deliver a performance report if none of a client's securities can be valued.

CRM2 Amendments and SRO Members

The CSA have approved member rules of the SROs that are harmonized with the CRM2 Amendments. Provided that they are in compliance with applicable rules of their SRO, dealers that are members of IIROC and the MFDA are exempt from the corresponding requirements of Regulation 31-103. Although the CRM2 requirements in SRO rules and Regulation 31-103 are harmonized to a high degree, there are a few differences and SRO members should look first to guidance from their SRO if they have questions about the interpretation of CRM2 requirements, turning to CSA guidance (including these FAQs) only if a question is not addressed in guidance from their SRO.

Note that IIROC and MFDA members who are also registered in categories that do not require SRO membership may be required to comply with Regulation 31-103 in respect of activities carried on under that other registration. For example, if a firm is registered as an IFM and is also registered as a MFD and a member of the MFDA, it will be subject to the requirements in Part 14 of Regulation 31-103 that apply to IFMs, but it will be able to rely on exemptions set out in Part 9 of Regulation 31-103 in respect of its MFD activities, so long as it complies with the corresponding requirements in MFDA member rules.

Applicability of SROs' CRM2 Guidance to non-SRO Members

In these FAQs, we have incorporated some SRO guidance concerning questions that have also been asked of CSA staff by non-members. We also endorse more generally the CRM2 guidance that the SROs have published for their members. Although some of the SRO guidance is specific to the operating models of member firms or may relate to aspects of member rules that differ in detail from the corresponding requirements in Regulation 31-103, much of it can be instructive for non-members who have questions that have not been specifically addressed in CSA guidance.

FREQUENTLY ASKED QUESTIONS

	QUESTION	ANSWER
General Questions		
1.	When does someone cease to be a client, such that a registrant is no longer required to provide the statements and reports contemplated in the CRM2 Amendments?	It is not possible to provide a bright line test for determining when a client relationship has ended that will apply in all cases. We expect firms to exercise reasonable professional judgement, erring in favour of providing client reporting where there is doubt as to whether there is still a client relationship. Some principles that apply to the exercise of that judgement are: • A person remains a client of a registered dealer or adviser for so long as the dealer or adviser holds securities owned by the person, or the circumstances described in subsection 14.14.1(1) [*additional statements*] apply.

QUESTION		ANSWER
		• A firm should consider the totality of its dealings with a client and the client's expectations of ongoing services from the firm. • Whether a client relationship is ongoing or not depends on the particular facts and circumstances of the relationship. Note that a registered dealer or adviser may not avoid the client reporting requirements in Regulation 31-103 by selectively choosing to cease to be the dealer of record for some of a client's securities. For example, a dealer may not tell the IFM of a client's mutual funds that it is no longer the dealer of record for some of the client's securities (unless those securities have been transferred to an account of the client at another dealer or an adviser), and at the same time, keep an account for the client. See also the guidance in question 35 regarding section 14.15 [*security holder statements*].
2.	Do disclosure and reporting requirements in CRM2 Amendments apply to other investments that may not be securities, such as segregated funds?	The jurisdiction of the CSA limits the CRM2 Amendments to securities (including derivatives or exchange contracts, as applicable, in certain jurisdictions pursuant to the requirements of section 1.2 of Regulation 31-103). Nonetheless, we encourage registrants to provide their clients with information that meets the standards set in the CRM2 Amendments in respect of all of their investments. This will enable investors to better understand the relative costs of different investments and their performance. Note that requirements imposed by SROs may extend to such investments.
3.	Where should switch fees and short-term trading fees be reported?	Switch fees charged by a registered dealer or adviser are considered a transaction charge (see the discussion of the definition of "transaction charge" in section 14.2 of the Policy Statement). They must be disclosed before the trade (section 14.2.1), in a trade confirmation (paragraph14.12(1)(c)) and in the annual report on charges and other compensation (paragraph 14.17(1)(c)). Short-term trading fees paid to an investment fund must be disclosed in a trade confirmation but are not included in the requirements for the annual report on charges and other compensation.
14.2 Relationship disclosure information		
4.	Before July 15, 2013, there was an exemption in former subsection 14.2(6) from section 14.2 in respect of a permitted client if (a) the client had waived it in writing, and (b) the registrant did not act as an adviser in respect of a managed account of the client. Under the CRM2 Amendments, the exemption was changed to a permitted client that is not an individual. Is the registrant now required to deliver relationship disclosure information to an individual permitted client who had	Yes. If the individual permitted client had previously waived relationship disclosure information, in light of the CRM2 Amendments, a registered firm must deliver relationship disclosure to all individuals, whether or not they are permitted clients. We expect registered firms to act reasonably as to when they next deliver the relationship disclosure information. If there is a significant change in respect of the relationship disclosure information, then the registered firm should act right away. Otherwise, we would expect the relationship disclosure information to be updated the next time a firm purchases or sells a security for a client or advises a client to purchase, sell or hold a security.

