CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Notice of Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (Cost Disclosure, Performance Reporting and Client Statements)

March 28, 2013

Introduction

The Canadian Securities Administrators (the CSA or we) are implementing amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103 or the Rule) as well as Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (31-103CP or the Companion Policy) (collectively, the Amendments). We refer to the Rule and Companion Policy as the "Instrument".

The Amendments are relevant to all categories of registered dealer and registered adviser, with some application to investment fund managers.

The Amendments have been or are expected to be adopted by each member of the CSA. We expect the requirements for members of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) (together referred to as the self-regulatory organizations or SROs) to be materially harmonized.

In some jurisdictions, ministerial approvals are required for the implementation of the Amendments. Subject to obtaining all necessary approvals, the Amendments will come into force on **July 15, 2013**.

The text of the Amendments to the Rule is in Annex C to this Notice. A black-lined extract of the Companion Policy, incorporating the Amendments is in Annex D to this Notice. The Amendments are available on websites of CSA jurisdictions, including the following:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.gov.ns.ca/nssc
www.nbsc-cvmnb.ca
www.osc.gov.on.ca
www.sfsc.gov.sk.ca

A black-lined extract of the Rule, incorporating the Amendments, is available on some CSA websites.

Substance and Purpose

The substance and purpose of the Amendments is to ensure that clients of all registrants receive clear and complete disclosure of all charges and registrant compensation associated with the investment products and services they receive, and meaningful reporting on how their investments perform.

Background

The CSA have been developing requirements in a number of areas related to a client's relationship with a registrant. This initiative is referred to as the Client Relationship Model (CRM) Project. The first phase of the CRM Project included relationship disclosure information delivered to clients at account opening and comprehensive conflicts of interest requirements, and was incorporated into the Instrument when it came into force on September 28, 2009. These Amendments, proposals for which had been published for initial comment on June 22, 2011 (the 2011 Proposal) and for second comment on June 14, 2012 (the 2012 Proposal), represent the second phase of the CRM Project and introduce performance reporting requirements and enhance existing cost disclosure requirements in the Rule, as well as introduce some new client statement requirements.

Summary of Written Comments Received by the CSA on the 2012 Proposal

During the second comment period, we received submissions from 65 commenters. We have considered the comments received and thank all of the commenters for their input. A summary of the comments we received on the 2012 Proposal together with our response and a list of the commenters is contained in Annex B to this Notice.

Copies of the comment letters are posted on the following websites:

www.lautorite.qc.ca
www.osc.gov.on.ca

Summary of Changes to the Instrument

After considering the comments, we have made some changes to certain of the proposed amendments which were in the 2012 Proposal. As these changes are not material, we are not republishing the Amendments for a further comment period. A description of the key changes we made to the Instrument and the 2012 Proposal is contained in Annex A of this Notice.

Transition

We are providing for a phased implementation of the Amendments over three years after they come into force. A summary of the transition periods is included in Annex A.

Local Matters

Certain jurisdictions are publishing other information required by local securities legislation. In Ontario, this information is contained in Annex E of this Notice.

Annexes

A. Summary of Changes to the Instrument

B. Summary of Comments and Responses on the 2012 Proposal

C. Amending Instrument to NI 31-103

D. Amendments to the Companion Policy

E. Local matters, where applicable

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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.

ANNEX B

Summary of Comments and Responses on the 2012 Proposal

This Annex summarizes the public comments we received on the 2012 Proposal and our responses to those comments.

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. In general, we have not included comments already addressed in our responses to comments on the proposal published on June 22, 2011 (the 2011 Proposal).

Contents of this summary

This summary is organized into the following sections:

16. Scholarship plan dealers

17. Benchmarks

18. Transition

19. List of commenters

In this annex, we reference the sections and paragraphs of the Rule provided in Annex C except where otherwise indicated.

Summary of comments and responses

1. Costs and benefits

There were a variety of comments to the effect that we should have conducted a quantitative cost benefit analysis (CBA) before making our proposals. Most of these comments focused on the proposal to require disclosure of the dollar amount of trailing commissions paid to a registered firm.

A quantitative CBA is not a prerequisite for rule-making.

We have made a qualitative assessment of the costs and benefits of requiring dollar disclosure of trailing commissions based on research as to what investors understand about trailing commissions. A large proportion of retail clients are either unaware of trailing commissions or have a very limited understanding of them. At the same time, trailing commissions are the dominant form of compensation for selling mutual funds today. It is therefore essential that clients be provided with direct, client-specific information about the amount of trailing commissions paid in respect of their investments.

Information about the costs of goods and services and a seller's incentives is fundamental. As such, we regard providing that information as a cost of doing business and not something that should be passed on to clients.

We think the same analysis applies in respect of comprehensive reporting on the securities a client has purchased or sold through a registrant, and in respect of investment performance reporting.

We acknowledge that there will be one-time system building costs associated with the new reporting requirements. We have provided unusually long transition periods for some of the new requirements in order to ensure there is sufficient time for the building and implementation of these systems. We note that regardless of the requirement to report trailing commissions, registered dealers and advisers would in any event be required to build systems to provide the new annual report on charges and other compensation. We do not think the costs of including

trailing commission information in the annual report will be significant after the necessary systems have been built.

It is also worth noting that other CSA initiatives are providing registered firms, particularly those in the mutual fund industry, with opportunities for reductions in ongoing costs. These include the availability of electronic delivery options as an alternative to printing and mailing, and plans for the replacement of the mutual fund prospectus with the Fund Facts document.

2. Fairness / Unlevel playing field

We received comments from the mutual fund industry, similar to those made on the 2011 Proposal, that the 2012 Proposal would result in an uneven playing field for registered firms, as investment products that do not fall under the jurisdiction of the CSA will not be subject to comparable cost disclosure and performance reporting. We reiterate that we can only make rules within our jurisdiction. The fact that other segments of the financial industry will not have comparable requirements for non-securities investments is not a reason to reduce the level of disclosure that we think is necessary for those who invest in securities.

Several commenters called for the CSA to work with other financial regulators, departments of finance and other government departments and agencies to promote a level playing field for all sellers of various investment products. We acknowledge that it would be in the interest of investors if comparable cost and performance transparency could be achieved for all investment products. CSA members are communicating with other financial regulators and government departments and agencies to raise this issue.

There were also some comments suggesting that investors will be misled about the relative costs of alternative investments compared to securities. Other commenters asserted this might lead some registrants to recommend alternative investments over securities. We would remind such registrants that they can explain the costs associated with various investment products and they have the duty to act fairly, honestly and in good faith toward clients.

3. Harmonization

We received comments concerning the importance of harmonizing the Instrument with member rules of the securities industry self-regulatory organizations (SROs), which are the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

We made revisions to the 2012 Proposal in several ways to be more closely harmonized with SRO requirements including:

- changing the trade confirmation requirements for debt securities to more closely resemble the approach taken in current IIROC requirements

- breaking the proposed "client statement" into constituent elements of account statement, additional statement and position cost information, rather than requiring their consolidation and delivery as a single document

- allowing the use of original cost for position cost information

- providing exemptions for permitted clients that are not individuals from the position cost information requirement (IIROC exempts "Institutional Customers", which is a similar but not identical category)

We continue to work with the SROs to ensure that their member requirements will be materially harmonized with the common baseline for registrants set out in the Instrument.

4. Trailing commission disclosure

Many mutual fund industry members continued to express their opposition to the requirement for disclosure of dollar amounts of trailing commissions. We have considered these comments again and disagree for the reasons set out above under "Costs and benefits".

We received comments suggesting that mutual fund companies with in-house distribution might change their distribution compensation system to eliminate trailing commissions, making other mutual fund dealers, who continue to rely on trailing commissions, seem more costly to investors. The CSA objective is to make disclosure of key information more transparent and by doing so, we are neither supporting nor discouraging the use of trailing commissions by making disclosure better. If problems emerge in other compensation models we will consider appropriate action.

Some commenters suggested that investors might think the trailing commission is charged on top of the management fee of a product. We have revised the notification to make it clear that trailing commissions do not represent an additional cost to investors. We have also revised the Companion Policy to remind registered firms and their representatives that they can explain their compensation model in more detail in disclosure documents or in face-to face meetings with their clients.

We have revised the definition of "trailing commission" in section 1.1 of the Rule to be more technically accurate.

We received requests for more specific requirements with respect to investment fund managers' obligation under subsection 14.1.1 to provide dealers and advisers with information concerning charges deducted from the net asset value of securities upon their redemption and trailing commissions in order for dealers and advisers selling their products to be able to meet client reporting obligations. This is a principles based requirement. The substance of the dealers' and advisers' obligation is clearly set out in paragraphs 14.12(1)(c) and 14.17(1)(h). Investment fund managers and the dealers and advisers who sell their products will have to work cooperatively with one another and, in many cases, with FundServ or other service providers. The systems work necessary for different investment fund managers to ensure the distributors of their

products will be able to satisfy their client reporting obligations will vary. Some of what is needed might only become apparent to information technology specialists during the course of developing the new systems. We will work with industry to respond pragmatically to any needs for guidance that may emerge as this process progresses.

We have provided a transition period of three years in order for investment fund managers, dealers and advisers to have sufficient time to build and test reporting systems to comply with the new requirements. We expect investment fund managers, dealers and advisers to be fully compliant at the end of the three year transition period, so that trade confirmations will include the new information about various charges immediately after the transition period ends and the new information will be included in clients' reports on charges and other compensation for the period that includes the first day after the end of the transition period.

5. Switch or change transactions

We received comments that the proposed language in section 14.2.1 of the Companion Policy regarding switch transactions is misleading and highlights practices that are not problematic, while ignoring other practices that might be. Some commenters added that the proposed language does not belong in the Companion Policy but rather in SRO rules.

We have clarified the language in the Companion Policy. We consider clear and complete disclosure of all charges, incentives and implications associated with a switch or change transaction is necessary given that mutual fund compensation structures are not clearly understood by many investors. We regard it as a fundamental issue linked to a registrant's duty to act fairly, honestly and in good faith. We have kept the language, as clarified, in the Companion Policy as not all registered dealers are required to be members of an SRO.

6. Foreign exchange rate

One comment letter suggested that the foreign exchange rate used in calculating the market value of non-Canadian dollar denominated securities should be indicated on statements. We consider this disclosure to be a best practice and we have revised the Companion Policy to encourage registrants to disclose the foreign exchange rate on account or additional statements.

7. Foreign exchange spread

We have dropped foreign exchange spreads from the examples of "transaction charges" that were included in the Companion Policy guidance under the 2012 Proposal. We accept the comments to the effect that it is often not possible to provide the exact amount of foreign exchange spreads on a transaction-by-transaction basis, and that calculating an approximate dollar spread would be complicated and costly, with results that would not always be accurate. We have added to the Companion Policy a statement that although we do not consider foreign exchange spreads to be a transaction charge, we encourage registered firms to include a general notification in trade confirmations and reports on charges and other compensation that the firm may have incurred a gain or loss from a foreign exchange transaction as a best practice.

8. Client statements

We received comments that, since investment funds managers already send security holder statements directly to investors, it will be duplicative and confusing if the dealer or adviser provides the same information to their clients. When delivering statements to their security holders, except for those statements delivered under section 14.15, investment fund managers are not complying with any regulatory requirement. We think that it is entirely appropriate that the responsibility to report to a client be that of their dealer or adviser and not fragmented among the fund families in which the client may have invested.

