

Backgrounder: Summary of Proposed Changes to National Instrument 31-103 related to *Cost Disclosure and Performance Reporting – Client Relationship Model Phase 2*

Published on June 22, 2011, the proposal to amend National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103), would require registered dealers and advisers to deliver enhanced disclosure about the costs of investing and investment performance reports to their clients.

In response to public comments, today's publication includes some amendments to the 2011 Proposal and some new requirements to make the information investors receive more complete.

This as an important investor protection initiative. By informing investors of the costs and performance of their investments, investors would be able to assess their progress toward meeting their investing goals and the value of the professional advice they receive. The federal *Financial Literacy Task Force Report* states that "increasing the knowledge, skills and confidence of Canadians to make responsible financial decisions will help them meet their personal goals, enhance their quality of life and make Canada more competitive."

The proposed amendments are intended to form a common baseline for reporting to all investors. They 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) to be materially harmonized.

Core Elements of the 2011 Proposal - Unchanged In Their Essentials

- Costs: relevant information at a relevant time:
 - at account opening – general information about what to expect;
 - when transacting – specific information about the cost; and,
 - an annual report showing costs and any other incentives the dealer or adviser has received – such as the actual dollar amount of trailing commissions they were paid in respect of a client's mutual funds.
- Performance Reporting: an annual investment performance report displaying:
 - money in,
 - money out,
 - change in value (in dollars, for past year and since inception of account); and,
 - annualized total percentage returns:
 - for the past 1, 3, 5 and 10 years, and
 - since inception

2012 Proposal: New Proposed Requirements

- Disclosing the dollar amount of commissions paid to dealing representatives on fixed income transactions (e.g.: bonds) to provide more clarity about embedded fees and dealer incentives. There would also be a notification regarding possible additional dealer firm compensation embedded in the price of fixed income securities.