

ANNEX E

BLACKLINE SHOWING CHANGES TO COMPANION POLICY 31-103 CP NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

Division 1 Investment fund managers

Section 14.1 sets out the limited application of Part 14 to investment fund managers. The sections of Part 14 that apply to investment fund managers when performing their investment fund manager activities include section 14.1.1, section 14.1.2, section 14.5.2, section 14.5.3, section 14.6, section 14.6.1, section 14.6.2, subsection 14.12(5) and section 14.15. An investment fund manager that is also registered as a dealer or adviser (or both) is subject to all relevant sections of Part 14 in respect of that firm's dealer or adviser activities.

1.4.1.1 Duty to provide information – investment fund managers

Section 14.1.1 requires investment fund managers to provide certain information that is known to them concerning to dealers and advisers who have clients that own funds managed by them. This information may concern position cost, investment fund fees and expenses, deferred sales charges and any other charges deducted from the net asset value of the securities, and trailing commissions to dealers and advisers who have clients that own the investment fund manager's funds. This information It must be provided within a reasonable period of time, in order that the dealers and advisers may comply with their client reporting obligations. This is a principles-based requirement. ~~An investment fund manager~~ Investment fund managers must work with the dealers and advisers who distribute ~~fund products~~ their funds to determine what information they need from ~~the investment fund manager~~ them and how it will be delivered in order to satisfy ~~their~~ the dealers' and advisers' client reporting obligations. The information and arrangements for its delivery may vary, reflecting different operating models and information systems. We strongly encourage the use of common industry standards and arrangements for the delivery of information wherever possible.

14.1.2 Determination of the fund expenses per security

Subsection 14.1.2(1) sets out how investment fund managers must determine fund expenses per security per day for purposes of the fund expense information that dealers and advisers must provide to their clients, subject to the provision for the use of approximations under subsection 14.1.2(2).

The formula prescribed in this subsection requires investment fund managers to make any adjustments which are reasonably necessary to accurately determine the amount of fund expenses per security for the day.

When determining the market value of an investment fund under subsection 14.1.2(1), registered firms should refer to section 14.11.1 [*Determining market value*]. Reasonably necessary adjustments to accurately determine this amount could include using the market value of a

security before deducting the fund expenses for the day, if this would result in a more accurate determination.

When determining the fund expense ratio for the day of the applicable class or series of an investment fund under subsection 14.1.2(1), registered firms must refer to the definition of this term in section 1.1 and to the calculation methods for the management expense ratio and the trading expense ratio prescribed by NI 81-106, making any adjustments reasonably necessary to accurately determine this amount. This would include adjusting the calculation method in NI 81-106 from a financial year or interim period basis to a daily basis. Registrants should refer to the relevant sections of NI 81-106, as well as to any applicable guidance. We expect that the fund expense ratio for the day will reflect the actual expenses charged or accrued to each security of the applicable class or series of the investment fund for that day.

Exact information

We encourage investment fund managers to provide exact information wherever they are able to do so without unreasonable cost or delay.

Use of approximations

Subsection 14.1.2(2) allows for the use of approximations where they would not result in misleading information being reported by registered dealers or advisers to their clients. This recognizes that there can be circumstances in which it would not be possible to arrive at exact information at a reasonable cost and without unreasonable delay, and that in some cases, there may not be material differences between exact information and a reasonable approximation.

Investment fund managers must exercise their professional judgment in determining what approximations are reasonable. We would generally expect it to be reasonable for an investment fund manager to rely on information in an investment fund's most recently published fund facts document or management report of fund performance for these purposes. Exceptions would include, for example, cases where there had been a significant change in the information since its publication or if it was published more than twelve months ago.

Paragraph 14.1.2(2)(a) allows investment fund managers to use a reasonable approximation of the fund expense ratio or market value factors used in the formula in subsection 14.1.2(1). For example, investment fund managers may approximate the fund expense ratio for the day of a class or series of an investment fund by dividing the annual fund expense ratio of the investment fund as disclosed in the investment fund's latest management report of fund performance by the number of days in the year, when doing so would result in a reasonable approximation of the fund expense ratio for the day.