We disagree with comments that information on securities not held or controlled by a dealer or adviser that the 2012 Proposals would have included in a "client statement" would be unreliable. We have limited the new requirement to securities that a registered firm can reliably verify its clients continue to own. The requirements to include these securities in the new additional statement and in the new performance report, and to provide a position cost for them, will apply two years and three years, respectively, after the Amendments come into force. There is no requirement to gather information relating to earlier periods. For performance reports and position cost information, we provide that market value can be used to establish the initial valuation as of the implementation date.

We received some comments that the delivery of current account statements would be delayed by integrating it with the required new information in the proposed client statement because the new information will have to come from external sources. We agree with the comments and have revised our proposal to allow registered firms to provide the new information to clients separately from the current account statement, at their discretion. We will require the new information about client name securities to be delivered at least quarterly, and within not more than 10 days of the delivery of the account statement.

We encourage firms to work to the point where they will have systems that will enable the new statements to be produced in a timely manner or the two documents to be sent together.

9. Definition of "client" and "account"

We disagree with comments that requested we include in the Rule a definition of the terms "client" and "account" in order to clarify who and how the disclosure and reporting should be provided. The terms "client" and "account" are common terms that are used often and repeatedly throughout securities legislation and rules. Our intent in using those terms in the 2012 Proposal in the context of cost disclosure and performance reporting is the plain language meaning.

10. Market valuation methodology

We received some comment letters that suggested the proposed market valuation methodology is not consistent with the Canadian Generally Accepted Accounting Principles (GAAP), and is overly prescriptive as compared to International Financial Reporting Standards (IFRS). It was also suggested that the methodology used be consistent with Canadian GAAP in order to reflect the approach taken in the Instrument in respect of working capital calculation and financial

reporting and section 2.6 of National Instrument 81-106 *Investment Fund Continuous Disclosure*.

We have prescribed a hierarchy of valuation methods that we think is a reasonable approach to ensuring that the market values of securities being reported to investors are reflective of their current values. We are addressing market value determination only for the specific purpose of client reporting. While the prescribed approach does include concepts from IFRS, it also takes into account that reporting an accounting valuation of a security for which no market exists may be misleading for investors.

Some comment letters expressed concern that the use of last bid price for long positions and last ask price for short positions as market value is inappropriate, overly prescriptive and not in accordance with Canadian GAAP. One specific concern was that these values may be misleading to clients as there could be large bid/ask deviations that do not reflect the market value of the security. Several comment letters suggested that the current last trade calculation is a simpler, established and more appropriate methodology for valuing securities for the purpose of client reporting.

We acknowledge that there are practical issues with the use of last bid/ask price, and that it may not always result in a market value that is reflective of the current value of a security. However, the methodology that we have prescribed is currently in use by some registrants and allows for adjustment to the last bid/ask price should a registered firm deem it necessary to accurately reflect the current value of the security. We expect registrants to exercise professional judgement in applying the methodology and take heed of the requirement that market values should be reflective of the current value of a security at the date of client reporting.

11. Position cost

We received several comment letters in support of book cost as the appropriate method for presenting position cost, as set out in the 2012 Proposals. A number of other commenters advocated the use of original cost, and several others were in favour of allowing registered firms the flexibility to choose between presenting original cost and book cost.

We have concluded that neither method for determining position cost is clearly more beneficial to investors than the other. Consequently, we do not think it would be appropriate to mandate one as the only acceptable method.

12. Report on charges and other compensation

In response to comments concerning the scope of the part of the 2012 Proposals that is now addressed in paragraph 14.17(1)(g), we have clarified that the only referral arrangements that must be included in the annual report on charges and other compensation are those made to the registered firm or any of its registered individuals by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report.

We were asked by one commenter whether portfolio managers who manage their clients' money through pooled funds would be required to look through the pooled fund to determine how much of the pooled funds' management fee related to units held by its clients. The definition of operating charge is specific to the account and is not a product related fee so the portfolio manager would not be required to include a fund management fee in the report on charges and other compensation that it delivers to a client. However, if a portfolio manager's compensation model is one that relies on fund management fees rather than the more usual portfolio management fee, we would expect the portfolio manager to ensure that its clients fully understand the basis on which the firm is compensated for its advising services and report those charges to its clients on an annual basis, in keeping with the duty to deal with clients fairly, honestly and in good faith.

One commenter proposed an exemption from the requirement to provide clients with an annual report on charges or other compensation for employee programs which offer a firm's proprietary funds to employees through an ongoing compensation program. We think relief may be appropriate in limited circumstances, such as where all of the employees in the plan already have knowledge of or ready access to the relevant information relating to the performance of the pooled funds. However, we do not believe this will always be the case for employee programs involving proprietary funds. We will therefore consider exemptions on the basis of discretionary relief applications.

13. Fixed-income securities

In response to our request for comments on the feasibility of requiring disclosure of all of the compensation and/or income earned by registered firms from fixed-income transactions, we received comments from industry that such disclosure would not be feasible or appropriate. Other commenters said that this information would be desirable.

At the same time, a number of commenters submitted that the so-called gross (retail) commission paid to dealer firms is readily available information. Commenters also argued that the disclosure of the dollar amount of compensation paid to a dealing representative required under our 2012 Proposal could be misleading to retail clients because it may represent only a percentage of the commission received by the dealer firm on a fixed-income transaction. We agree and have revised the requirement accordingly to require disclosure at the firm level. This approach is also consistent with the new requirement for trailing commission disclosure.

The revised requirement provides registrants the following two options. Registrants may disclose the total dollar amount of its compensation taken on the trade (which may consist of any mark-up or mark-down, commission or other service charge) or, alternatively, the total dollar amount of commission, if any, and if the registrant applied a mark-up or mark-down or any service charge other than a commission, a prescribed general notification.

The revised requirement, including the prescribed general notification, is substantially harmonized with IIROC's equivalent requirement, except that it adds the requirement to disclose commissions if a firm does not opt to provide the total dollar amount of compensation.

Some commenters requested that we provide a definition of fixed-income security and clarify the types of products which would not be considered fixed-income securities. We have clarified the Rule by replacing "fixed-income securities" with "debt securities", a defined term under securities legislation.

14. Primary distributions

There were comments concerning the extent to which payments to dealers or advisers in respect of equity initial offerings or primary offerings of fixed income securities might be included in the new requirements for trade confirmations and reports on charges and other compensation.

One-time payments to a registered dealer or registered adviser in connection with an initial distribution of securities from an issuer or other party other than an investor who is a client of the dealer or adviser may relate to services other than services the dealer or adviser provides to the client. For example, an issuer might pay for investment banking service. We have drafted sections 14.12 and 14.17 and the relevant definitions to ensure that payments of this kind would not be required to be disclosed to a client. On the other hand, commissions charged to a client or ongoing payments in relation to the client's investments within definition of trailing commission would be required to be disclosed to the client.

15. Percentage return calculation method

We received many comments concerning the percentage return calculation methodology. The majority of commenters recommended allowing registered firms to determine the most appropriate calculation methodology for performance reporting, while a number of commenters were in favour of mandating the money weighted rate of return (MWRR) methodology (also known as the dollar weighted methodology), as set out in the 2012 Proposal. Some of the commenters would prefer the time weighted rate of return (TWRR) method, should we mandate the use of one particular methodology. A small number of commenters argued performance reports should include percentage returns based on both methodologies.

We have decided to require the use of the MWRR method because we have concluded that it is the better choice for investors. This project aims to provide performance information that is useful to a client as a measure of their progress toward their investing goals. Research points strongly toward the value of measures that retail investors can relate directly to their own experience. We think all investors share an interest in performance figures that focus on actual returns in their account, not the notional performance of their registrant. Presenting the MWRR of an account enables investors to directly measure how they are progressing toward their goals. Another goal of this project is to encourage communication between clients and their dealers and advisers. The impact of a client's choices about money flows in and out of the account is reflected with MWRR. Registrants can use this information to educate clients about the effects of their decisions about moving money in and out of their accounts. These conversations will also help clients assess the value of the advice they receive.

Registered firms that are already providing performance reports using TWRR commented that a switch to MWRR could create confusion for investors. We acknowledge this but point to the

opportunity to prepare for implementation of the new requirement over a three year period. Also, nothing prohibits a firm from providing percentage returns calculated using the TWRR method in addition to the required percentage returns calculated on a MWRR basis.

Some comment letters mentioned that the proposed requirement to use MWRR is contradictory to the standards established and administered by the CFA Institute, known as Global Investment Performance Standards (GIPS) which requires the use of TWRR. The goal of the GIPS standards is to allow prospective clients to make a more informed decision regarding the selection of an investment manager, while our goal is to show clients how their accounts have performed.

There was a suggestion that calculating percentage returns using the MWRR should be limited to 10 years, as reporting performance for periods beyond 10 years may have little value for investors, and will pose a very significant technological challenge for registered firms. We have not modified the proposed requirement because we think performance information since inception will be valuable to investors and we do not think providing this information for periods greater than 10 years will be problematic.

Some commenters recommended the Rule define a specific MWRR method that would be acceptable, and there were requests for confirmation that the Modified Dietz method or other approximation techniques would comply with the MWRR requirement. We have decided not to define acceptable methodologies within the MWRR. We have provided that for these purposes, a firm may use a methodology that is generally accepted in the securities industry. We do not think that Modified Dietz or other approximation techniques are any longer generally accepted.

16. Scholarship plan dealers

There were comments suggesting that the disclosure required under the 2012 Proposal would duplicate information already provided to clients under existing requirements. It was suggested that the relationship disclosure information delivered to investors at account opening should simply refer to the scholarship plan prospectus and/or plan summary.

There is in fact little overlap between the reporting requirements in our proposals and existing disclosure requirements applicable to scholarship plans, and we do not think one-time product purchase disclosure is sufficient in itself for an ongoing investment of this kind. We have tailored reporting requirements for scholarship plan dealers to the unique features of scholarship plans. Pre-purchase disclosure in writing of the terms of a scholarship plan, including disclosure of the front-loaded fees, the risks of the plan and the potential amount of income if invested to maturity, provides investors with essential information. This pre-purchase disclosure may be complied with by providing the summary document prepared by scholarship plans if it contains the required pre-purchase information.

There was a suggestion that an investor should receive an initial investment statement, including disclosure of the costs and conditions of the plan, within 30 days of account opening instead of pre-purchase disclosure, permitting the investor to use the information to clarify the terms and any misunderstandings within the common 60 day withdrawal right period. We think that, in

terms of investor protection, it is better to have a well-informed investor prior to the opening of an account.

One commenter did not support disclosure of the amount the investor's beneficiary may receive if the investor stays with the plan to maturity, as this amount could depend on too many unknown factors. We disagree with this position. The maximum amount the beneficiary could be entitled to in isolation could be misleading, but this amount will be provided with a summary of the plan terms, disclosure of any fees, investor options if plan payments are discontinued, and the total amount invested. Together, this information will provide investors in scholarship plans with basic information to determine what they have paid and how their investment will or has performed.

We disagree with the request that the guidance on paragraph 14.2(2)(n) in the Companion Policy should be part of the Rule and that its language be modified to include reference to the prospectus for a description of the options available to an investor who cannot maintain prescribed payments. The Rule sets out minimum requirements and a registrant may choose to add a reference to the prospectus. However, it would not be satisfactory to simply direct a client to refer to the prospectus.

Other commenters stated that disclosure of the risks and features of scholarship plans is not sufficient on its own. One commenter recommended the CSA to consider substantial regulation in this area, while the other commenter suggested that scholarship plans should be phased out entirely. We cannot address these comments as they are outside the scope of this CSA project.