	QUESTION	ANSWER
	previously waived the section?	
5.	If an individual permitted client has waived the suitability requirement under subsection 13.3(4), how will a firm meet the requirement in paragraph 14.2(2)(k) to deliver a statement that the firm has an obligation to assess whether a purchase or sale of a security is suitable for a client prior to executing the transaction or at any other time?	When there is no obligation to make a suitability determination because of the application of subsection 13.3(4), the firm will have met the requirement in paragraph 14.2(2)(k) by simply informing the client that the firm has no suitability obligation because the client has waived the requirement.
6.	If a firm is exempt from certain know your client (**KYC**) obligations under subsection 13.2(6), how will it meet the requirement in paragraph 14.2(2)(l) to deliver the information a registered firm must collect about the client under section 13.2?	The firm will meet the requirement in paragraph 14.2(2)(l) by delivering the information collected under the KYC obligation in section 13.2. If a firm is exempted from collecting certain KYC information, then the firm is not obligated to deliver that information under paragraph 14.2(2)(l).
7.	Will the CSA be providing additional guidance on benchmarks? Are benchmarks optional? If a firm decides to provide benchmarks, what is the expected frequency?	Other than a general discussion as part of the relationship disclosure information requirement in paragraph 14.2(2)(m), there is no requirement for registered firms to provide benchmark information to clients and for greater certainty, we have provided guidance under sections 14.2 [*relationship disclosure information*] and 14.19 [*content of investment performance report*] of the Policy Statement. Since benchmarks are optional, we did not prescribe any periods or other specifications for provision of benchmark information. However, we have provided guidance on the provision of benchmarks in section 14.19 of the Policy Statement, including, importantly, that benchmark information not be misleading. We are not providing specific guidance on benchmarks beyond that already set out in the Policy Statement. We expect firms to use their professional judgement when determining which benchmarks are relevant to a client's investments and explain to clients the use of benchmarks in terms they will understand.
8.	When does the guidance on the use of benchmarks set out under section 14.19 [*content of investment performance report*] in the Policy Statement come into effect?	The guidance in section 14.19 of the Policy Statement is relevant to the use of benchmarks today and is consistent with previously published guidance.
14.2.1 Pre-trade disclosure of charges		
9.	Can registrants use the Fund Facts document to satisfy the requirements in section 14.2.1 [*pre-trade disclosure of*	If a registrant delivers the Fund Facts document at the point of sale and explains the specific costs of the transaction to the client, then the registrant may use it further to satisfy the requirements of section 14.2.1 for the disclosure of charges related to the transaction. Since the