Paragraph 14.1.2(2)(b) allows investment fund managers to provide a reasonable approximation of the fund expenses, direct investment fund charges or fund expense ratio of a class or series of an investment fund. We would expect this provision to be used where exact information cannot be provided by the investment fund manager at a reasonable cost.

An example of an unreasonable approximation would be one that systematically and materially underestimates the amount of fees or expenses required to be reported to clients.

Notification regarding use of approximations

When using or providing a reasonable approximation under paragraphs 14.1.2(2)(a) or 14.1.2(2)(b), investment fund managers must communicate to the registered firm that an assumption or approximation was used so that the registered firm can comply with its obligation under paragraph 14.17(1)(r).

Newly-established investment funds

As specified by section 14.1.2(3), investment fund managers are not required to provide information concerning the fund expenses and fund expense ratio of newly-established investment funds.

However, we encourage investment fund managers of newly-established funds to provide such information about those funds, if available to them. Where exact information is not available, we encourage them to provide a reasonable approximation based on the fund's management fee disclosed in its prospectus or Fund Facts, taking into account the anticipated operating expenses and trading costs of the fund.

(...)

14.17 Report on charges and other compensation

Registered Firms Each registered firm must provide its clients with an annual report on the firm's charges and other compensation received by the firm in connection with their a client's investments, as well as information about the ongoing costs related to investment funds owned by the client.

Examples of operating charges and transaction charges are provided in the discussion of the disclosure of charges and other compensation in section 14.2 of this Companion Policy. The annual report must include information about all of the firm's current operating charges that might be applicable to a client's account. A firm is only required to include the charges for those of its services that it would reasonably expect the particular client to utilize in the coming 12 months.

The report must include information about the ongoing costs related to investment funds owned by the client at any time during the period covered by the report.

Debt securities

The discussion of debt security disclosure requirements in section 14.12 of this Companion Policy is also relevant with respect to paragraph 14.17(1)(e).

Scholarship plan-specific fees

Scholarship plans often have enrolment fees payable in instalments in the first few years of a client's investment in the plan. Paragraph 14.17(1)(f) requires that scholarship plan dealers include a reminder of the unpaid amount of any such fees in their annual reports on charges and other compensation.

Payments from third parties

Payments that a registered firm or its registered representatives receive from issuers of securities or other registrants in relation to registerable services to a client must be reported under paragraph 14.17(1)(g). This disclosure requirement includes any form of payment to the firm or a representative of the firm linked to sales or other registerable services to the client receiving the report. Examples of payments that would be included in this part of the report on charges and other compensation include some referral fees, success fees on the completion of a transaction, or finder's fees. This part of the report does not include trailing commissions, as they are specifically addressed in paragraph 14.17(1)(h).

Trailing commissions

Registered firms must disclose the amount of trailing commissions they received related to a client's holdings. The disclosure of trailing commissions received in respect of a client's investments must be included with a notification prescribed in paragraph 14.17(1)(h). The notification must be in substantially the form prescribed, so a registered firm may modify it to be consistent with the actual arrangements. For example, a firm that receives a payment that falls within the definition of "trailing commission" in section 1.1 in respect of securities that are not investment funds can modify the notification accordingly. The notification set out is the required minimum and firms can provide further explanation if they believe it will be helpful to their clients.

Fund expenses

The total amount of fund expenses required to be reported under paragraph 14.17(1)(i) must be determined using the formula specified in section 14.17(6).

The total amount of fund expenses required to be reported under paragraph 14.17(1)(i) must include all amounts required to be aggregated in the fund expense ratio of each investment fund class or series of securities owned by the client during the period covered by the report, after making any necessary adjustments to add performance fees and deduct fee waivers, rebates or absorptions that apply to the securities owned by the client.

If a dealer or adviser provides a client with fee waivers, rebates or absorptions, they must be included in the corresponding charges required to be reported under paragraphs 14.17(1)(a) to (f), but must not be included in the information reported under paragraph 14.17(1)(i).