17. Benchmarks

After careful consideration, we have come to agree with commenters that recommended we drop the Companion Policy guidance in the 2012 Proposals that encouraged firms to include an historical five-year GIC rate in performance reports. We have been persuaded that using such a rate may be inconsistent with the guidance that registrants should use benchmarks that are reasonably reflective of the composition of the investor's portfolio so as to ensure that a relevant comparison of performance is presented. Use of a five-year GIC as a reference point for discussions about the risk-return proposition may be appropriate for many clients, but there may be others for whom it would not.

18. Transition

The 2011 Proposal provided for an implementation period of two years for most of the new requirements. Many industry commenters then argued for an implementation period of at least three years, while investor advocates generally stated that one year would be sufficient. We were persuaded that three years would be a necessary transition period for some of the proposed new reporting requirements and provided for it in the 2012 Proposal. We do not agree with suggestions in the comments on the 2012 Proposal that even more time would be required. The transition period for investment fund managers is discussed above under "Costs and benefits".

We acknowledge the comments from others that some of the transition periods are generous. We would also like to see the proposed new disclosures in the hands of investors as soon as possible, but we have to take into consideration the time needed for the industry to develop, test and implement the necessary systems. We encourage registered firms to implement new reporting requirements before the end of transition periods if possible.

19. List of commenters

We received submissions from the following 65 commenters:

1. Advocis
2. AGF Investments Inc.
3. Alternative Investment Management Association
4. Armstrong & Quaile Assoc. Inc.
5. Association of Canadian Compliance Professionals
6. B2B Bank
7. Borden Ladner Gervais LLP
8. Canadian Foundation for Advancement of Investor Rights
9. Canadian GIPS Council
10. Canadian Imperial Bank of Commerce
11. Canfin Magellan Investments Inc.
12. Capital International Asset Management (Canada), Inc.
13. CI Financial Corp.
14. Cripps, James B. F.
15. Dundee Private Investors Inc.
16. DWM Securities Inc.
17. Edward Jones
18. Federation of Mutual Fund Dealers

19. Fidelity Investments Canada ULC
20. Franklin Templeton Investments Corp.
21. Greystone Managed Investments Inc.
22. Groupe Cloutier Investissements Inc.
23. Heathbridge Capital Management Ltd.
24. Highstreet Asset Management Inc.
25. IA Clarington Investments Inc.
26. Independent Financial Brokers of Canada
27. Independent Planning Group Inc.
28. ING Direct Funds Limited
29. Invesco Canada Ltd.
30. Investment Industry Association of Canada
31. Investment Planning Counsel Inc.
32. Investor Advisory Panel
33. Investors Group Inc.
34. Kenmar Associates
35. Killoran, Joe
36. Labbé, Jean-François G.
37. Lucyk, Christine
38. MacKenzie Financial Corporation
39. Manulife Securities Incorporated
40. MD Physician Services Inc. and MD Management Ltd.
41. MICA Capital inc.

42. Mouvement des caisses Desjardins

43. National Bank Securities Inc.

44. Pacific Spirit Investment Management Inc.

45. PEAK Investment Services Inc.

46. Porter, Hamish

47. Portfolio Management Association of Canada

48. Portfolio Strategies Corporation

49. Primerica (PFSL Investments Canada Ltd. and PFSL Fund Management Ltd.)

50. Quadrus Investment Services Ltd.

51. Royal Bank of Canada (RBC Dominion Securities Inc., RBC Direct Investing Inc., Royal Mutual Funds Inc., RBC Global Asset Management Inc., RBC Phillips, Hager & North Investment Counsel Inc., and Phillips, Hager & North Investment Funds Ltd.)

52. RESP Dealers Association of Canada

53. Rogers Group Investment Advisors Ltd.

54. Scotia Asset Management L.P.

55. Scotia Capital Inc.

56. Scotia Securities Inc.

57. Steadyhand Investment Funds

58. Sun Life Financial Investment Services (Canada) Inc.

59. Sun Life Global Investments (Canada) Inc.

60. TD Asset Management Inc.

61. The Canadian Advocacy Council for Canadian CFA Institute Societies

62. The Investment Funds Institute of Canada

63. The Omega Foundation

64. Tradex Management Inc.

65. Young, Duff

ANNEX C

AMENDMENTS TO NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

The amendments in sections 2(b), 2(c), 2(d), 4(g), 4(h), 5, 6(k), 13, 15, 16, 17(a), 17(b), 17(c), 19, 20, 21 of the amending instrument below will come into force at dates later than the implementation date for the other amendments. Please refer to section 22. This text box does not form part of the amending instrument.

1. ***National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended by this Instrument.***

2. ***Section 1.1 is amended by***

(a) ***adding the following definitions*:**

"operating charge" means any amount charged to a client by a registered firm in respect of the operation, transfer or termination of a client's account and includes any federal, provincial or territorial sales taxes paid on that amount;

"transaction charge" means any amount charged to a client by a registered firm in respect of a purchase or sale of a security and includes any federal, provincial or territorial sales taxes paid on that amount;

(b) ***adding the following definition*:**

"trailing commission" means any payment related to a client's ownership of a security that is part of a continuing series of payments to a registered firm or registered individual by any party;

(c) ***adding the following definitions*:**

"book cost" means the total amount paid to purchase a security, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations;

"original cost" means the total amount paid to purchase a security, including any transaction charges related to the purchase; ***and***

(d) ***adding the following definition*:**

"total percentage return" means the cumulative realized and unrealized capital

gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage;

3. ***The title of Division 1 of Part 14 is replaced with*** "Investment fund managers"**.**

4. ***Section 14.1 is amended by***

(a) ***replacing its title with*** "Application of this Part to investment fund managers"**,**

(b) ***replacing*** "sections" ***after*** "Other than" ***with*** "section"**,**

(c) ***deleting*** "[*holding client assets in trust*]" ***after*** "14.6"**,**

(d) ***adding*** "subsection" ***before*** "14.12(5)"**,**

(e) ***deleting*** "[*content and delivery of trade confirmation*]" ***after*** "14.12(5)"**,**

(f) ***replacing*** "14.14 [*account statements*]" ***with*** "section 14.14"**,**

(g) ***replacing*** "section 14.14" ***with*** "section 14.15"**, and**

(h) ***adding*** "section 14.1.1," ***before*** "section 14.6"**.**

5. ***Division 1 of Part 14 is amended by adding the following section:***

14.1.1 Duty to provide information

An investment fund manager of an investment fund must, within a reasonable period of time, provide a registered dealer, or a registered adviser, who has a client that owns securities of the investment fund, with the information concerning deferred sales charges and any other charges deducted from the net asset value of securities, and the information concerning trailing commissions paid to the dealer or adviser, that is required by the dealer or adviser in order to comply with paragraphs 14.12(1)(c) and 14.17(1)(h).

6. ***Subsection 14.2(2) is amended***

(a) ***by replacing*** "The information" ***with*** "Without limiting subsection (1), the information"**,**

(b) ***by deleting the words*** "required to be"**,**

(c) ***by adding*** "that" ***before the word*** "subsection"**,**

(d) ***by replacing*** "(1) includes all of" ***with*** "must include"**,**

(e) ***in paragraph (b) by replacing*** "discussion that identifies" ***with*** "general

description of"***, replacing*** "or" ***with*** "and"***, and by replacing*** "a client" ***with*** "the client"**,**

(f) ***in paragraph (c) by adding*** "general" ***before*** "description"**,**

(g) ***by replacing paragraph (f) with the following:***

(f) disclosure of the operating charges the client might be required to pay related to the client's account;

(h) ***by replacing paragraph (g) with the following:***

(g) a general description of the types of transaction charges the client might be required to pay;

(i) ***in paragraph (h) by adding*** "general" ***before*** "description", ***by replacing*** "the compensation" ***with*** "any compensation", ***and by adding*** "by any other party" ***before*** "in relation to"**,**

(j) ***in paragraph (j) by adding*** "[*dispute resolution service*]" ***after*** *"13.16"* ***and replacing*** "registered firm's expense" ***with*** "firm's expense"***, and***

(k) ***by adding the following paragraphs:***

(m) a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be made available to clients by the registered firm;

(n) if the registered firm is a scholarship plan dealer, an explanation of any terms of the scholarship plan offered to the client by the registered firm that, if those terms are not met by the client or the client's designated beneficiary under the plan, might cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan.

7. ***Subsection 14.2(3) is amended by***

(a) ***deleting the words*** "to a client" ***after*** "must deliver"***, and***

(b) ***replacing*** "subsection (1)" ***with*** "subsection (1), if applicable, and subsection (2) to the client in writing, except that the information in paragraph (2)(b) may be provided orally or in writing,"**.**

8. ***Subsection 14.2(4) is amended***

(a) ***by replacing*** "to" ***after*** "significant change" ***with*** "in respect of"**,**

(b) ***by replacing*** "subsection" ***with*** "subsections"**,**

(c) ***by adding*** " or (2)" ***after*** "(1)", ***and***

(d) ***in paragraph 14.2(4)(a) by replacing*** "," ***with*** ";"**.**

9. ***Subsection 14.2(5) is repealed.***

10. ***Section 14.2 is amended by adding the following subsection:***

(5.1) A registered firm must not impose any new operating charge in respect of an account of a client, or increase the amount of any operating charge in respect of an account of a client, unless written notice of the new or increased operating charge is provided to the client at least 60 days before the date on which the imposition or increase becomes effective.

11. ***Subsection 14.2(6) is replaced with:***

(6) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

12. ***Section 14.2 is amended by adding the following subsections:***

(7) Except for subsections (5.1), (6) and (8), this section does not apply to a registered 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.

(8) A registered dealer referred to in subsection (7) must deliver the information required under paragraphs (2)(a) and (e) to (j) to the client in writing, and the information in paragraph (2)(b) orally or in writing, before the dealer first purchases or sells a security for the client.

13. ***Division 2 of Part 14 is amended by adding the following section:***

14.2.1 Pre-trade disclosure of charges

(1) Before a registered firm accepts an instruction from a client to purchase or sell a security in an account other than a managed account, the firm must disclose to the client

(a) the charges the client will be required to pay in respect of the purchase or sale, or a reasonable estimate if the actual amount of the charges is not

known to the firm at the time of disclosure,

(b) in the case of a purchase to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply, and

(c) whether the firm will receive trailing commissions in respect of the security.

(2) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

(3) This section does not 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.

14. ***The title of Division 5 of Part 14 is replaced with*** "Reporting to clients"**.**

15. ***Part 14 is amended by adding the following section after the title of Division 5:***

14.11.1 Determining market value

(1) For the purposes of this Division, the market value of a security

(a) that is issued by an investment fund which is not listed on an exchange must be determined by reference to the net asset value provided by the investment fund manager of the fund on the relevant date,

(b) in any other case, is the amount that the registered firm reasonably believes to be the market value of the security

(i) after referring to a price quotation on a marketplace, if one is published for the security, using the last bid price in the case of a long security and the last ask price in the case of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or the last trading day before the relevant date, and after making any adjustments considered by the registered firm to be necessary to accurately reflect the market value,

(ii) if no reliable price for the security is quoted on a marketplace, after referring to a published market report or inter-dealer quotation sheet, on the relevant date or the last trading day before the relevant date, and after making any adjustments considered by the registered firm to be necessary to accurately reflect the market value,

(iii) if the market value for the security cannot be reasonably determined in accordance with subparagraphs (i) or (ii), after applying the policy of the registered firm for determining market value, which must include procedures to assess the reliability of valuation inputs and assumptions and provide for

(A) the use of inputs that are observable, and

(B) the use of unobservable inputs and assumptions, if observable inputs are not reasonably available.