	QUESTION	ANSWER
	charges]? The question arises because Policy Statement 31-103 suggests a mutual fund's management fee should be discussed in the pre-trade disclosure of charges, but the Fund Facts document is not required to include the management fee in all cases (only in the case of a new fund for which the management expense ratio (**MER**) is not available).	management fee generally constitutes most of the MER of a mutual fund, we think this would be in line with the guidance in the Policy Statement.
10.	Must charges associated with a transfer of securities be disclosed before the transfer is effected?	A transfer is a transaction, so the client must receive pre-trade disclosure of charges. Whether it is the delivering registered firm or the receiving registered firm that provides a client with information about charges associated with a transfer (or both of them) will depend on which of them has the relevant information.
11.	Must pre-trade disclosure be provided where standard charges apply?	Yes. But, in the case of a client who is a frequent trader, where the firm has good reason to believe applicable charges are well understood, a brief confirmation that the usual charges will apply would be acceptable.
14.11.1 Determining market value		
12.	What if the net asset value (**NAV**) of an investment fund which is not listed on an exchange is not available on a daily basis?	The most recent NAV provided by the IFM should be used. If a registered dealer or adviser reasonably believes the NAV for an investment fund is stale or otherwise inaccurate, it may include an explanatory note to that effect in the statement provided to its client.
13.	Can a registered firm rely on a valuation provided by the issuer of securities when the firm is determining market value under section 14.11.1?	A registered firm that is required to provide market value information determined under section 14.11.1, is responsible for the information reported to its clients. The firm may not simply take valuation information from an issuer and pass it on to clients as the market value for purposes of the firm's reporting obligations. The firm must exercise its professional judgement as to the reliability of information provided by an issuer as an input to the firm's determination of market value. It should retain a record of the reasons for its decision.
14.	Why use last bid/ask price instead of closing price? Is it not misleading sometimes; for example, when there are large bid-ask deviations?	We chose last bid/ask price because not all securities are actively traded on a marketplace and there have been consistent problems with firms using stale data based on old closing prices. That said, we recognize that no one measure will always work best, so the requirement is for the firm to report the amount it reasonably believes to be the market value, after making any adjustments it considers necessary to accurately reflect the market value.
15.	Where there is an active market for a security, can a firm use the closing price in determining market value?	In the case of a liquid security for which a reliable price is quoted on a marketplace, if it can be demonstrated through use of a periodic assessment that a "last traded price" valuation approach results in security market values that are materially the same as under the "last bid and ask prices" valuation approach, it may be acceptable to use this current "last traded price" valuation approach.

QUESTION		ANSWER
16.	In the case of illiquid securities, when should a registered firm indicate that the market value is not determinable or is zero?	The prescribed methodology for determining market value must be applied where the value cannot be readily determined by reference to an active market. A firm may not simply default to stating that market value is not determinable or is zero. If, having applied the prescribed methodology, the firm reasonably believes it cannot determine the market value of a security, it must then report its value as "not determinable" in client statements and exclude it from the calculations in client statements and reports, as prescribed in subsection 14.11.1(3). This is not the same as determining that the market value of a security is zero for purposes of client statement reporting. However, we would expect that if the market value of a security cannot be determined for a prolonged period of time, that may be an indication that the market value of the security should now be determined to be zero. The following considerations can be used in determining when the market value for a particular security is "not determinable": • the security is illiquid • there is little or no issuer and issuer-related financial data available, or the data is stale • there is little or no financial data available for comparable issuers or for the issuer's business sector • there is not enough data to use the International Financial Reporting Standards (**IFRS**) based valuation methodologies prescribed in paragraph 14.11.1(1)(b) and/or the results of the various IFRS methodologies used have been determined to be unreliable because of the use of unreliable data or the results indicate a wide range in possible values • the acquisition cost of the security is no longer a good estimate of the security's market value as the cost is outside the range of possible values for the security Important to applying these considerations is establishing and maintaining a firm policy as to how many days beyond which the last data available is considered to be stale. Similarly, key to determining which securities are assigned a market value of zero is establishing and maintaining a firm policy as to how many days a security can have a "non determinable" value beyond which the market value of the security is considered to be zero. Firms are reminded that for calculations required to prepare investment performance reports, subsection 14.19(7) prescribes a deemed market value of zero for a security whenever a firm believes it cannot determine its market value.
14.12 Content and delivery of trade confirmation		
17.	The prescribed notification under subparagraph 14.12(1)(c.1)(ii) says remuneration "has been" added or deducted from the price of the security. Can "has been" be replaced with "may have been" where the firm will have difficulty determining which trades had dealer firm remuneration added and which did not?	Yes. Since the requirement is to provide a notification that is "substantially" in the form prescribed, a firm can modify the prescribed text to use "may have been" instead of "has been", provided the firm has made reasonable efforts to determine whether it can make the more definitive statement to the client.