In addition to providing the total fund expenses as required under paragraph 14.17(1)(i), registered firms may choose to include a separate line item showing the amount of any performance fees, fee waivers, rebates or absorptions which were added or deducted from the total fund expenses. If doing so, the total amounts required to be reported according to paragraphs 14.17(1)(k) and (l) must nonetheless reflect all of the information prescribed under paragraph 14.17(1)(i).

Fund expense ratio

In addition to providing the fund expense ratio for each class or series of securities of each investment fund owned by the client during the period covered by the report, as required under paragraph 14.17(1)(m), registered firms may choose to include a separate line item showing the amount, as a percentage, of any performance fees, fee waivers, rebates or absorptions which are included in the fund expense ratio reported.

Direct investment fund charges

Direct investment fund charges are defined in section 1.1 as an amount charged to a client if the client buys, holds, sells or switches units or shares of an investment fund, including any federal, provincial or territorial sales taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund's fund expenses. The amount of direct investment fund charges reported under paragraph 14.17(1)(j) must exclude amounts required to be reported under paragraphs 14.17(1)(c), (f) or (i), in order to avoid double counting. Examples of direct charges reported under 14.17(1)(j) include switch fees, redemption fees and short-term trading fees.

Reporting information when approximations are used

Registered firms should consider the cumulative effect of multiple approximations in assessing their reasonableness and whether their combined use may cause misleading information to be reported to clients, notwithstanding that any one such approximation may be reasonable in itself.

Organization of the annual report on charges and other compensation

~~Registered firms may want~~ We encourage registered firms to organize the annual report on charges and other compensation with separate sections showing the charges paid by the client to the firm, and the other compensation received by the firm in respect of the client's account, and investment fund company fees, as well as the overall total charges to the client.

Sample report

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

14.17.1 Reporting of fund expenses and direct investment fund charges

Reliance on information provided by investment fund managers

Dealers and advisers are required to rely on information provided by registered investment fund managers pursuant to section 14.1.1, outside of the exceptional circumstances contemplated under subsections 14.17.1(2) or (3). We expect dealers and advisers to exercise their professional judgment in determining when there are such exceptional circumstances. We do not expect dealers and advisers to routinely undertake a due diligence review of the information provided to them by investment fund managers, outside of those exceptional circumstances.

Examples of the exceptional circumstances contemplated in subsection 14.17(2) and (3) include the following cases:

- an investment fund manager does not comply with section 14.1.1 for any reason,
- there is no registered investment fund manager,
- relevant information is not required to be provided for a fund (for example, as in the case of certain non-Canadian investment funds), or
- the registered firm has information that causes the firm to reasonably believe that the information delivered to clients would be misleading.

Information from other sources

We expect registered firms to use their professional judgement in determining what other means of obtaining or determining necessary information would be appropriate. Examples of the reasonable efforts we would expect a registered firm to make under section 14.17.1(2)(a) to obtain or determine the information required by the firm for the purposes of complying with paragraphs 14.17(1)(i), (j), (m), (p) may include, taking into account considerations of cost and materiality:

- relying on information in the investment fund's disclosure documents, including those prepared according to the reporting requirements applicable in a foreign jurisdiction,
- requesting that the information be provided in writing by the investment fund or investment fund manager, or
- relying on information reported by a reliable third-party service provider.

Use of approximations

We expect registered firms to rely on their professional judgement when obtaining or determining a reasonable approximation under paragraph 14.17.1(2)(a). An example of when the use of a reasonable approximation may be appropriate is where information was obtained or determined based on information from other sources, as discussed immediately above.

Foreign investment funds

In the case of information required to be reported under paragraphs 14.17(1)(i), (j) or (m) for a foreign investment fund, we believe it would generally be acceptable for registrants to report a reasonable approximation based on similar information which is required to be reported in the

foreign fund's jurisdiction, if more accurate information cannot be obtained by other means using reasonable efforts. For example, we believe that the following could generally be considered a reasonable approximation of a foreign fund's fund expense ratio:

- for a US mutual fund, its total expense ratio;
- for a fund to which the Undertakings for the Collective Investment in Transferable Securities (UCITS) framework applies, its ongoing charges.