(2) If a registered firm determines the market value of a security in accordance with subparagraph (1)(b)(iii), when it refers to the market value in a statement under section 14.14 [*account statements*], 14.14.1 [*additional statements*], 14.14.2 [*position cost information*], 14.15 [*security holder statements*] or 14.16 [*scholarship plan dealer statements*], the registered firm must include the following notification or a notification that is substantially similar:

"There is no active market for this security so we have estimated its market value."

(3) If a registered firm reasonably believes that it cannot determine the market value of a security in accordance with subsection (1), the market value of the security must be reported in a statement delivered under section 14.14 [*account statements*], 14.14.1 [*additional statements*], 14.14.2 [*position cost information*], 14.15 [*security holder statements*] or 14.16 [*scholarship plan dealer statements*] as not determinable, and the market value of the security must be excluded from the calculations in paragraphs 14.14(5)(b), 14.14.1(2)(b) and 14.14.2(5)(a).

16. ***Subsection 14.11.1(3) is amended by adding*** "and in an investment performance report delivered under section 14.18 [*investment performance report*]" ***before*** "as not determinable" ***and adding*** "and subsection 14.19(1) [*content of investment performance report*]" ***after*** "14.14.2(5)(a)"**.**

17. ***Subsection 14.12(1) is amended***

(a) by adding the following paragraph after paragraph (b):

(b.1) in the case of a purchase of a debt security, the security's annual yield;

(b) by replacing paragraph (c) with:

(c) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction, and the total amount of all charges in respect of the transaction;

(c) ***by adding the following paragraph after paragraph (c):***

(c.1) in the case of a purchase or sale of a debt security, either of the following:

(i) the total amount of any mark-up or mark-down, commission or other service charges the registered dealer applied to the transaction;

(ii) the total amount of any commission charged to the client by the registered dealer and, if the dealer applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.";

(d) ***in paragraph (f) by adding*** "involved" ***before*** "in the transaction"***, and***

(e) ***in paragraph (h) by replacing*** "security of" ***with*** "security issued by" ***wherever it occurs and by replacing*** "registrant" ***with*** "registered dealer" ***wherever it occurs.***

18. ***Section 14.14 is amended***

(a) ***in subsection (2) by replacing*** "at" ***with*** "after" ***and by replacing*** "receiving" ***with*** "to receive"***,***

(b) ***in subsection (3) by replacing*** "Except if the client has otherwise directed, a" ***with*** "A" ***and adding*** ", except that if the client has requested to receive statements on a monthly basis, the adviser must deliver a statement to the client every month" ***after*** "at least once every 3 months"***,***

(c) ***in paragraph (4)(b) by replacing*** "the type of" ***with*** "whether the" ***and adding*** "was a purchase, sale or transfer" ***after*** "transaction"***,***

(d) ***in paragraph 4(e) by adding*** "if the transaction was a purchase or sale" ***after*** "security"***, and***

(e) ***in paragraph 4(f) by adding*** "if it was a purchase or sale" ***after*** "transaction".

19. ***Section 14.14 is amended***

(a) ***in subsection (1) by replacing*** "deliver a statement to a client at least once every 3 months" ***with "***deliver to a client a statement that includes the information referred to in subsections (4) and (5)

(a) at least once every 3 months, or

(b) if the client has requested to receive statements on a monthly basis, for each one-month period"**,**

(b) ***in subsection (2) by deleting*** "Despite subsection (1)," ***before*** "a registered dealer" ***and replacing*** "deliver a statement to a client after the end of a month if any of the following apply:

(a) the client has requested receiving statements on a monthly basis;

(b) during the month, a transaction was effected in the account other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan"**,**

with "deliver to a client a statement that includes the information referred to in subsections (4) and (5) after the end of any month in which a transaction was effected in securities held by the dealer in the client's account, other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan"**,**

(c) ***in subsection (2.1)*** *by* ***replacing*** "Subsection (2) does" ***with*** "Paragraph 1(b) and subsection (2) do" ***and replacing*** "section 7.1(2)(b)" ***with*** "paragraph 7.1(2)(b) [*dealer categories*]"

(d) ***in subsection (3) by replacing*** "deliver a statement to a client" ***with*** "deliver to a client a statement that includes the information referred to in subsections (4) and (5)" ***and replacing*** "every month" ***with*** "for each one-month period"**,**

(e) ***by repealing subsection (3.1),***

(f) ***in subsection (4) by replacing*** "A statement delivered under subsection (1), (2), (3), or (3.1) must include all of the following information for each transaction made for the client or security holder during the period covered by the statement" ***with*** "If a registered dealer or registered adviser made a transaction for a client during the period covered by a statement delivered under subsections (1), (2) or (3), the statement must include the following"**,**

(g) ***in subsection (5) by replacing*** "A statement delivered under subsection (1), (2), (3), or (3.1) must include all of the following information about the client's or

security holder's account as at the end of the period for which the statement is made" ***with*** "If a registered dealer or registered adviser holds securities owned by a client in an account of the client, a statement delivered under subsections (1), (2) or (3) must indicate that the securities are held for the client by the registered firm and must include the following information about the client's account determined as at the end of the period for which the statement is made"***, in paragraph (b) by adding*** "and, if applicable, the notification in subsection 14.11.1(2) [*determining market value*] ***and adding the following paragraphs after paragraph (e):***

(f) whether the account is covered under an investor protection fund approved or recognized by the securities regulatory authority and, if it is, the name of the investor protection fund;

(g) which securities in the account might be subject to a deferred sales charge if they are sold.

(h) by repealing subsection (6),

(i) by adding the following subsection:

(7) For the purposes of this section, a security is considered to be held by a registered firm for a client if

(a) the firm is the registered owner of the security as nominee on behalf of the client, or

(b) the firm has physical possession of a certificate evidencing ownership of the security.

20. ***Division 5 of Part 14 is amended by adding the following sections:***

14.14.1 Additional statements

(1) A registered dealer or registered adviser must deliver a statement that includes the information referred to in subsection (2) to a client if any of the following apply in respect of a security owned by the client that is held or controlled by a party other than the dealer or adviser:

(a) the dealer or adviser has trading authority over the security or the client's account in which the security is held or was transacted;

(b) 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;

(c) 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 security or the records of the issuer's investment fund manager.

(2) A statement delivered under subsection (1) must include the following in respect of the securities or the account referred to in subsection (1), determined as at the end of the period for which the statement is made:

(a) the name and quantity of each security;

(b) the market value of each security and, if applicable, the notification in subsection 14.11.1(2) [*determining market value*];

(c) the total market value of each security position;

(d) any cash balance in the account;

(e) the total market value of all of the cash and securities;

(f) the name of the party that holds or controls each security and a description of the way it is held;

(g) whether the securities are covered under an investor protection fund approved or recognized by the securities regulatory authority and, if they are, the name of the fund;

(h) which of the securities might be subject to a deferred sales charge if they are sold.

(3) If subsection (1) applies to a registered dealer or a registered adviser, the dealer or adviser must deliver a statement that includes the information in subsection (2) to a client at least once every 3 months, except that if a client has requested to receive statements on a monthly basis, the adviser must deliver a statement to the client every month.

(4) If subsection (1) applies to a registered dealer or a registered adviser that is also required to deliver a statement to a client under subsection 14.14(1) or (3), a statement delivered under subsection (1) must be delivered to the client in one of the following ways:

(a) combined with a statement delivered to the client under subsection 14.14(1) or (3) for the period ending on the same date;

(b) as a separate document accompanying a statement delivered to the client under subsection 14.14(1) or (3) for the period ending on the same date;

(c) as a separate document delivered within 10 days after the statement delivered to the client under subsection 14.14(1) or (3) for the period ending on the same date.

(5) For the purposes of this section, a security is considered to be held for a client by a party other than the registered firm if any of the following apply:

(a) the other party is the registered owner of the security as nominee on behalf of the client;

(b) ownership of the security is recorded on the books of its issuer in the client's name;

(c) the other party has physical possession of a certificate evidencing ownership of the security;

(d) the client has physical possession of a certificate evidencing ownership of the security.

(6) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

14.14.2 Position cost information

(1) If a registered dealer or registered adviser is required to deliver a statement to a client that includes information required under subsection 14.14(5) [*account statements*] or 14.14.1(2) [*additional statements*], the dealer or adviser must deliver the information referred to in subsection (2) to a client at least once every 3 months.

(2) The information delivered under subsection (1) must disclose the following:

(a) for each security position in the statement opened on or after July 15, 2015,

(i) the cost of the position, determined as at the end of the period for which the information under subsection 14.14(5) or 14.14.1(2) is provided, presented on an average cost per unit or share basis or on an aggregate basis, or

(ii) if the security position was transferred from another registered firm, the information referred to in subparagraph (i) or the market value of the security position as at the date of the position's transfer if it is also disclosed in the statement that it is the market value as of the transfer date, not the cost of the security position, that is being disclosed;

(b) for each security position in the statement opened before July 15, 2015,

(i) the cost of the position, determined as at the end of the period for which the information under subsection 14.14(5) or 14.14.1(2) is provided, presented on an average cost per unit or share basis or on an aggregate basis, or

(ii) the market value of the security position as at July 15, 2015 or an earlier date, if the same date and value are used for all clients of the firm holding that security and it is also disclosed in the statement that it is the market value as of that date, not the cost of the security position, that is being disclosed;

(c) the total cost of all of the security positions in the statement, determined in accordance with paragraphs (a) and (b);

(d) for each security position for which the registered firm reasonably believes it cannot determine the cost in accordance with paragraphs (a) and (b), disclosure of that fact in the statement.

(3) The cost of security positions required to be disclosed under subsection (2) must be either the book cost or the original cost and must be accompanied by the definition of "book cost" in section 1.1 or the definition of "original cost" in section 1.1, as applicable.

(4) The information delivered under subsection (1) must be delivered to the client in one of the following ways:

(a) combined with a statement delivered to the client that includes the information required under subsection 14.14(5) or 14.14.1(2) for the period ending on the same date;

(b) in a separate document accompanying a statement delivered to the client that includes information required under subsection 14.14(5) or 14.14.1(2) for the period ending on the same date;

(c) in a separate document delivered within 10 days after a statement delivered to the client that includes information required under subsection 14.14(5) or 14.14.1(2) for the period ending on the same date.

(5) If the information under subsection (1) is delivered to the client in a separate document in accordance with paragraph (4)(c), the separate document must also include the following:

(a) the market value of each security in the statement and, if applicable, the notification in subsection 14.11.1(2) [*determining market value*];

(b) the total market value of each security position in the statement;

(c) the total market value of all cash and securities in the statement.

(6) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

14.15 Security holder statements

If there is no dealer or adviser of record for a security holder on the records of a registered investment fund manager, the investment fund manager must deliver to the security holder at least once every 12 months a statement that includes the following:

(a) the information required under subsection 14.14(4) [*account statements*] for each transaction that the registered investment fund manager made for the security holder during the period;

(b) the information required under subsection 14.14.1(2) [*additional statements*] for the securities of the security holder that are on the records of the registered investment fund manager;

(c) the information required under section 14.14.2 [*position cost information*].

14.16 Scholarship plan dealer statements

Sections 14.14 [*account statements*], 14.14.1 [*additional statements*] and 14.14.2 [*position cost information*] do not apply to a scholarship plan dealer if both of the following apply:

(a) the scholarship plan dealer is not registered in another dealer or adviser category;

(b) the scholarship plan dealer delivers to a client a statement at least once every 12 months that provides the information required under subsections 14.14(4) and 14.14.1(2).

