
Client Relationship Model Phase 2 (CRM2): Cost and Performance Reporting

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Registrant Outreach Workshop - October 31, 2013



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Disclaimer

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Themes

- Focus on retail investors
 - carve-outs for “permitted clients” that are not individuals

- Flexible form and delivery requirements
 - no prescribed forms for reports
 - prescribed notifications in “substantially” the form in the rules
 - delivered together or separately

- Applicable to all dealers and advisers
 - requirements almost all the same regardless of registration category
 - SRO rules harmonization



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Substance of CRM2

Key elements of CRM2 requirements

- ❑ limited application to IFMs
- ❑ relationship disclosure information
- ❑ cost disclosure
- ❑ client statements
- ❑ market valuation methodology
- ❑ performance reporting



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Transition

■ COST DISCLOSURE

Pre-trade disclosure of charges

Trade confirmation - debt securities

■ ACCOUNT STATEMENT / ADDITIONAL STATEMENT

New account statement / additional statement

Position cost information

Market value methodology

■ COST DISCLOSURE

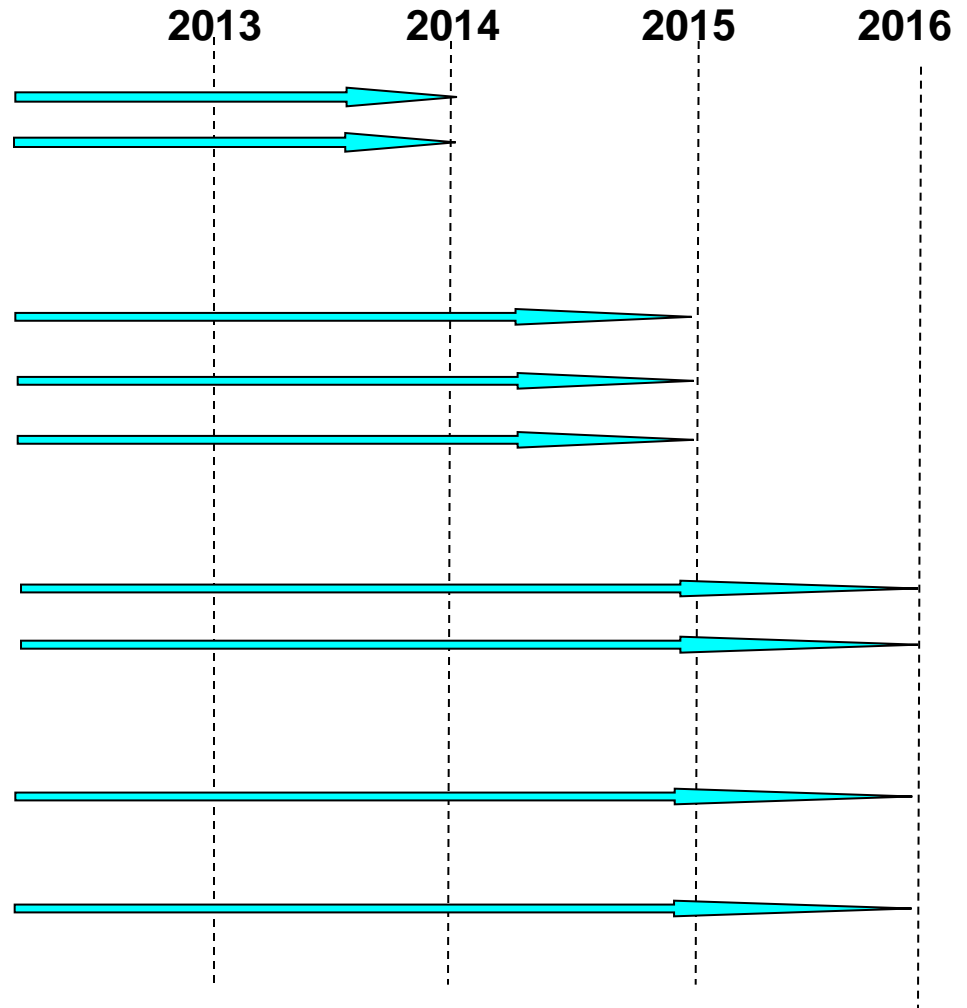
Trade confirmation – deferred sales charges

Report on charges and other compensation

■ PERFORMANCE REPORTING

Investment performance report

■ IFM DUTY TO PROVIDE INFORMATION



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2013 - Relationship disclosure information (RDI)

- Clarification to existing relationship disclosure [s. 14.2(2)], including
 - “operating charge” – defined in s. 1.1
 - *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” – defined in s. 1.1
 - *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*
- Delivery format - mostly in writing



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2013 - RDI (cont'd)