Paragraph 14.17(1)(t) requires client reports to include a notification that information reported regarding such funds may not be directly comparable to equivalent information for Canadian investment funds, which may include different types of fees.

Fund expenses calculation

Registered dealers and advisers must use the formula in section 14.1.2 if section 14.17.1(2) applies, including where an investment fund manager has not provided the necessary information to them.

(...)

APPENDIX D

SAMPLE ANNUAL COST AND COMPENSATION REPORT

Dealer ABC Inc.

Your Account Number: 123-4567

Your Cost of Investing and Our Compensation

This report shows for 2023

- your cost of investing, including what you paid to us and to investment fund companies
- our compensation

Your Cost of Investing

Costs reduce your profits and increase your losses

Your total cost of investing was \$815 last year

| What you paid | |
|---|-----------------|
| Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank. | |
| Account administration and operating fees – you pay these fees to us each year | \$100.00 |
| Trading fees – you pay these fees to us when you buy or sell some investments | \$20.00 |
| Total you paid to us | \$120.00 |
| Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account, and in investment fund related fees. | |
| Fund Expenses¹ - See the fund expenses % shown in the table below | \$645.00 |
| Redemption fees on deferred sales charge (DSC) investments ² | \$50.00 |
| Total you paid to investment fund companies | \$695.00 |
| Your total cost of investing³ | \$815.00 |

Our Compensation

What we received

| | |
|--|-----------------|
| Total you paid us, as indicated above | \$120.00 |
| Trailing commissions ⁴ paid to us by investment fund companies, included in the fund expenses above | \$342.00 |
| Total we received for advice and services we provided to you | \$462.00 |

- Fund expenses:** Fund expenses are made up of the management fee (which includes trailing commissions paid to us), operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown in the table above is the estimated total dollar amount you paid in fund expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund.

The total fund expenses reported may not include cost information for newly-established investment funds.

Please refer to the table below for additional details about the fund expenses for each fund you own.

- Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund made available at the time of purchase. The redemption fee was deducted from the redemption amount you received.
- Third-party costs:** The costs in this report do not include any fees you pay directly to third parties, including custodial fees, intermediary fees or interest charges that may be deducted from your account. You can contact those service providers for more information.
- Trailing commissions:** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.

What can you do with this information?

Take action by contacting your advisor to discuss the fees you pay, the impact they have on the long-term performance of your portfolio and the value you receive in return.

If you are a self-directed investor, consider how fees impact the long-term performance of your portfolio, and possible ways to reduce those costs.

Fund Expense Ratio for Investment Funds You Owned During the Year¹

On December 31, 2023

Portfolio Assets

| <u>Description</u> | <u>Fund Expense Ratio²</u> |
|---|---------------------------------------|
| <u>Canadian Investment Funds</u> | |
| ABC Management Monthly Income Fund, Series A FE | 1.00% |
| ABC Management Canadian Equity, Series A FE | 2.00% |
| ABC Management Global Equity, Series A | N/A ³ |
| <u>Foreign Investment Funds</u> | |
| XYZ Management S&P 500 ETF (U.S. fund) | 0.03% ⁴ |
| Weighted Average | 1.64% |

1. This table presents information about the fund expenses of the investment funds you owned during the year, including exchange traded funds, expressed as a yearly ratio. Please refer to note 1 - *Fund Expenses* above for more information about fund expenses.

Please note that other products you may own or may have owned during the reporting period, such as exempt-market investment funds, labour-sponsored investment funds or structured products may have embedded fees that are not reported here. You can contact us for more information.

This report includes information about the fund expenses and fund expense ratio of foreign investment funds. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, that may include different types of fees.

2. Please refer to the prospectus or fund facts document of each investment fund for more detailed information about fund expenses and fund performance. Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own.

3. The fund expense ratio of this fund is not available, as it is a newly-established investment fund.
4. This is the fund's expense ratio, calculated according to applicable U.S. securities regulations. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, which may include different types of fees.