21. ***Division 5 of Part 14 is amended by adding the following sections:***

14.17 Report on charges and other compensation

(1) For each 12-month period, a registered firm must deliver to a client a report on charges and other compensation containing the following information, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:

(a) the registered firm's current operating charges which might be applicable to the client's account;

(b) the total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report, and the total amount of those charges;

(c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report, and the total amount of those charges;

(d) the total amount of the operating charges reported under paragraph (b) and the transaction charges reported under paragraph (c);

(e) if the registered firm purchased or sold debt securities for the client during the period covered by the report, either of the following:

(i) the total amount of any mark-ups, mark-downs, commissions or other service charges the firm applied on the purchases or sales of debt securities;

(ii) the total amount of any commissions charged to the client by the firm on the purchases or sales of debt securities and, if the firm applied mark-ups, mark-downs or any service charges other than commissions on the purchases or sales of debt securities, the following notification or a notification that is substantially similar:

"For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged.";

(f) if the registered firm is a scholarship plan dealer, the unpaid amount of any enrolment fee or other charge that is payable by the client;

(g) the total amount of each type of payment, other than a trailing commission, that is made to the registered firm or any of its registered individuals by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(h) if the registered firm received trailing commissions related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

"We received $[amount] in trailing commissions in respect of securities you owned during the 12-month period covered by this report.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund."

(2) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14(5) [*account statements*] must be delivered in a separate report on charges and other compensation for each of the client's accounts.

(3) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14.1(1) [*additional statements*] must be delivered in a report on charges and other compensation for the client's account through which the securities were transacted.

(4) Subsections (2) and (3) do not apply if the registered firm provides a report on charges and other compensation that consolidates, into a single report, the required information for more than one of a client's accounts and any securities of the client required to be reported under subsection 14.14(5) or 14.14.1(1) and if the following apply:

(a) the client has consented in writing to the form of disclosure referred to in this subsection;

(b) the consolidated report specifies the accounts and securities with respect to which information is required to be reported under subsection 14.14.1(1) [*additional statements*].

(5) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

14.18 Investment performance report

(1) A registered firm must deliver an investment performance report to a client every 12 months, except that the first report delivered after a registered firm first makes a trade for a client may be sent within 24 months after that trade.

(2) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14(5) [*account statements*] must be delivered

in a separate report for each of the client's accounts.

(3) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14.1(1) [*additional statements*] must be delivered in the report for each of the client's accounts through which the securities were transacted.

(4) Subsections (2) and (3) do not apply if the registered firm provides a report that consolidates, into a single report, the required information for more than one of a client's accounts and any securities of the client required to be reported under subsections 14.14(5) or 14.14.1(1) and if the following apply:

(a) the client has consented in writing to the form of disclosure referred to in this subsection;

(b) the consolidated report specifies the accounts and securities with respect to which information is required to be reported under subsection 14.14.1(1) [*additional statements*].

(5) This section does not apply to

(a) a client's account that has existed for less than a 12-month period;

(b) a registered dealer in respect of a client's account in which the dealer executes trades only as directed by a registered adviser acting for the client; and

(c) a registered firm in respect of a permitted client that is not an individual.

(6) If a registered firm reasonably believes there are no securities of a client with respect to which information is required to be reported under subsection 14.14(5) [*account statements*] or subsection 14.14.1(1) [*additional statements*] and for which a market value can be determined, the firm is not required to deliver a report to the client for the period.

14.19 Content of investment performance report

(1) An investment performance report required to be delivered under section 14.18 by a registered firm must include all of the following in respect of the securities referred to in a statement in respect of which subsections 14.14(1), (2) or (3) [*account statements*] or 14.14.1(1) [*additional statements*] apply:

(a) the market value of all cash and securities in the client's account as at the beginning of the 12-month period covered by the investment performance report;

(b) the market value of all cash and securities in the client's account as at the end of the 12-month period covered by the investment performance report;

(c) the market value of all deposits and transfers of cash and securities into the client's account, and the market value of all withdrawals and transfers of cash and securities out of the account, in the 12-month period covered by the investment performance report;

(d) subject to paragraph (e), the market value of all deposits and transfers of cash and securities into the client's account, and the market value of all withdrawals and transfers of cash and securities out of the account, since opening the account;

(e) if the client's account was opened before July 15, 2015 and the registered firm reasonably believes market values are not available for all deposits, withdrawals and transfers since the account was opened, the following:

(i) the market value of all cash and securities in the client's account as at July 15, 2015;

(ii) the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, since July 15, 2015;

(f) the annual change in the market value of the client's account for the 12-month period covered by the investment performance report, determined using the following formula

$$A – B – C + D$$

where

A = the market value of all cash and securities in the account as at the end of the 12-month period covered by the investment performance report;

B = the market value of all cash and securities in the account at the beginning of that 12-month period;

C = the market value of all deposits and transfers of cash and securities into the account in that 12-month period; and

D = the market value of all withdrawals and transfers of cash and securities out of the account in that 12-month period;

(g) subject to paragraph (h), the cumulative change in the market value of the account since the account was opened, determined using the following formula

$$A – E + F$$

where

A = the market value of all cash and securities in the account as at the end of the 12-month period covered by the investment performance report;

E = the market value of all deposits and transfers of cash and securities into the account since account opening; and

F = the market value of all withdrawals and transfers of cash and securities out of the account since account opening;

(h) if the registered firm reasonably believes the market value of all deposits and transfers of cash and securities into the account since the account was opened or the market value of all withdrawals and transfers of cash and securities out of the account since the account was opened required in paragraph (g) is not available to the registered firm, the cumulative change in the market value of the account determined using the following formula

$$A – G – H + I$$

where

A = the market value of all cash and securities in the account as at the end of the 12-month period covered by the investment performance report;

G = the market value of all cash and securities in the account as at July 15, 2015;

H = the market value of all deposits and transfers of cash and securities into the account since July 15, 2015; and

I = the market value of all withdrawals and transfers of cash and securities out of the account since July 15, 2015;

(i) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry;

(j) the definition of "total percentage return" in section 1.1 and a notification indicating the following:

(i) that the total percentage return in the investment performance report was calculated net of charges;

(ii) the calculation method used;

(iii) a general explanation in plain language of what the calculation method takes into account.

(2) The information delivered for the purposes of paragraph (1)(i) must be provided for each of the following periods:

(a) the 12-month period covered by the investment performance report;

(b) the 3-year period preceding the end of the 12-month period covered by the report;

(c) the 5-year period preceding the end of the 12-month period covered by the report;

(d) the 10-year period preceding the end of the 12-month period covered by the report;

(e) the period since the client's account was opened if the account has been open for more than one year before the date of the report or, if the account was opened before July 15, 2015 and the registered firm reasonably believes the annualized total percentage return for the period before July 15, 2015 is not available, the period since July 15, 2015.

(3) Despite subsection (2), if any portion of a period referred to in paragraphs (2)(b), (c) or (d) was before July 15, 2015, the registered firm is not required to report the annualized total percentage return for that period.

(4) Despite subsection (1), the information a scholarship plan dealer is required to deliver under section 14.18 [*investment performance report*] in respect of each scholarship plan in which a client has invested through the scholarship plan dealer is the following:

(a) the total amount that the client has invested in the plan as at the date of the investment performance report;

(b) the total amount that would be returned to the client if, as at the date of the investment performance report, the client ceased to make prescribed payments into the plan;

(c) a reasonable projection of future payments that the plan might pay to the client's designated beneficiary under the plan, or to the client, at the maturity of the client's investment in the plan;

(d) a summary of any terms of the plan that, if not met by the client or the client's designated beneficiary under the plan, might cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan.

(5) The information delivered under section 14.18 [*investment performance report*] must be presented using text, tables and charts, and must be accompanied by notes in the investment performance report explaining

(a) the content of the report and how a client can use the information to assess the performance of the client's investments; and

(b) the changing value of the client's investments as reflected in the information in the report.

(6) If a registered firm delivers information required under this section in a report to a client for a period of less than one year, the firm must not calculate the disclosed information on an annualized basis.

(7) If the registered firm reasonably believes the market value cannot be determined for a security position, the market value must be assigned a value of zero in the calculation of the information delivered under subsection 14.18(1) and the fact that its market value could not be determined must be disclosed to the client.

14.20 Delivery of report on charges and other compensation and investment performance report

(1) A report under section 14.17 [*report on charges and other compensation*] and a report under section 14.18 [*investment performance report*] must include information for the same 12-month period and the reports must be delivered together in one of the following ways:

(a) combined with a statement delivered to the client that includes information required under subsection 14.14(1), (2) or (3) [*account statements*], subsection 14.14.1(2) [*additional statements*] or section 14.16 [*scholarship plan dealer statements*];

(b) accompanying a statement delivered to the client that includes information required under subsection 14.14(1), (2) or (3) [*account statements*], subsection 14.14.1(2) [*additional statements*] or section 14.16 [*scholarship plan dealer statements*];

(c) within 10 days after a statement delivered to the client that includes information required under subsection 14.14(1),(2) or (3) [*account statements*], subsection 14.14.1(2) [*additional statements*] or section 14.16 [*scholarship plan dealer statements*].

(2) Subsection (1) does not apply in respect of the first report under section 14.17 [*report on charges and other compensation*] and the first report under section 14.18 [*investment performance report*] for a client.

Coming into force

22. ***(1) Subject to subsection (2), this Instrument comes into force on July 15, 2013.***

(2) The provisions of this Instrument listed in column 1 of the following table come into force on the date set out in column 2 of the table:

Column 1 **Provisions of this Instrument**	**Column 2** **Date**
2(b), 6(k), 13, 17(a), 17(c)	July 15, 2014
2(c), 4(g), 15, 19, 20	July 15, 2015
2(d), 4(h), 5, 16, 17(b), 21	July 15, 2016

ANNEX D

AMENDMENTS TO COMPANION POLICY 31-103 CP
REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

The Canadian Securities Administrators are publishing changes to the Companion Policy. The changes come into effect on the implementation of the corresponding changes to the Rule.

This Annex shows, by way of black-line, the amendments to the Companion Policy against the relevant portions of the unofficial consolidation of NI 31-103 published on September 28, 2012 and also two new appendices to the Companion Policy.

Part 14 Handling client accounts – firms

If a client consents, documents required in this Part can be delivered in electronic form. For further guidance, see National Policy 11-201 *Delivery of Documents by Electronic Means*.

Division 1 Investment fund managers

Section 14.1 sets out the limited application of Part 14 to investment fund managers that are not also registered in other categories, including section 14.1.1 [*duty to provide information*], section 14.6 [*holding client assets in trust*], subsection 14.12(5) [*content and delivery of trade confirmation*] and section 14.15 [*security holder statements*].

Section 14.1.1 requires investment fund managers to provide, within a reasonable period of time, information concerning deferred sales charges and any other charges deducted from the net asset value of the securities, and trailing commissions to dealers and advisers in order that they may comply with their obligations under paragraphs 14.12(1)(c) [*content and delivery of trade confirmation*] and 14.17(1)(h) [*report on charges and other compensation*]. This is a principles-based requirement. An investment fund manager must work with the dealers and advisers who distribute fund products to determine what information they need from the investment fund manager in order to satisfy their client reporting obligations. The information and arrangements for its delivery may vary, reflecting different operating models and information systems.

Division 2 Disclosure to clients

14.2 Relationship disclosure information

Registrants should ensure that clients understand who they are dealing with. They should carry on all registerable activities in their full legal or registered trade name. Contracts, confirmation and account statements, among other documents, should contain the registrant's full legal name.

~~**14.2 Relationship disclosure information**~~

Content of relationship disclosure information

There is no prescribed form for the relationship disclosure information required under section ~~14.2.~~ 14.2 [*relationship disclosure information*]. A registered firm may provide this information in a single document, or in separate documents, which together give the client the prescribed information.

