

## **Mutual Fund Dealer Rules**

### **1      RULE 1A. APPLICATION, INTERPRETATION, EXEMPTIONS, AND DEFINITIONS**

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#### Definitions

In these Rules unless the context otherwise specifies or requires:

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“institutional client” has the same meaning as in subsection 1201(2) of the Corporation’s Investment Dealer and Partially Consolidated Rules.

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### **RULE 5 - BOOKS, RECORDS AND REPORTING**

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#### **5.3.    Client Reporting**

##### **(1)      Definitions**

For the purpose of client reporting requirements under Rule 5.3:

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- (c) “direct investment fund charge” means the amount charged to a client if the client buys, holds, sells or switches securities of an investment fund, including any federal, provincial or territorial sales taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund’s fund expenses;
- (d) “fund expenses per security for the day” means the fund expenses per security of the applicable class or series of securities of the investment fund for the day that the client owned those securities, expressed in dollars, and determined by using the following formula:

$$A \times B = C$$

where:

A = the fund expense ratio for the day of the applicable class or series of securities of the investment fund;

B = the market value of a security for the day of the applicable class or series of securities of the investment fund;

C = the fund expenses per security for the day in dollars for the investment fund class or series of securities;

and where:

- (i) reasonable necessary adjustments to A or B are made to accurately determine C, or
  - (ii) reasonable approximations of any or all of A, B and C are used, subject to subsections 5.3.3(4) and 5.3.3(5);
- (e) “fund expense ratio” means the sum of an investment fund’s management expense ratio and trading expense ratio, expressed as a percentage;
  - (f) “investment” means any asset, excluding cash, held or transacted in an account of the Member;
  - (g) “management expense ratio” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;
  - (h) “marketplace” has the same meaning as in section 1.1 of National Instrument 21-101 *Marketplace Operation*;
  - (i) “market value” of a security has the meaning given to it under Form 1;
  - (j) “newly-established investment fund” means an investment fund that:

- (i) has yet to file the required management report of fund performance, as defined in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*, or
- (ii) is established less than 12 months before the end of the period covered by the report on charges and other compensations the Member is required to deliver pursuant to section 5.3.3;
- (k) “operating charge” means any amount charged to a client by a Member 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;
- (l) “original cost” means the total amount paid to purchase an investment, including any transaction charges related to the purchase;
- (m) “position cost” for each investment position in the account means, subject to paragraphs (i), (ii) and (iii), either “book cost” or “original cost”, provided that only one cost calculation methodology, either “book cost” or “original cost,” is used for all positions;
  - (i) **Investment Positions Opened before December 31, 2015.** For investment positions opened before December 31, 2015, means cost, as determined in accordance with subsection 5.3(1)(m), above; or the market value of the investment position as at December 31, 2015 or an earlier date, if the Member reasonably believes accurate, recorded historical market value information is available for the client’s account and it would not be misleading to the client to provide that information as at the earlier date;
  - (ii) **Investment Positions Transferred In:** For investment positions transferred into an account at the Member, means cost as determined in accordance with subsection 5.3(1)(m), above; or the market value of the investment position as at the date of the position’s transfer if it is also disclosed in the account statement that it is the market value, not the cost of the investment position, that is being disclosed; and
  - (iii) **Where Cost Not Determinable:** Where a Member reasonably believes that it cannot determine the position cost in respect of an investment position, the Member must provide disclosure of that fact in the statement.
- (n) “related issuer” has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;
- (o) “total amount of fund expenses” means the amount, expressed in dollars, determined by adding together the daily fund expenses for each class or series of securities of each investment fund owned by the client for each day that the client owned it during the reporting period, using the following formula to calculate the daily fund expenses:

$$A \times B = C$$

where:

A = the fund expenses per security for the day of the applicable class or series of securities of the investment fund;

B = the number of the applicable class or series of securities of the investment fund owned by the client for that day;

C = the daily fund expenses in dollars for a class or series of securities of the investment fund.