- Notification of new or increased operating charge [s. 14.2(5.1)]
- Reduced requirements for dealer executing trades as directed by adviser [s. 14.2(7)]
- Carve-out for permitted client that is not an individual [s.14.2(6)]



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2013 - Account statements

Account statement [s. 14.14]

- Minor clarifications
 - adviser to deliver monthly statement if requested
 - carve-out transfers from requirements to provide price per security and total value of transaction

- “NEW” account statement in force July 15, 2015 (discussed later)



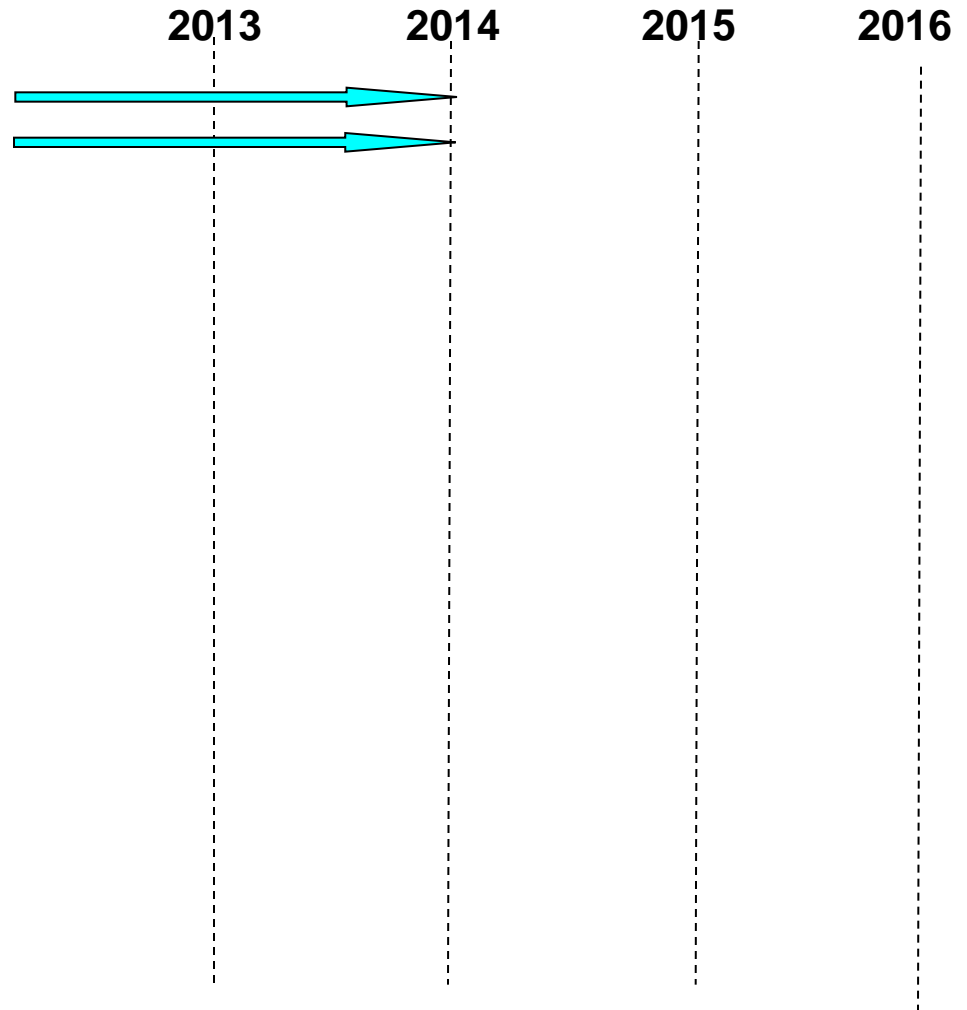
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Transition - 2014

- **COST DISCLOSURE**

Pre-trade disclosure of charges

Trade confirmation - debt securities



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2014 – RDI

Minor enhancements to existing relationship disclosure [s. 14.2(2)] - in force July 15, 2014

- general explanation of benchmarks and options available to client
- for SPDs, explanation of terms that if those terms are not met, might cause loss in the plan



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2014 – Pre-trade disclosure of charges

Pre-trade disclosure of charges [s. 14.2.1]

- ❑ Prior to the registrant accepting the client's order, specific disclosure of the charges a client will have to pay or a reasonable estimate
- ❑ Verbal disclosure sufficient
- ❑ Carve-outs
 - permitted client that is not an individual
 - dealer executing trades as directed by adviser
 - managed accounts



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2014 – Pre-trade disclosure of charges (cont'd)

For mutual funds, we expect a description of each of the following and how they may affect the investment

- the management fee
- the sales charge or deferred sales charge and any other redemption fees or short-term trading fees
- any trailing commission, or other embedded fees
- any options regarding front-end loads
- switch or change fees