QUESTION		ANSWER
14.14 Account statements and 14.14 1 additional statements		
18.	Is there any additional guidance on providing electronic statements?	*Policy Statement 11-201 respecting Electronic Delivery of Documents* provides guidance to securities industry participants who want to use electronic delivery to satisfy any applicable delivery requirements in securities legislation. Monthly and/or quarterly statements, as applicable can be delivered electronically. All of the content required under section 14.14 and, where applicable, section 14.14.1 must be provided at the required intervals. However, if a firm chooses to provide electronic access to account information on a more frequent basis than required in sections 14.14 and 14.14.1, that supplementary access does not have to conform with the requirements of those sections.
19.	How do the account statement and additional statement requirements in sections 14.14 and 14.14.1 apply where a registered firm does not (a) hold or control a client's securities, nor (b) meet criteria set out in subsection 14.14.1(1)?	Under subsection 14.14(4), the registrant will be required to provide the client with an account statement that sets out transaction information for the reporting period in which a transaction occurred. The account position information required under subsection 14.14(5) will not be required. There will be no requirement to provide an additional statement under section 14.14.1.
20.	If securities are transferred to a managed account for passive holding, is the PM responsible for reporting on these "legacy" securities?	Yes, if securities are in an account managed by a PM, that PM is responsible for reporting on them.
21.	If a security is redeemable at a discount to market value (e.g., "95% of net asset value if sold within 2 years"), should this security be shown as subject to a deferred sales charge under paragraphs 14.14(5)(g) and 14.14.1(2)(h)?	Yes. It is a deferred sales charge in substance: a contingent cost that the client should be reminded to bear in mind before making a decision to sell the position.
22.	Can an account statement or additional statement cover more than one account?	No. There is no provision for consolidated statements in section 14.14 or 14.14.1. A registered dealer or registered adviser must provide every client with an applicable statement for each of their accounts. Registered firms may provide supplementary reporting that they think their client might find useful. For example, a firm might provide a consolidated year-end statement where a client has requested a consolidated performance report under subsection 14.18(4).
23.	If a client's assets are held at a third party custodian, must account statements or additional	Yes. The requirements in sections 14.14 and 14.14.1 apply in respect of cash and securities that are in the client's account with a registered firm or traded through the account. The use of a third party custodian has no

QUESTION		ANSWER
	statements that a registered firm delivers to the client include cash that is held for the client by the custodian?	effect in this regard.
24.	What should be disclosed in an additional statement about the party that holds the securities?	The disclosure must provide sufficient information for the client to be able to identify the party that holds their securities. A custodian must be named (e.g., "X is the custodian that holds these securities as nominee for you"). A more general statement concerning securities held in the client's name at an issuer is acceptable, since the name of an issuer is evident (e.g., "These securities are registered in your name at the fund company / the company that issued them.")
14.14.2 Position cost information		
25.	How should short positions be reported?	If using book cost, a short security position should be reported as the total amount received for the security, net of any transaction charges related to the sale, adjusted for any distributions (other than dividends), returns of capital and corporate reorganizations. If using original cost, a short security position should be reported as the total amount received for the security, net of any transaction charges related to the sale.
26.	Does "within 10 days after" in paragraph 14.14.2(4)(c) mean within 10 business days or 10 calendar days?	References to "days" in the CRM2 Amendments are to calendar days.
27.	Can a firm adjust position cost to align it with tax cost or otherwise provide a value that reflects tax cost instead of position cost?	No. A firm must provide position cost using either original cost or book cost as defined in section 1.1. If a firm also wishes to provide tax cost information in addition to position cost, it may do so, so long as the differences are made clear to the client.
28.	Can the position cost of flow-through shares be reduced down to zero following the allocation of gains and losses for tax purposes (assuming book cost is used, rather than original cost)?	No. Book cost for CRM2 reporting is as defined in section 1.1 and is not intended to be tax cost. Therefore, the allocation of gains and losses in a flow-through (as vs. actual distributions) is not factored into the book cost of a position.
29.	In determining position cost for transferred securities, can a registered firm rely on position cost information provided by the transferring firm?	Yes, if • the transferring-out firm is also subject to the requirement to provide individual position cost information to clients, and • the transferring-in firm has no reason to believe the information is not reliable.
30.	Can a firm use one of book or original cost for some positions, and market value for other positions on the same statement?	Yes. You must identify which method is used for each security position. Subparagraphs 14.14.2(2)(a)(ii) and (b)(ii) set out the circumstances in which it is acceptable to use market value instead of using original or book cost.
31.	How should position cost be	An average can be used to determine the cost of the position. The average