~~Disclosure of costs~~

~~Under subsection 14.2(2)(g), registered firms must provide clients with a description of the costs they will pay in making, holding and selling investments. We expect this description to include all costs a client may pay during the course of holding a particular investment. For example, for a mutual fund, the description should briefly explain each of the following and how they may affect the investment:~~

- ~~the management expense ratio~~
- ~~the sales charge options available to the client~~
- ~~the trailing commission~~
- ~~any short-term trading fees~~
- ~~any switch or change fees~~

~~Permitted clients~~

~~Under subsection 14.2(6), registrants do not have to provide relationship disclosure information to permitted clients if:~~

- ~~the permitted client has waived the requirements in writing, and~~
- ~~the registrant does not act as an adviser for a managed account of the permitted client~~

Relationship disclosure information should be communicated in a manner consistent with the guidance on client communications under section 1.1 of this Companion Policy. We encourage registrants to avoid the use of technical terms and acronyms when communicating with clients. To satisfy their obligations under section 14.2, registered individuals must spend sufficient time with clients as part of an in-person or telephone meeting, or other method that is consistent with their operations, to adequately explain the information that is delivered to them. We expect a firm to have policies and procedures requiring its registered individuals to demonstrate they have done so. What is considered "sufficient" will depend on the circumstances, including a client's understanding of the delivered documents.

Evidence of compliance with client disclosure requirements at account opening, prior to trades and at other times, can include detailed notes of meetings or discussions with clients, signed client acknowledgements and tape-recorded phone conversations.

Promoting client participation

Registered firms should help their clients understand the registrant-client relationship. They should encourage clients to actively participate in the relationship and provide them with clear, relevant and timely information and communications.

In particular, registered firms should help and encourage clients to:

- **Keep the firm up to date.** Clients should be encouraged to
  - provide full and accurate information to the firm and the registered individuals acting for the firm
  - ~~• Keep the firm up to date. Clients should provide full and accurate information to the firm and the registered individuals acting for the firm. Clients should~~ promptly inform the firm of any change to their information that could ~~reasonably~~ result in a change to the types of investments appropriate for them, such as a change to their income, investment objectives, risk tolerance, time horizon or net worth~~.~~
- **Be informed.** Clients should be
  - helped to understand the potential risks and returns on investments
  - encouraged to carefully review sales literature provided by the firm
  - ~~• Be informed. Clients should understand the potential risks and returns on investments. They should carefully review sales literature provided by the firm. Where appropriate, clients should~~encouraged to consult professionals, such as a lawyer or an accountant, for legal or tax advice~~.~~ where appropriate
- **Ask questions.** Clients should be encouraged to
  - ~~• Ask questions. Clients should ask questions and~~ request information from the firm to resolve ~~questions~~concerns about their account, transactions or investments, or their relationship with the firm or a registered individual acting for the firm~~.~~
- **Stay on top of their investments.** Clients should be encouraged to
  - ~~• Stay on top of their investments. Clients should pay for securities purchases by the settlement date. They should~~ review all account documentation provided by the firm ~~and regularly review portfolio holdings and performance~~.
  - regularly review portfolio holdings and performance

Disclosure of charges and other compensation

Under paragraphs 14.2(2)(f), (g) and (h), registered firms must provide clients with information on the operating and transaction charges they might pay in making, holding and selling investments, and a general description of any compensation paid to the firm by any other party. We expect this disclosure to include all charges a client might pay during the course of holding a particular investment.

A registered firm's charges to a client and the compensation it may receive from third parties in respect of the client will vary depending on the type of relationship with the client and the nature of the services and investment products offered. At account opening, registered firms must provide clients with general information on the operating charges and transaction charges that the clients may be required to pay, as well as other compensation the firms may receive as a result of their business relationship. A firm is not expected to provide information on all the types of accounts that it offers and the fees related to these accounts if it is not relevant to the client's situation.

"Operating charge" is defined broadly in section 1.1 and examples include (but are not exclusive to) service charges, administration fees, safekeeping fees, management fees, transfer fees, account closing fees, annual registered plan fees and any other charges associated with maintaining and using an account that are paid to the registrant. For registered firms that charge an all-in fee for the operation of the account, such as a percentage of assets under management, that fee *is* the operating charge. We do not expect firms with an all-in operating charge to provide a breakdown of the items covered by the fee.

"Transaction charges" is also defined broadly in section 1.1 and examples include (but are not exclusive to) commissions, transaction fees, switch or change fees, performance fees, short-term trading fees, and sales charges or redemption fees that are paid to the registrant. Although we do not consider "foreign exchange spreads" to be a transaction charge, we encourage firms to include a general notification in trade confirmations and reports on charges and other compensation that the firm may have incurred a gain or loss from a foreign exchange transaction as a best practice.

Operating charges and transaction charges include only charges paid to the registered firm by the client. Third-party charges, such as custodian fees that are not paid to the registered firm, are not included in operating charges or transaction charges. Operating and transaction charges include any sales taxes that are paid on the amounts charged to the client. Registrants may wish to inform clients where a charge includes sales tax, or separately disclose the components of the charge. Withholding taxes would not be considered a charge.

Providing general information on charges is appropriate at the time of account opening. However, section 14.2.1 [*pre-trade disclosure of charges*] requires that, before a registered firm accepts an instruction from a client to purchase or sell a security, the firm must provide more specific information as to the nature and amount of the actual charges that will apply. Registrants are encouraged to explain charges to their clients.

For example, if a client will be investing in a mutual fund security, the description should briefly explain each of the following and how they may affect the investment:

- the management fee
- the sales charge or deferred sales charge option available to the client and an explanation as to how such charges work. This means registered firms should advise clients that mutual funds sold on a deferred sales charge basis are subject to charges upon redemption that are applied on a declining rate scale over a specified period of years, until such time as the charges decrease to zero. Any other redemption fees or short-term trading fees that may apply should also be discussed
- any trailing commission, or other embedded fees
- any options regarding front end loads
- any fees related to the client changing or switching investments ("switch or change fees")

Registrants may also wish to explain to clients that trailing commissions are included in the management fees that are charged to their investment funds and are not additional charges paid by the client to the registrant. "Trailing commission" is defined for purposes of NI 31-103 in section 1.1 in broad terms designed to ensure that payments similar to what are generally known as trailing commissions will be subject to similar reporting requirements under this instrument.

Registrants should advise clients with managed accounts whether the registrant will receive compensation from third parties, such as trailing commissions, on any securities purchased for the client and, if so, whether the fee paid by the client to the registrant will be affected by this. For example, the management fee paid by a client on the portion of a managed account related to mutual fund holdings may be lower than the overall fee on the rest of the portfolio.

Description of content and frequency of client reporting

Under paragraph 14.2(2)(i), a registered firm is required to provide a description of the content and frequency of reporting to the client. Reporting to clients includes, as applicable:

- trade confirmations under section 14.12
- account statements under section 14.14
- additional statements under section 14.14.1
- position cost information under section 14.14.2
- annual report on charges and other compensation under section 14.17
- investment performance reports under section 14.18

Guidance about registered firm's client reporting obligations is provided in Division 5 of this Part.

KYC information

Paragraph 14.2(2)(l) requires registrants to provide their clients with a copy of their KYC information at the time of account opening. We would expect registered firms to also provide a description to the client of the various terms which make up the KYC information, and explain how this information will be used in assessing the client's financial situation, investment objectives, investment knowledge and risk tolerance in determining investment suitability.

Benchmarks

Paragraph 14.2(2)(m) requires registered firms to provide clients with a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options available to the client to obtain information about benchmarks from the registered firm. Other than this general discussion, there is no requirement for registered firms to provide benchmark information to clients. Nonetheless, we encourage firms to do so as a best practice. Guidance on the provision of benchmarks is set out in this Companion Policy at the end of the discussion of the content of investment performance reports under section 14.19.

Scholarship plan dealers

Paragraph 14.2(2)(n) requires an explanation of the important aspects of the scholarship plan that, if not fulfilled, would cause loss to the client. To be complete, this prescribed disclosure could include any options that would allow the investor to retain notional earnings in the event that they do not maintain prescribed payments under the plan and any fees associated with those options.

Order execution trading

Subsections 14.2(7) and (8) provide that only limited relationship disclosure information must be delivered by a dealer whose relationship with a client is limited to executing trades as directed by a registered adviser acting for the client. In a relationship of this kind, each registrant must explain to the client its role and responsibility to the client, and what services and reporting the client can expect of it.

14.2.1 Pre-trade disclosure of charges

For non-managed accounts, section 14.2.1 requires disclosure to a client of charges specific to a transaction prior to the acceptance of a client's instruction. This disclosure is not required to be in writing. Oral disclosure of charges is sufficient for the purposes of disclosing charges at the time of a transaction. Specific charges must be reported in writing on the trade confirmation as required in section 14.12.

For a purchase of a security on a deferred sales charge basis, disclosure that a deferred sales charge might be triggered upon the redemption of the security, and the schedule that would apply if it is sold within the time period that a deferred sales charge would be applicable, must be presented. The actual amount of the deferred sales charge, if any, would need to be disclosed once the security is redeemed. For the purposes of disclosing trailing commissions, the dealing representative may draw attention to the information in the prospectus or the fund facts document

if that document is provided at the point of sale.

With respect to a transaction involving a debt security, pre-trade disclosure should include a discussion of any commission the registered firm will receive on the trade. This discussion should include both the number of basis points that the charge represents as well as the corresponding dollar amount, or a reasonable estimate of the amount if the actual amount of the charges is not known to the firm at the time.

Switch or change transactions

Processing a switch or change transaction without client knowledge is contrary to a registrant's duty to act fairly, honestly and in good faith. In our view, compliance with this duty requires that clients are informed, before any switch or change transaction is processed, of charges associated with the transaction, dealers' incentives for such a transaction (including increased trailing commissions), and any tax or other implications of such a transaction. In each case, we expect dealers to explain why a proposed switch or change transaction is appropriate for the client. We consider that providing clients with clear and complete disclosure of the charges at the time of a transaction will help clients to be aware of the implications of proposed transactions and deter registrants from transacting for the purpose of generating commissions. Registrants are also reminded that their obligations in connection with suitability and conflicts of interest apply to such transactions, as well as their obligations under any applicable SRO requirements or guidance.

We expect all changes or switches to a client's investments to be accurately reported in trade confirmations by reporting each of the purchase and sale transactions making up the change or switch, as required in section 14.12, with a description of the associated charges.

....

Division 5 ~~*Account activity reporting*~~*Reporting to clients*

~~Each trade should be reported in the currency in which it was executed. If a trade is executed in a foreign currency through a Canadian dollar account, the exchange rate should be reported to the client.~~

Reporting to clients is on an account basis, except that

- securities that are not held in an account (i.e., securities reported under an additional statement) must be included in a report for the account through which they were traded, and
- subsection 14.18(4) permits performance reports for more than one account of a client and also securities not held in an account to be combined with the client's written consent.

Registered firms may choose how they meet their client reporting obligations within the framework set out in the Instrument. We encourage firms to combine client statements, position cost information and client reports into comprehensive documents or send them together. For example, an account statement and an additional statement for securities traded through (but not

held) in an account might be combined, perhaps along with position cost information, each quarter. Once a year, an integrated statement such as this could be further combined with the report on charges and other compensation and the performance report, or delivered along with a separate document that combines the two reports.

We believe that integrating client reporting as much as possible within the limitations of firms' systems capabilities will better enable clients to make use of the information and that it is in the interests of registrants to have clients that are well informed about the services they provide. When client reporting information is combined or delivered together, we expect registered firms will give each element sufficient prominence among the others that a reasonable investor can readily locate it.

