CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

**For Immediate Release**
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## Canadian securities regulators propose enhanced disclosure requirements on investment costs and performance

**Toronto –** The Canadian Securities Administrators (CSA) are publishing for a second comment period, proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations,* which would require registered dealers and advisers to provide investors with clear and meaningful information on the costs and performance of their investments.

This Proposal includes, among other things, requirements for registered dealers and advisers to provide their clients with annual reports that show them:

- in dollars, what the dealer or adviser was paid for the products and services it provided, and
- in dollars and percentages, how the client's investments performed during that year and over longer periods

In June 2011, the CSA initially published the Proposal based on consultation with investors and industry. Approximately 2,000 investors were surveyed and document testing sessions were held to gain better insight into investors' understanding and expectations related to fees, performance measurement and reporting.

After reviewing public comments on the 2011 Proposal, conducting additional investor research and industry consultation, the CSA are now proposing some enhancements and added requirements to the 2011 Proposal, which include:

- disclosing some fixed income commissions to provide more clarity about embedded fees charged to investors;
- expanding the scope of account statements to provide more complete information to investors
- establishing a standardized method for determining the market value of securities to ensure consistency in reporting to investors; and,
- disclosing the costs and risks that are unique to scholarship plan investments.

"This is an important investor protection initiative that aims to help investors better understand the costs and performance of their investments," said Bill Rice, Chair of the CSA and Chair and Chief Executive Officer of the Alberta Securities Commission. "With the proposed changes, investors will be able to better assess their progress towards meeting their financial goals and the value of the professional advice they receive."

The Notice, Request for Comment and reports on the investor surveys and document testing will be available on CSA members' websites. The comment period is open until September 14, 2012.

The CSA, the council of the securities regulators of Canada's provinces and territories, co-ordinates and harmonizes regulation for the Canadian capital markets.

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# 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.

- Expanding the scope of account statements to provide more complete information to investors, regardless of the technicalities of how their securities are held. Currently, back office arrangements (i.e.: whether a client's securities are held in "nominee name" by their dealer or "client name" at the issuer of the securities) can mean investors do not get the same information about all of the securities they own.

- Establishing a standardized method for determining the market value of securities to ensure consistency in reporting to investors. This uses a hierarchy of methodologies reflecting available information, subject to adjustment, based on the registered firm's exercise of professional judgement.

- Special reporting for scholarship plans that addresses the costs and risks that are unique to scholarship plan investments. These costs include front-loaded enrolment fees. The risks relate to failing to maintain the prescribed payments and the beneficiary not attending a qualifying educational program.