

## ANNEX A

### Summary of Changes to the Instrument

This Annex describes the key changes we made to the Instrument and the 2012 Proposal.

This Annex contains the following sections:

1. Definitions
2. Investment fund managers
3. Relationship disclosure information
4. Pre-trade disclosure of charges
5. Determining market value
6. Trade confirmation – disclosure for debt security transactions
7. Account statements, additional statements and security holder statements
8. Report on charges and other compensation
9. Investment performance report
10. Scholarship plan dealers
11. Transition
12. Sample reports

In this Annex, we reference the sections and paragraphs of the Rule except where otherwise indicated. Some sections and paragraphs have been re-numbered from the 2012 Proposal.

#### **1. DEFINITIONS**

We have added definitions under section 1.1 [*definitions of terms used throughout this Instrument*] for the following terms: book cost, operating charge, original cost, total percentage return, trailing commission and transaction charge.

#### **2. INVESTMENT FUND MANAGERS**

We have added a requirement under subsection 14.1.1 [*duty to provide information*] for investment fund managers to provide dealers and advisers with information concerning deferred sales charges and any other charges deducted from the net asset value of securities, and trailing

commissions to dealers and advisers in order that they may comply with paragraphs 14.12(1)(c) [*content and delivery of trade confirmation*] and 14.17(1)(h) [*report on charges and other compensation*]. We have provided a transition period of three years for this requirement and for the corresponding requirements for dealers and advisers. We expect investment fund managers and dealers and advisers who distribute their funds to work together to ensure that clients will be provided with the required information in trade confirmations as of July 15, 2016, and in reports on charges and other compensation for periods from that date forward.

### **3. RELATIONSHIP DISCLOSURE INFORMATION**

In section 14.2 [*relationship disclosure information*], we replaced the term “costs” with “charges” to avoid confusing the charges associated with the operation of an account or executing transactions with the actual purchase cost of a security. We also clarified the expectations for relationship disclosure information that is required to be provided under this section, and added new provisions summarized below.

#### **Benchmarks**

Paragraph 14.2(2)(m) requires firms to provide each client with a general explanation of benchmarks and whether the firm offers any options for benchmark reporting to clients.

Guidance on the use of benchmarks that are meaningful and not misleading has been added to the Companion Policy. We have removed the discussion that was in the 2012 Proposal encouraging firms to include an historical five-year GIC rate in performance reports as an easily understood benchmark because this may not be the most relevant comparison reflective of the composition of a client’s portfolio.

#### **Responsibility for dealer directed by a registered adviser**

Subsections 14.2(7) and 14.2(8) provide that only limited relationship disclosure information must be delivered by a dealer where the dealer purchases or sells securities only as directed by a registered adviser acting for the client.

#### **New or increased operating charge**

Subsection 14.2(5.1) requires firms to provide their clients with 60 days written notice of any new or increased operating charge. This is consistent with SRO requirements.

### **4. PRE-TRADE DISCLOSURE OF CHARGES**

In section 14.2.1 [*pre-trade disclosure of charges*], we added a requirement for registered firms to provide specific disclosure of the charges a client with a non-managed account would have to pay when purchasing or selling a security prior to the registrant accepting the client’s order. This section does not apply to a registered firm in respect of a permitted client that is not an individual, nor does it apply to a dealer in respect of a client for whom the dealer purchases or sells securities only as directed by a registered adviser acting for the client.

## **Switch or change transactions**

We have added a discussion on switch or change transactions in the Companion Policy. We have revised the Companion Policy discussion that was in the 2012 Proposal to remove the examples that were previously given as we have concluded that there is no standard approach to switch or change transactions and the examples may be confusing.

## **5. DETERMINING MARKET VALUE**

We have added section 14.11.1 [*determining market value*] which sets out a methodology for registrants to use to determine the market value of securities for the purpose of reporting to clients.

Paragraph 14.11.1(1)(a) requires the market value of a security that is issued by an investment fund not listed on an exchange to be determined by reference to the net asset value provided by the investment fund manager of the fund on the relevant date. For other securities, a hierarchy of valuation methods that depend on the availability of relevant information is prescribed under paragraph 14.11.1(1)(b).