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2014 – Trade confirmation

Disclosure for debt security transactions – two new requirements [s. 14.12(b.1) and (c.1)]:

- the security's annual yield (*purchase only*)
- compensation from debt securities transactions, either
 - (a) total \$ amount of compensation, or
 - (b) total \$ amount of any commission paid to the firm + general notification (mark-up/mark-down, service charge)



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Transition - 2015

- **ACCOUNT STATEMENT /
ADDITIONAL STATEMENT**

New account statement / additional statement

Position cost information

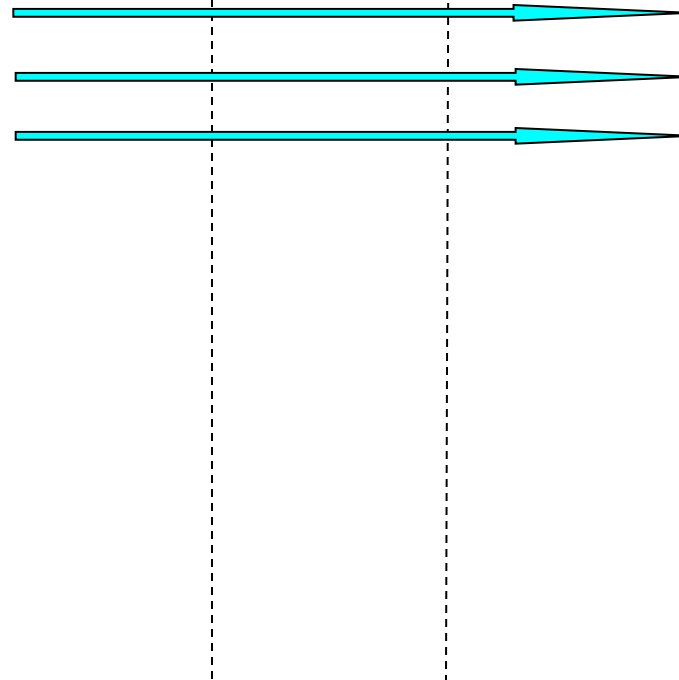
Market value methodology

2013

2014

2015

2016



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2015 – Client statements

Client statements consisting of

- account statement – at least quarterly, covering
 - transactions carried out during the period
 - securities held by the dealer or adviser
 - nominee name securities
 - physical possession of paper certificate

- additional statement – at least quarterly, covering
 - some securities held in client name (discussed later)



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2015 – Client statements (cont'd)

Account statement [s. 14.14]

- Additions to account portion of statement
 - notification re: estimated market value, if applicable
 - investor protection fund – whether covered and name
 - which securities might be subject to deferred sales charge if sold

- Delivery
 - every 3 months, or
 - monthly, if requested by the client
 - for dealers, after the end of a month in which a transaction was effected



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2015 – Client statements (cont'd)

Additional statement [s. 14.14.1]

- Covering securities held or controlled by a party other than the registrant where
 - the registrant has trading authority
 - the registrant receives continuing payments tied to the securities (e.g., trailing commissions)
 - the security is issued by a scholarship plan, a mutual fund or labour-sponsored investment fund and the dealer/adviser is the dealer/adviser of record
- Content corresponds with account portion of account statement, but also
 - the name of the party that holds or controls each security and
 - description of the way it is held
- Carve-out for permitted client that is not an individual



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2015 – Client statements (cont'd)

Additional statement [s. 14.14.1] (*continued*)

- Delivery
 - Every 3 months
 - For advisers, client may request monthly

- Account and additional statements - flexible delivery
 - combined with account statement
 - accompany account statement
 - within 10 days of account statement



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2015 – Client statements (cont'd)

Position cost information [s. 14.14.2]

- ❑ Either book cost or original cost (discussed below)
- ❑ Deliver position cost information for securities reported in account statement and additional statement every 3 months
 - combined with an account/additional statement
 - as a separate document accompanying statement
 - as a separate document within 10 days of statement (must include market value information)
- ❑ Carve-out for permitted client that is not an individual



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2015 – Client statements (cont'd)

Position cost information [s. 14.14.2] (*continued*)

- Cost of security positions as comparator for market value
 - “book cost” – defined in s. 1.1
 - *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” – defined in s. 1.1
 - *the total amount paid to purchase a security, including any transaction charges related to the purchase*
- Must include the definition



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2015 – Client statements (cont'd)

Security holder statements [s. 14.15]

- If there is no dealer or adviser of record for a security holder on the records of an IFM
- Deliver annually
 - transactional information in account statement
 - information in additional statement
 - position cost information

Scholarship plan dealer statements [s.14.16]

- If not registered in another dealer or adviser category, may deliver annually
 - transactional information in account statement
 - information in additional statement



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2015 – Market value methodology

Prescribed methodology for determining market value [s.14.11.1]