Consistent with the guidance on clear and meaningful disclosure to clients in section 1.1 of this Companion Policy, we expect registrants to present client statements and reports in an understandable manner and to explain, if applicable, what securities are included in different statements. Registered firms should encourage clients to contact their dealing or advising representative or the firm directly with questions about their statements and reports. We expect registered firms to ensure that clients know how their investments will be held (for example, by the firm or at an issuing fund company) and understand the different implications that this will have for them in such matters as client reporting, investor protection fund coverage and custody of their assets. If a registered firm trades in exempt market securities for a client, the firm should also explain the reasons why it is not always possible for the firm to determine a market value for products sold in the exempt market or whether the client still owns the security, and the implications that this may have for reporting on exempt-market securities.

It is the responsibility of the registered firm to produce these client statements and reports, not that of individual representatives. Registered firms should have policies and procedures in place to ensure that they are adequately supervising their registered representatives' communications with clients about the prescribed information.

The requirement to produce and deliver a trade confirmation under section 14.12, an account statement under section 14.14, an additional statement under section 14.14.1, position cost information under section 14.14.2, a security holder statement under section 14.15, a scholarship plan dealer statement under section 14.16 or client reports under sections 14.17 and 14.18 may be outsourced by a registered firm to a third-party service provider that acts as its agent. Third-party pricing providers may also be used to value securities for these purposes. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the service provider. See Part 11 of this Companion Policy for more guidance on outsourcing.

14.11.1 Determining market value

Section 14.11.1 sets out the basis on which market value must be determined for client reporting purposes.

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 in paragraph 14.11.1(1)(b). Registrants are required to act reasonably in applying these methodologies and we understand that this process will often require a registrant to exercise professional judgement.

Where possible, market value should be determined by reference to a quoted value on a marketplace. The quoted value will be the last bid or ask price on the relevant date or the last trading day prior to the relevant date. Registered firms should ensure that any quoted values used to determine market value do not represent stale or old prices that are not reflective of current values. If no current value for a security is quoted on a marketplace, market value should be determined by reference to published market reports or inter-dealer quotes.

We recognize that it is not always possible to obtain a market value by these methods. In such cases, we will accept a valuation policy that is consistently applied and includes procedures that assess the reliability of any valuation inputs and assumptions. If available, valuation inputs and assumptions should be based on observable market data or inputs, such as market prices or yield rates for comparable securities and quoted interest rates. If observable inputs are not available, valuation can be based on unobservable inputs and assumptions. In some cases, it may be reasonable and appropriate to value at cost, where there has been no material subsequent event affecting value (e.g. a market event or new capital raising by the issuer). "Observable" and "unobservable" inputs are concepts under International Financial Reporting Standards (IFRS), and we expect them to be applied consistent with IFRS.

Subsection 14.11.1(3) provides that where the registered firm reasonably believes that it cannot determine the market value of a security, the firm must report that no 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 (see also subsection 14.19(7)).

If the market value for a security subsequently becomes determinable, a registered firm must begin to report it in client statements and add that value to the opening market values or deposits included in the calculations in subsection 14.19(1). This would be expected if the firm had previously assigned the security a value of zero in the calculation of opening market values or deposits because it could not determine the security's market value, as required by subsection 14.19(7). This would reduce the risk of presenting a misleading improvement in the performance of the investment by only adding the value of the security to the other calculations required under section 14.19. If the deposits used to purchase the security were already included in the calculation of opening market values or deposits, the registered firm would not need to adjust these figures.

We encourage firms to disclose the foreign exchange rate used in calculating the market value of non-Canadian dollar denominated securities as a best practice.

14.12 Content and delivery of trade confirmation

Section 14.12 requires registered dealers to deliver trade confirmations. ~~A dealer may enter into an outsourcing arrangement for the sending of trade confirmations to its clients. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the~~

~~service provider. See Part 11 of this Companion Policy for more guidance on outsourcing.~~

Under paragraph 14.12(1)(b.1), registered dealers must provide the yield on a purchase of a debt security in a trade confirmation. For non-callable debt securities, the yield to maturity would be appropriate. For callable securities, the yield to call may be more useful.

Under paragraph 14.12(1)(c.1), registrants may disclose the total dollar amount of compensation (which may consist of any mark-up or mark-down, commission or other service charge) or, alternatively, the total dollar amount of commission, if any, and if the registrant applied a mark-up or mark-down or any service charge other than a commission, a prescribed general notification. The notification is a minimum requirement and a firm may elect to provide more information in its trade confirmations.

Each trade should be reported in the currency in which it was executed. If a trade is executed in a foreign currency through a Canadian dollar account, the exchange rate should be reported to the client.

14.14 Account statements

Section 14.14 requires registered dealers and advisers to deliver statements to clients at least once every three months. There is no prescribed form for these statements but they must contain the information referred to in subsections 14.14(4) and (5). The types of transactions that must be disclosed in an account statement include any purchase, sale or transfer of securities, dividend or interest payment received or reinvested, any fee or charge, and any other account activity. A firm must deliver an account statement with the information referred to in subsection (4) if any transaction was made for the client in the reporting period. Effective July 15, 2015, a firm is only required to provide the account balance information referred to in subsection (5) if it holds securities owned by a client in an account of the client.

~~We expect all dealers and advisers to provide client account statements. For example, an exempt market dealer should provide an account statement that contains the information prescribed for all transactions the exempt market dealer has entered into or arranged on a client's behalf.~~

~~The requirement to produce and deliver an account statement may be outsourced. Portfolio managers frequently enter into outsourcing arrangements for the production and delivery of account statements. Third-party pricing providers may also be used to value securities for the purpose of account statements. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the service provider. See Part 11 of this Companion Policy for more guidance on outsourcing.~~

14.14.1 Additional statements

A firm is required to deliver additional statements if the circumstances described in subsection 14.14.1(1) apply. The additional statements must be delivered once every three months, except that an adviser must deliver the statements on a monthly basis if requested by the client as provided in subsection 14.14.1(3). The requirements set out for the frequency of delivering account

statements and additional statements are minimum standards. Firms may choose to provide the statements more frequently.

Firms may choose to include securities that must be reported under the additional statement requirement in a document that it refers to as an account statement, consistent with their clients' expectations that their accounts are not limited to securities held by the firm, provided it satisfies the requirements for content of statements set out in sections 14.14 and 14.14.1.

14.14.2 Position cost information

Section 14.14.2 requires the delivery on a quarterly basis of position cost information for securities reported in account statements and additional statements. Position cost may be either the book cost or the original cost, as defined in section 1.1. Position cost information provides investors with a comparison to the market value of each security position they have open.

Where securities were transferred from another registrant firm and the information required to calculate position cost is unavailable, a registrant may elect to use market value information as at the date of the transfer as the position cost going forward.

Firms must include the definition of book cost or original cost in client statements. Firms can comply with that requirement by making reference to the definition in a footnote.

Position cost information must be delivered at least quarterly, within 10 days after an account statement or additional statement. A firm may combine position cost information with the statement(s) for the period, or it may send it separately. If it chooses to send position cost information separately, the firm must also include the market value information from the statement(s) for the period in order that the client will be able to readily compare the information. Although a firm may deliver statements under section 14.14 or section 14.14.1 more frequently than quarterly, it is not required to provide position cost information except on a quarterly basis.

14.15 Security holder statements

Section 14.15 sets out the client reporting requirements applicable to a registered investment fund manager where there is no dealer or adviser of record for a security holder on the records of the investment fund manager.

14.16 Scholarship plan dealer statements

Section 14.16 provides that sections 14.14 [*account statements*], 14.14.1 [*additional statements*] and 14.14.2 [*position cost information*] do not apply to a scholarship plan dealer that delivers prescribed information to a client at least once every 12 months. Subsection 14.19(4) sets out performance reporting requirements for scholarship plans.

14.17 Report on charges and other compensation

Registered firms must provide clients with an annual report on the firm's charges and other compensation received by the firm in connection with their investments. 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 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 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 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). 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).

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.

Registered firms may want 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.

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

14.18 Investment performance report

Where more than one registrant provides services pertaining to a client's account, responsibility for performance reporting rests with the registered firm with the client-facing relationship. For example, if a registered adviser has trading authority over a client's account at a registered dealer, the adviser must provide the client with an annual investment performance report; this is not an obligation of the dealer that only executes adviser-directed trades or provides custodial services in respect of the client's account.

Performance reporting to clients is required to be provided separately for each account. Securities of a client required to be reported in an additional statement under section 14.14.1, if any, must be covered in a performance report that also includes any other securities in the account through

which they were transacted. However, subsection 14.18(4) provides that with client consent, a registrant may provide consolidated performance reporting for that client. A registrant may also provide a consolidated performance report for multiple clients, such as a family group, but only as a supplemental report, in addition to reports required under section 14.18.

14.19 Content of investment performance report

Subsection 14.19(5) requires the use of each of text, tables and charts in the presentation of investment performance reports. Explanatory notes and the definition of "total percentage return" must also be included. The purpose of these requirements is to make the information as understandable to investors as possible.

To help investors get the most out of their investment performance reports and encourage informed discussion with their registered dealing representative or advising representative, we encourage registered firms to consider including:

- additional definitions of the various performance measures used by the registrant
- additional disclosure that enhances the performance presentation
- a discussion with clients about what the information means to them

Registrants should not mislead a client by presenting a return of the client's capital in a manner that suggests it forms part of the client's return on an investment.

Registered representatives are also encouraged to meet with clients, as part of an in-person or telephone meeting, to help ensure they understand their investment performance reports and how the information relates to the client's investment objectives and risk tolerance.

Appendix E of this Companion Policy includes a sample Investment Performance Report which registered firms are encouraged to use as guidance.

Opening market value, deposits and withdrawals

As part of paragraphs 14.19(1)(a) and (b), registered firms must disclose the market value of cash and securities in the client's account as at the beginning and the end of the 12-month period covered by the investment performance report. The market value of cash and securities at account opening is assumed to be zero.

Under paragraphs 14.19(1)(c) and (d), registered firms must also disclose the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, for the 12-month period covered by the performance report, as well as since account opening. Deposits and transfers into the account (which do not include reinvested distributions or interest income) should be shown separately from withdrawals and transfers out of the account. Where an account was opened before July 15, 2015 and market values are not available for all deposits, withdrawals and transfers since account opening, under paragraph 14.19(1)(e) registered firms must present the market value of all

cash and securities in the client's account as at July 15, 2015, and the market value of all deposits, withdrawals and transfers of cash and securities since July 15, 2015.

Subsection 14.19(7) requires a registered firm that cannot determine the market value for a security position to assign the security a value of zero for the performance reporting purposes and the reason for doing so must be disclosed to the client. The explanation may be included as a note in the performance report. As described in section 14.11.1 of this Companion Policy, if a registered firm is subsequently able to value that security it may need to adjust the calculation of the market values or deposits to avoid presenting a misleading improvement in the performance of the account.

Change in market value

The opening market value, plus deposits and transfers in, less withdrawals and transfers out, should be compared to the market value of the account as at the end of the 12-month period for which the performance reporting is provided and also since inception in order to provide clients, in dollar terms, with the performance of their account.

The change in the market value of the account since inception is the difference between the closing market value of the account and total of opening market value plus deposits less withdrawals since inception. The change in the value of the account for the 12-month period is the difference between the closing market value of the account and total of opening market value plus deposits less withdrawals during the period. Where market values since inception are not available, registered firms are required to disclose the change in value of a client's account since July 15, 2015.

The change in market value includes components such as income (dividends, interest) and distributions, including reinvested income or distributions, realized and unrealized capital gains or losses in the account, and the effect of operating charges and transaction charges if these are deducted directly from the account. Rather than show the change in value as a single amount, registered firms may opt to break this out into its components to provide more detail to clients.