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

## **6. TRADE CONFIRMATION – DISCLOSURE FOR DEBT SECURITY TRANSACTIONS**

We have amended section 14.12 [*content and delivery of trade confirmation*] to require registrants to report compensation from debt securities transactions. Registrants may either disclose: (a) the total dollar amount of compensation (which may consist of any mark-up or mark-down, commission or other service charge), or (b) the total dollar amount of any commission paid to the firm and, if the registrant applied a mark-up or mark-down or any service charge other than a commission, provide a prescribed general notification. This is a change from the 2012 Proposal where we had proposed to require registrants to report the total dollar amount of compensation paid to dealing representatives and include a general notification about possible dealer firm compensation.

## **7. ACCOUNT STATEMENTS, ADDITIONAL STATEMENTS AND SECURITY HOLDER STATEMENTS**

### **Account statements**

Under section 14.14 [*account statements*], registered dealers and advisers continue to be required to deliver an account statement, comprised of two sections:

- under subsection 14.14(4), the dealer or adviser is required to report specified information about all transactions carried out during the reporting period
- under subsection 14.14(5), the dealer or adviser is required to report specified information which, from July 15, 2015, will relate only to securities that are held by the registered firm

We have amended subsection 14.14(3) with respect to advisers to clarify that they must deliver statements to clients at least once every 3 months. We have also clarified that an adviser must deliver statements on a monthly basis if requested to do so by a client.

We have amended subsection 14.14(4) to carve out transfers from the requirements to provide the price per security and the total value of the transaction. We acknowledge that there is an acceptable established practice where some firms do not report a price or total value for transferred securities in the transaction section of an account statement.

### **Additional statements**

We have added under new section 14.14.1 [*additional statements*], a requirement effective July 15, 2015 for registered dealers and advisers to deliver to clients a statement that provides information generally corresponding to that required under subsection 14.14(5) in respect of securities held by a party other than the dealer or adviser if:

- the dealer or adviser has trading authority over the security or the account of the client in which the security is held or was transacted
- the dealer or adviser receives continuing payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the issuer or any other party
- the security is issued by a scholarship plan, a mutual fund or an investment fund that is a labour-sponsored investment fund corporation or labour-sponsored venture capital corporation under legislation of a jurisdiction of Canada and the dealer or adviser is the dealer or adviser of record for the client on the records of the issuer of the securities or the records of its investment fund manager

The additional statement must be provided at least once every three months. Since advisers will usually be required to provide statements under this section, we have incorporated the provision in subsection 14.14.1(3) that advisers must provide monthly statements if requested by a client.

If a registered dealer or adviser is required to deliver an account statement and an additional statement for the same period, it may choose to combine them into one statement or it may deliver them separately, provided the additional statement is delivered within 10 days of the account statement. This is a change from the 2012 Proposal which would have required information in an account statement and information in an additional statement to be combined in a single "client statement".

## **Position cost information**

We are requiring registrants to include position cost information for each security position in the account statement and the additional statement, or in a separate document, under new section 14.14.2 [*position cost information*]. Under the 2011 Proposal, we had proposed that original cost be provided as the comparator for market value. Under the 2012 Proposal, we made the change from original cost to book cost. After careful consideration, we have decided to allow registered firms to choose between original cost and book cost. Position cost may be integrated into the relevant account statement and additional statement or delivered in a separate document accompanying such statements or delivered within 10 days after the delivery of such statements, provided the market value of the securities is included with the position cost.

## **Security holder statements**

Effective July 15, 2015, the requirement that was previously in subsection 14.14(3.1) for the delivery of a statement by an investment fund manager where there is no dealer or adviser of record will be moved to new section 14.15 [*security holder statements*] and expanded to include the information required under the new provisions for additional statements and position cost that come into effect on that day.

## **Scholarship plan dealer statements**

Effective July 15, 2015, the requirement that was previously in subsection 14.14(5) for the delivery of a statement by a scholarship plan dealer that is not registered in another dealer or adviser category will be moved to new section 14.16 [*scholarship plan dealer statements*] and expanded to include the information required under the new provisions for additional statements and position cost that come into effect on that day. See “10. Scholarship plan dealers” for more information about changes specific to scholarship plan dealers.

## **8. REPORT ON CHARGES AND OTHER COMPENSATION**

We have added section 14.17 [*report on charges and other compensation*] which requires registered dealers and advisers to provide each client with an annual summary of all charges incurred by the client and all other compensation received by the registered firm that relates to the client’s account. Registrants are required to disclose the nature and amount of compensation received from third parties, such as trailing commissions and certain referral fees, that were generated as a result of the client’s account. The requirement to report compensation from debt securities transactions in a report on charges and other compensation mirrors the requirement applicable in trade confirmations.