QUESTION		ANSWER
	determined if a security position is built up with successive purchases, and original or book cost is available for some purchases but market value has also been used?	may include cost information based on either or both of (a) the book cost or original cost determined in accordance with the definitions of those terms in section 1.1, and (b) market value used where section 14.14.2 contemplates it (where a security position was opened before the transition to CRM2 or was transferred into the account). The disclosure applicable where market value is used should be modified as may be necessary. For example: "The cost of this security position has been determined using an average of market value as of the date on which some securities were transferred into your account when it was opened, and the book cost of securities that we subsequently purchased for your account." It is also permissible to differentiate between positions in the same security, reporting (a) and (b) above separately, instead of averaging them into a single number. This alternative approach has the potential to confuse clients. Clear explanatory notations should be provided if it is used.
32.	Is it necessary to indicate which security positions have been valued using market value rather than original cost or book cost, or is it acceptable to provide blanket disclosure along the lines of "where book/original was unavailable, we used…"?	Reporting is per security position and so you do need to indicate what method was used to determine its cost. A client statement might have an asterisk that indicates each position that was valued at book, and another flag that indicates other positions where "because book cost information was unavailable, we have used market value information as of the transfer date as the position cost" or similar disclosure. When an average of book or original cost and market value is used to determine the cost of a position, the disclosure should be modified as may be necessary.
33.	If client moves from one series of a fund that is organized as a trust to another series of the same fund (e.g., a deferred sales charge schedule is up and the investor is moved to a different series with either the same or a lower management fee), will the position cost change?	Position cost will not change unless there is a fee associated with the switch because the client is still invested in the same fund with the same portfolio of underlying investments.
34.	If a client moves from one fund to another fund within a "corporate class" fund structure (e.g., to execute a change in investment strategy), will the position cost change?	Yes, the position cost will change because the client is now invested in a different fund, with a different portfolio of underlying investments. The fact that there may not be a disposition for tax purposes is not relevant to this determination. See subsection 1.3(1) in both *Regulation 81-102 respecting Investment Funds* and *Regulation 81-106 respecting Investment Fund Continuous Disclosure*: "Each section, part, class or series of a class of securities of an investment fund that is referable to a separate portfolio of assets is considered to be a separate investment fund for purposes of this Regulation." The same analysis is applicable with respect to section 14.14.2.
14.15 Security holder statements		
35.	Is there any guidance regarding the requirement to send a statement for "orphaned accounts"?	The requirement for an IFM to send a security holder statement to an account without a dealer of record – an orphaned account – is not new. This is an accommodation of the temporary and very limited circumstance that arises where there ceases to be a registered dealer or adviser serving the client. See also the guidance in question 1 regarding