- security issued by an investment fund which is not listed on an exchange
 - determined by reference to NAV

- any other security – the amount the firm reasonably believes to be its market value
 - hierarchy of valuation methods based on availability of relevant information

- If reasonably believe that cannot determine market value, must say so and exclude from calculations in client statements and investment performance report



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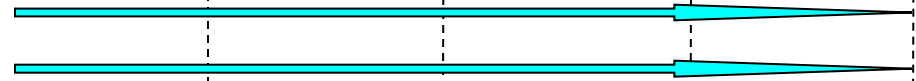
Transition – 2016

2013 2014 2015 2016

- **COST DISCLOSURE**

Trade confirmation – deferred sales charges

Report on charges and other compensation



- **PERFORMANCE REPORTING**

Investment performance report



- **IFM DUTY TO PROVIDE INFORMATION**



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2016 – Trade confirmation

Cost disclosure - amended requirement [s. 14.12(c)]:

- transaction charge, deferred sales charge or other charge, and the total amount of all charges, in respect of transaction



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2016 – Report on charges/compensation

New annual report on charges and other compensation [s. 14.17]

- Summary of all charges incurred by the client and all other compensation received by the firm that relates to the client's account, including
 - operating charges
 - transaction charges
 - payments received from issuers of securities or other registrants in relation to registerable services to client
 - trailing commissions
 - debt security transactions
 - unpaid amount of enrolment fees - SPDs



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2016 – Report on charges/compensation (cont'd)

- Delivery
 - together with investment performance report for the same period
 - flexible (combined with/accompany/within 10 days of client statements)
 - account-based (option for consolidated report)
 - client name securities reported with account traded through

- Carve-out for permitted client that is not an individual

- ...*sample annual report in CP*



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2016 – IFMs' duty to provide information

Generally, limited application of Part 14 to IFMs [s. 14.1]

- Duty to provide information [s. 141.1]
 - IFMs to provide dealers and advisers with information they need to comply with new client reporting requirements
 - deferred sales charges and any other charges deducted from the net asset value of securities
 - trailing commissions



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2016 – Performance report

New annual investment performance report [s. 14.18, s. 14.19]

- So that investors know
 - how much they invested and what it is worth today
 - deposits and withdrawals for past year and since inception of account
 - what their percentage returns for the specified periods are

- Carve-outs
 - permitted client that is not an individual
 - dealer executing trades as directed by adviser
 - a client's account less than 12-months old



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2016 – Performance report (cont'd)

For each 12-month period, an investment performance report containing

- market value of cash and securities as at beginning and end of period
- market value of all deposits/transfers in, and all withdrawals/transfers out, for period as well as since account opening
- change in market value of account since inception and for period using prescribed formulas
- annualized total percentage return for 1, 3, 5 and 10 years and since inception
 - using MWRR

■ ... *sample annual report in CP*



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2016 – Performance report (cont'd)

- Transition matters
 - for existing accounts, if the market values since account opening are not available, July 15, 2015 can be used as a baseline date

- Delivery
 - together with report on charges and other compensation for the same period
 - flexible (combined with/accompany/within 10 days of client statements)
 - account-based (option for consolidated report)
 - client name securities reported with account traded through



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2016 – Performance report (cont'd)

Scholarship plans [subsection 14.19(4)]

- ❑ total amount client has invested
- ❑ total amount returned to the client if the client ceased to make prescribed payments
- ❑ reasonable projection of future payments to designated beneficiary
- ❑ a summary of any terms of the plan that, if not met by the client or the client's designated beneficiary, might cause loss



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Four firm scenarios

- Practical guidance to implement CRM2
- 4 fictional composite firms
 1. Large private client PM
 2. EMD selling third party products
 3. EMD selling related-party products
 4. Exempt fund manager



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Scenario 1 – Large PM firm

The Private Client PM

- Registered as PM and IFM
- Over \$1 billion AUM
- Model portfolios using exempt pooled funds
- Separation of duties with a client-facing team and a team of fund managers and analysts
- Handful of small to mid sized institutional clients
- All accounts held by external custodian



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Scenario 2 – EMD selling 3rd party products

EMD selling 3rd party products

- Acting as a finder/introducer for 3rd party issuers
- No ongoing relationship with the investor



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Scenario 3 – EMD selling related-party products

EMD selling related-party products

- Mortgage Investment Entity and the EMD have the same mind and management



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Scenario 4 – Exempt Fund Manager

The Exempt Fund Manager

- Registered as PM, EMD and IFM
- Small firm with one key person as PM, UDP and CCO
- Offers one exempt fund – a mutual fund trust
- Direct and IIROC dealer distribution
- Handful of segregated accounts for individual, permitted clients
 - Invested in the same securities as the exempt fund



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Questions?



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