## **9. INVESTMENT PERFORMANCE REPORT**

We have added section 14.18 [*investment performance report*] which requires registered dealers and advisers to provide clients with account performance reporting on an annual basis. The information to be provided in performance reports is set out in new section 14.19 [*content of investment performance report*].

Performance reports are account-based. Securities reported in an additional statement must be included in the performance report for the account through which they were traded. However, consolidated performance reporting for more than one account of a client is permitted if the client has consented in writing and the consolidated report specifies which accounts and additional statement securities it consolidates.

### **Opening market value, deposits and withdrawals**

Under paragraphs 14.19(1)(a) through (e), registered firms are required to disclose the opening market value of the account, the market value of deposits and transfers of cash and securities into the account, and the market value of withdrawals and transfers of cash and securities out of the account, for the latest 12-month period and since the inception of the account.

### **Change in market value**

Paragraphs 14.19(1)(f), (g) and (h) provide formulae for the calculation of annual change in market value and cumulative change in market value. Registered firms can provide more detail about the activity in the client's account that has caused the change in value figure, as described in the Companion Policy.

### **Percentage return calculation**

Under paragraph 14.19(1)(i), registered firms are required to provide the annualized total percentage return for the client's account or portfolio. Under the 2011 Proposal, we had proposed permitting registrants to choose between a time-weighted and dollar-weighted performance calculation method. Under the 2012 Proposal, we proposed to mandate that registrants use what we referred to as the dollar-weighted method for performance calculation in order to promote consistency and comparability in investor reporting from one registrant to another. The dollar-weighted method is also referred to as the money-weighted rate of return calculation method and we now refer to it by the latter name because it is more commonly used in the financial literature. We have decided to follow the 2012 Proposal and require registered dealers and advisers to use the money-weighted method (i.e. the dollar-weighted method) for performance calculation.

## **10. SCHOLARSHIP PLAN DEALERS**

There is a new requirement under paragraph 14.2(2)(n) for scholarship plan dealers to include in their relationship disclosure information an explanation of any terms of a scholarship plan that if those terms are not met by the client or designated beneficiary might cause a loss of contributions, earnings or government contributions.

New section 14.16 is discussed above under "Scholarship plan dealer statements".

New subsection 14.19(4) sets out specific investment performance reporting requirements for scholarship plan dealers.

## 11. TRANSITION

Transition times of one, two or three years have been provided for most of the new requirements, taking into account the systems that registrants will need to build or adapt to accommodate the new requirements. Transition periods for key amendments are as follows (please see Annex C *Amending Instrument to NI 31-103* for a complete listing of all transition periods):

- One year transition period
  - Paragraph 14.2(2)(m) [*deliver information about benchmarks*]
  - Paragraph 14.2(2)(n) [*scholarship plan risks*]
  - Section 14.2.1 [*pre-trade disclosure of charges*]
  - Paragraphs 14.12(1)(b.1) and (c.1) [*content and delivery of trade confirmation*]
  
- Two year transition period
  - Section 14.11.1 [*determining market value*]
  - Revised section 14.14 [*account statements*]
  - Section 14.14.1 [*additional statements*]
  - Section 14.14.2 [*position cost information*]
  - Section 14.15 [*security holder statements*]
  - Section 14.16 [*scholarship plan dealer statements*]
  
- Three year transition period
  - Section 14.1.1 [*duty to provide information*]
  - Section 14.11.1 [*determining market value*], addition of requirement for investment performance report
  - Paragraph 14.12(1)(c) [*content and delivery of trade confirmation*] addition of deferred sales charge information
  - Section 14.17 [*report on charges and other compensation*]
  - Section 14.18 [*investment performance report*]

- Section 14.19 [*content of investment performance report*]
- Section 14.20 [*delivery of report on charges and other compensation and investment performance report*]

New requirements not listed above take effect on July 15, 2013.

Notwithstanding the transition periods outlined above, we encourage firms to consider early adoption of the Amendments.

Until the new provisions in section 14.14.1 come into effect on July 15, 2015, we continue to expect all registered dealers and registered advisers to provide account statements. Exempt market dealers should refer to CSA Staff Notice 31-324 *Exempt market dealers and account statement requirements in National Instrument 31-103 Registration Requirements and Exemptions* for guidance until the implementation of s.14.14.1.

Note that applicable SRO requirements are not affected by these transition periods.

## **12. SAMPLE REPORTS**

We have provided a sample report on charges and other compensation and a sample investment performance report in Appendices D and E, respectively, of the Companion Policy.