QUESTION		ANSWER
		when a client relationship has ended. The CRM2 Amendments in section 14.15 expand the existing requirements for the information that IFMs must send to security holders to include some of the information registered dealers and advisers will be required to deliver to their clients, such as position cost information.
14.17 Report on charges and other compensation		
36.	The requirement to provide an annual report on charges and other compensation comes into effect on July 15, 2016. For what period will the first annual report be required?	Firms may have various reporting cycles, on a calendar year basis or otherwise. If July 15, 2016 falls within the start and end dates of a 12-month period, an annual report will be required for that period. So if a firm reports or wishes to report on a calendar year basis, the first annual report will be required for a period from January 1, 2016 to December 31, 2016. If a firm reports or wishes to report for a period ending July 15, then the first annual reports will be required for the period beginning July 16, 2015.
37.	If there are no charges or other compensation to be disclosed, is a nil report still required to be delivered?	No, nil reports on charges and other compensation are not required.
38.	Are the charges levied within an investment fund held by an investor (e.g., management fees) included in operating charges? Do PMs who manage their clients' money through pooled funds have to "look through" to those fees?	No. We would expect this information to be disclosed as part of the relationship disclosure information delivered at account opening or when the investment is made. However, a firm is not required to include the fund management fee in its annual report on charges and other compensation. The definition of operating charge is specific to the account and is not a product related fee. Operating charges (and transaction charges) include only charges paid to the registered firm by the client. Nonetheless, if such fees are a significant part of the PM's compensation model – say if a PM used in-house funds as the primary investment vehicle for its clients and took much of its compensation in fund management fees instead of the traditional fee based on clients' assets under management – we would expect that the firm would communicate to its clients about the way it is being compensated, consistent with the duty to deal fairly, honestly and in good faith with clients.
39.	If a client leaves the firm and transfers out in the middle of the year, does the firm have an obligation to send an annual report on charges and other compensation?	Once the client relationship has ended, there is no longer an obligation to send an annual report on charges and other compensation. We do, however, encourage firms to provide departing clients with information on charges and other compensation received during the year-to-date.
40.	Does the requirement to disclose the dollar amount of trailing commissions mean separate disclosures for the amount paid to the firm and the amount paid to the registered representative?	The report on charges and other compensation is at the firm level. This means the dollar amount of trailing commissions disclosed in the report is the total amount received in respect of the client's holdings. That amount is not broken down to show how much the firm retained and how much it passed on to the client's dealing or advising representative. The intention is that the client will see the aggregate amount of trailing commission that was generated by their account.
41.	How should typical mutual fund	If there is an up-front commission charged to the client by the registered

QUESTION		ANSWER
	related charges other than trailing commissions be reported in the annual report on charges and other compensation?	dealer or adviser when the securities are purchased, it would be included in the amount reported under paragraph 14.17(1)(c). In the sample annual report in Appendix D of the Policy Statement, this appears under "Charges you paid directly to us ... Commissions on purchases of mutual funds with a sales charge". If there is a commission or other payment from the IFM or another party other than the client to the registered dealer or adviser when the securities are purchased, that payment is reported under paragraph 14.17(1)(g). In the sample annual report in Appendix D of the Policy Statement, this appears under "Compensation we received through third parties ... Commissions from mutual fund managers on purchases of mutual funds (see Note 1)". If, when the securities are sold by the client (i.e., redeemed back to the issuer), a deferred sales charge is triggered but no commission or other payment goes to the registered dealer or adviser, there is no requirement to include it in the annual report. If, when securities are sold by the client, a commission or other payment was received by the registered dealer or adviser, it would be reported under paragraph 14.17(1)(c) or (g), depending on whether it was paid by the client or another party. See also the guidance in question 3 regarding switch fees and short-term trading fees. If a registered dealer or adviser is concerned that clients might assume trailing commissions are charged directly to the client, we would have no objection to the firm including in its annual reports a clear explanation of the charges. For example, note 1 in the sample Report on Charges and Other Compensation in Appendix D of the Policy Statement could be expanded along the lines of the second paragraph in note 2.
42.	If a registered dealer or adviser receives referral fees in relation to registerable services to the client during a reporting period and the client has two or more accounts with the firm, how should the firm disclose the referral fees in the annual reports for the client's accounts?	If the referral fees relate only to one of the client's accounts, they would be included in the annual report for that account alone. If the referral fees relate to more than one of the client's accounts, we expect the firm to present disclosure information in a clear and meaningful manner. For example, the firm could report the full amount in the annual report for each account, or report a pro-rated amount in the annual report for each account, but in either case the firm should include an explanatory note so that the client will not be confused as to the total amount of the referral fees received by the firm during the period.
43.	How should rebated fees be reported?	The requirement is to report the full (i.e., gross) amount the client was charged by the registrant, rather than a reduced amount (i.e., the charge net of fees). However, a firm may choose to provide the net amount along with the gross amount, so long as it also includes an explanatory note. Firms paying rebates in respect of mutual fund-related charges should also refer to *Regulation 81-105 respecting Mutual Fund Sales Practices*, section 7.1.
44.	What reporting is required if a firm receives payment from an issuer, IFM or PM of a fund based on a "high water mark" performance of a security it has traded to a client's account?	Regardless of what they are called and regardless of whether they are paid directly to the registered firm or as a shared portion of compensation paid to a PM of the fund, such payments are compensation for trading securities to investors and must therefore be included in the annual report on charges and other compensation pursuant to paragraph 14.17(1)(g).