Percentage return calculation method

Paragraph 14.19(1)(i) requires firms to provide the annualized total percentage return using a money-weighted rate of return calculation method. No specific formula is prescribed, but the method used by a firm must be one that is generally accepted in the securities industry. A registered firm may, if it so chooses, provide percentage returns calculated using both money-weighted and time-weighted methods. In such cases, the firm should explain in plain language the difference between the two sets of performance returns.

Paragraph 14.19(1)(j) requires that performance reports provide specified information about how the client's percentage return was calculated. This includes an explanation in general terms of what the calculation method takes into account. For example, a firm could explain that under a money weighted method, decisions a client made about deposits and withdrawals to and from the client's account have affected the returns calculated in the report. A firm that also uses a time weighted method could explain that the returns calculated under this method may not be the same as the

actual returns in the client's account because they do not necessarily show the effect of deposits and withdrawals to and from the account. We do not expect firms to include a formula or an exhaustive list. We expect firms to use this notification to help clients understand the most important implications of the calculation methodology.

Performance reporting periods

Subsection 14.19(2) outlines the minimum reporting periods of 1, 3, 5 and 10 years and the period since the inception of the account. Registered firms may opt to provide more frequent performance reporting. However performance returns for periods of less than one year can be misleading and therefore, must not be presented on an annualized basis, consistent with subsection 14.19(6).

Scholarship plans

Under paragraph 14.19(4)(c), for scholarship plans, the information required to be delivered in the investment performance report includes a reasonable projection of future scholarship payments that the plan may pay to the client or the client's designated beneficiary upon the maturity of the client's investment in the plan.

A scholarship plan dealer is also required under paragraph 14.19(4)(d) to provide a summary of any terms of the plan, which if not met by the client or the client's designated beneficiary under the plan, may cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan. The disclosure here is not intended to be as detailed as the disclosure at account opening. It is intended to remind the client of the unique risks of the plan and the ways in which the client's scholarship plan may be seriously impaired. This disclosure must be consistent with other disclosures required to be delivered to clients under applicable securities legislation.

To the extent that a scholarship plan dealer and the plan itself are not the same legal entity but are affiliates of one another, the dealer may meet obligations to deliver annual investment performance reports by drawing attention to the plan's direct mailing of reports to a client by the plan's administrator.

Benchmarks and investment performance reporting

The use of benchmarks for investment performance reporting is optional. There is no requirement to provide benchmarks to clients in any of the reports required under NI 31-103.

However, we encourage registrants to use benchmarks that are relevant to a client's investments as a useful way for a client to assess the performance of their portfolio. Benchmarks need to be explained to clients in terms they will understand, including factors that should be considered by the client when comparing their investment returns to benchmark returns. For example, a registrant could discuss the differences between the composition of a client's portfolio that reflects the investment strategy they have agreed upon and the composition of an index benchmark, so that a comparison between them is fair and not misleading. A discussion of the impact of operating charges and transaction charges as well as other expenses related to the client's investments would

also be helpful to clients, since benchmarks generally do not factor in the costs of investing.

If a registered firm chooses to present benchmark information, the firm should ensure that it is not misleading. We expect registrants to use benchmarks that are

- discussed with clients to ensure they understand the purpose of comparing the performance of their portfolio to the chosen benchmarks and determine if their information needs will be met
- reasonably reflective of the composition of the client's portfolio so as to ensure that a relevant comparison of performance is presented
- relevant in terms of the investing time horizon of the client
- based on widely recognized and available indices that are credible and not manufactured by the registrant or any of its affiliates using proprietary data
- broad-based securities market indices which can be linked to the major asset classes into which the client's portfolio is divided. The determination of a major asset class should be based on the firm's own policies and procedures and the client's portfolio composition. An asset class for benchmarking purposes may be based on the type of security and geographical region. We do not expect an asset class to be determined by industry sector
- presented for the same reporting periods as the client's annualized total percentage returns
- clearly named
- applied consistently from one reporting period to the next for comparability reasons, unless there has been a change to the pre-determined asset classes. In this case, the change in the benchmark(s) presented should be discussed with the client and included in the explanatory notes, along with the reasons for the change

Examples of acceptable benchmarks would include, but are not limited to, the S&P/TSX Composite index for Canadian equities, the S&P 500 index for U.S. equities, and the MSCI EAFE index as a measure of the equity markets outside of North America.

14.20 Delivery of report on charges and other compensation and investment performance report

Registered firms must deliver the annual report on charges and other compensation under section 14.17 and the investment performance report under section 14.18 for a client together. These client reports may be combined with or accompany an account statement or additional statement for a client, or must be sent within 10 days after an account statement or additional statement for the client.

COMPANION POLICY APPENDIX D

[Name of Firm]
Annual Charges and Compensation Report

Client name

Your Account Number: 123456

Address line 1
Address line 2
Address line 3

This report summarizes the compensation that we received directly and indirectly in 20XX. Our compensation comes from two sources:

1. **What we charge you directly. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales and other transactions you make in the account.**

2. **What we receive through third parties.**

Charges are important because they reduce your profit or increase your loss from investing. If you need an explanation of the charges described in this report, your representative can help you.

Charges you paid directly to us

RSP administration fee	$100	
Total charges associated with the operation of your account		**$100**
Commissions on purchases of mutual funds with a sales charge	$101	
Switch fees	$45	
Total charges associated with transactions we executed for you		**$146**
Total charges you paid directly to us		**$246**

Compensation we received through third parties

Commissions from mutual fund managers on purchases of mutual funds (see note 1)	$503
Trailing commissions from mutual fund managers (see note 2)	$286
Total compensation we received through third parties	**$789**

Total charges and compensation we received in 20XX **$1,035**

Notes:

1. When you purchased units of mutual funds on a deferred sales charge basis, we received a commission from the investment fund manager. During the year, these commissions amounted to $503.

2. We received $286 in trailing commissions in respect of securities you owned during the 12-month period covered by this report.

   Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the

trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.

Our current schedule of operating charges

[*As part of the annual report of charges and compensation, registrants are required to provide their current operating charges that may be applicable to their clients' accounts. For the purposes of this sample document, we are not providing such a list.*]

COMPANION POLICY APPENDIX E

Your investment performance report

For the period ending December 31, 2030

Investment account 123456789

Client name
Address line 1
Address line 2
Address line 3

This report tells you how your account has performed to December 31, 2030. It can help you assess your progress toward meeting your investment goals.

Speak to your representative if you have questions about this report. It is important that you tell your representative if your personal or financial circumstances have changed. Your representative can recommend adjustments to your investments to keep you on track to meeting your goals.

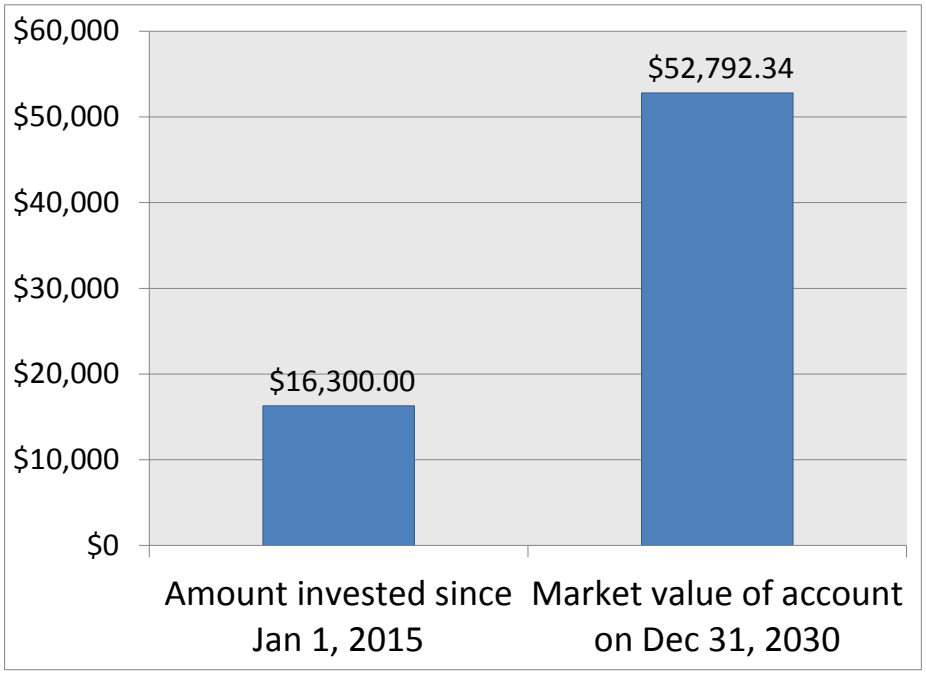
Total value summary

Amount invested means opening market value plus deposits including:
the market value of all deposits and transfers of securities and cash into your account, not including interest or dividends reinvested.

Less withdrawals including:
the market value of all withdrawals and transfers out of your account.

Your investments have increased by $36,492.34 since you opened the account
Your investments have increased by $2,928.85 during the past year

Amount invested since you opened your account on January 1, 2015	$16,300.00
Market value of your account on December 31, 2030	**$52,792.34**



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Change in the value of your account

This table is a summary of the activity in your account. It shows how the value of your account has changed based on the type of activity.

	Past year	Since you opened your account
Opening market value	$51,063.49	$0.00
Deposits	$4,000.00	$21,500.00
Withdrawals	$(5,200.00)	$(5,200.00)
Change in the market value of your account	$2,928.85	$36,492.34
Closing market value	**$52,792.34**	**$52,792.34**

Your personal rates of return

What is a total percentage return?
This represents gains and losses of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage.

For example, an annual total percentage return of 5% for the past three years means that the investment effectively grew by 5% a year in each of the three years.

The table below shows the total percentage return of your account for periods ending December 31, 2030. Returns are calculated after charges have been deducted. These include charges you pay for advice, transaction charges and account-related charges, but not income tax.

Keep in mind your returns reflect the mix of investments and risk level of your account. When assessing your returns, consider your investment goals, the amount of risk you're comfortable with, and the value of the advice and services you receive.

	Past year	Past 3 years	Past 5 years	Past 10 years	Since you opened your account
Your account	5.51%	10.92%	12.07%	12.90%	13.09%

Calculation method
We use a money weighted method to calculate rates of return. Contact your representative if you want more information about this calculation.

The returns in this table are your personal rates of return. Your returns are affected by changes in the value of the securities you have invested in, dividends and interest that they paid, and also deposits and withdrawals to and from your account.

If you have a personal financial plan, it will contain a target rate of return, which is the return required to achieve your investment objectives. By comparing the rates of return you actually achieved (shown in the table) with your target rate of return, you can see whether you are on track to meet your investment objectives.

Contact your representative to discuss your rate of return and investment objectives.

ANNEX E

LOCAL MATTERS

Notice of Commission Approval

On March 12, 2013, the Ontario Securities Commission (the Commission) approved the amending instrument to NI 31-103 (the Amending Instrument) pursuant to section 143 of the Securities Act (Ontario) (the Act). Also on that day, the Commission adopted the changes to 31-103CP. Immaterial changes to 31-103CP were adopted by a quorum of the Commission on March 15, 2013. Immaterial changes to the Amending Instrument were approved on March •, 2013.

Delivery to the Minister

The Materials were delivered to the Minister of Finance on March 28, 2013. The Minister may approve or reject the Amending Instrument or return it for further consideration. If the Minister approves the Amending Instrument or does not take any further action by May 27, 2013, the Amending Instrument will come into force on July 15, 2013. The changes to 31-103CP will also take effect on July 15, 2013.