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 National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103 or the Rule) and Companion Policy 31-103 *CP Registration Requirements, Exemptions and Ongoing Registrant Obligations* (the Companion Policy) 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 the Rule and the Companion Policy. 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 NI 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 Companion Policy.

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 Companion Policy. 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 Companion Policy 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 Companion Policy 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 Companion Policy.

(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 Companion Policy 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 Companion Policy 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 Companion Policy 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 Companion Policy 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.