	QUESTION	ANSWER
45.	Does the requirement in paragraph 14.17(1)(a) to deliver a registered firm's current operating charges that might be applicable to the client's account mean that the firm must include the fees for every service the firm offers?	No. A firm may only include the fees for those of its services that it would reasonably expect the particular client to utilize in the coming 12-month period.
14.18 Investment performance report		
46.	The requirement to provide an annual investment performance report comes into effect on July 15, 2016. For what period will the first annual report be required?	Firms may have various reporting cycles, on a calendar year basis or otherwise. If July 15, 2016 falls within the start and end dates of a 12-month period, an annual report will be required for that period. So if a firm reports or wishes to report on a calendar year basis, the first annual reports will be required for a period from January 1, 2016 to December 31, 2016. If a firm reports or wishes to report for a period ending July 15, then the first annual reports will be required for the 12-month period beginning July 16, 2015.
14.19 Content of investment performance report		
47.	Can a registered firm send performance reports to its clients more frequently than once per year? If so, must all of its performance reports include all of the content prescribed for annual reports and be formatted in accordance with subsection 14.19(5)?	So long as a performance report that includes the prescribed content is delivered annually, firms are free to send more frequent reports. Such supplementary reports need not include the prescribed content and need not be formatted in accordance with subsection 14.19(5).
48.	If a firm chooses to provide percentage returns calculated using both money-weighted rate of return (MWRR) and time-weighted rate of return (TWRR) methods, what are the requirements for using TWRR?	The CRM2 Amendments do not prescribe periods, accounts or other specifications for the provision of additional percentage return information using TWRR. A firm may show returns using TWRR, as long as the firm also provides the return using MWRR in accordance with the requirements in section 14.19. In such cases, in addition to the general explanation in plain language of what the MWRR calculation method takes into account required under paragraph 14.19(1)(j), the firm should similarly explain the TWRR calculation method in plain language and help clients understand the difference between the two sets of performance returns.
49.	Will the CSA publish an approved formula to calculate MWRR?	No. There are different ways of calculating MWRR and the requirement is that firms use a method that is generally accepted in the securities industry. The CSA does not prescribe any method in particular because standards evolve over time. Approximation methods such as Modified Dietz are not acceptable. Approximations can produce misleading results compared to MWRR and advances in computing capability make it unnecessary to use them.
50.	Is the XIRR function in Microsoft Excel acceptable for MWRR calculations?	Yes. A registered firm may provide performance reports calculated with the XIRR function of Microsoft Excel. Firms should be aware that some versions of this software may have defects that affect these calculations. It is the responsibility of the firm to ensure that the calculation by the XIRR

QUESTION		ANSWER
		function of Microsoft Excel is being performed correctly.
14.20 Delivery of report on charges and other compensation and investment performance report		
51.	Does “within 10 days after” in paragraph 14.20(1)(c) mean within 10 business days or 10 calendar days?	References to “days” in the CRM2 Amendments are to calendar days.

Questions

If you have questions regarding this notice, please refer them to any of the following:

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