A reasonable approximation of the total amount of fund expenses may be used, subject to subsections 5.3.3(4) and 5.3.3(5);

- (p) “trading expense ratio” means the ratio, expressed as a percentage, of the total commissions and other portfolio transaction costs incurred by an investment fund to its average net asset value, calculated in accordance with paragraph 12 of item 3 of Part B of Form 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance* of National Instrument 81-106 *Investment Fund Continuous Disclosure*;
- (q) “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;
- (r) “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 Member or Approved Person by any party;
- (s) “transaction charge” means any amount charged to a client by a Member and includes any federal, provincial or territorial sales taxes paid on that amount.

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### 5.3.2 Content of Account Statement

Each account statement must contain the following information:

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(c) **Market Value and Cost Reporting.**

for all investments in an account at the Member:

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(ii) as at the end of the period for which the statement is made:

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(C) the position cost of each investment position presented on an average cost per unit or share basis or on an aggregate basis, and determined as at the end of the applicable period. Where market value is used to determine the position cost of an investment position, disclosure of that fact must be provided in the account statement;

(D) the total position cost of all investment positions;

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**5.3.3 Report on Charges and Other Compensation**

(1) **Content of Report on Charges and Other Compensation.** For each 12 month period, a Member 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 Member'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 subsection (b) and the transaction charges reported under subsection (c);
- (e) if the Member 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 Member applied on the purchases or sales of debt securities;
  - (ii) the total amount of any commissions charged to the client by the Member on the purchases or sales of debt securities and, if the Member 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) the total amount of each type of payment, other than a trailing commission, that is made to the Member or any of its Approved Persons 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;
- (g) if the Member 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.”*

- (h) if the client owned investment fund securities during the period covered by the report, the following information about those securities for such period:
  - (i) the total amount of fund expenses charged to the investment fund by its investment fund manager or any other party, after making the necessary adjustments to add performance fees and deduct fee waivers, rebates or absorptions, but excluding any charges reported as transaction charges under clause 5.3.3(1)(c);
  - (ii) the total amount of direct investment fund charges charged to the client by the investment fund, investment fund manager or any other party, excluding any charges reported as transaction charges under clause 5.3.3(1)(c);
  - (iii) the aggregate total amount of all expenses and charges reported under subclauses 5.3.3(1)(h)(i) and 5.3.3(1)(h)(ii);
  - (iv) the aggregate total amount of all Member charges and investment fund expenses and charges reported under clause 5.3.3(1)(d) and subclause 5.3.3(1)(h)(iii);
  - (v) the fund expense ratio of each class or series of securities of each investment fund, including any performance fees and deducting any fee waivers, rebates or absorptions;
  - (vi) the following disclosures:
    - (A) if information reported under subclauses 5.3.3(1)(h)(i), 5.3.3(1)(h)(ii) and 5.3.3(1)(h)(v), is based on an approximation or any other assumption, a notification that this is the case;
    - (B) in relation to any direct investment fund charges charged to the client, other than deferred sales charges, a short explanation of the type of fees that were charged;
    - (C) in relation to the total amount of fund expenses reported, the following notification or a notification that is substantially similar:

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

ratio (TER). These costs are already reflected in the current values reported for your fund investments.

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

- (D) in relation to the fund expense ratios required to be reported under subclause 5.3.3(1)(h)(v), the following notification or a notification that is substantially similar:

“Please refer to the prospectus or fund facts document of each investment fund for more detailed information about fund expenses and fund performance.

Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own.”;

- (E) in relation to any deferred sales charges paid by the client, the following notification or a notification that is substantially similar:

“You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund made available at the time of purchase. The redemption fee was deducted from the redemption amount you received.”;

- (F) in relation to an investment fund or securities of an investment fund where the manager of the investment fund is incorporated, continued or organized under the laws of a foreign jurisdiction, and the information reported for those securities under subclauses 5.3.3(1)(h)(i), 5.3.3(1)(h)(ii) and 5.3.3(1)(h)(v) is based on information disclosed under the laws of a foreign jurisdiction, the following notification or a notification that is substantially similar:

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



- (G) in relation to any structured product, labour sponsored investment fund or investment fund the securities of which are distributed solely under an exemption from the prospectus requirement in compliance with securities laws, the following notification or a notification that is substantially similar:

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

- (i) if the Member knows or has reason to believe that the client paid, to third parties, custodial fees, intermediary fees or interest charges related to investments owned by the client during the period covered by the report and those fees or charges are not required to be reported to the client by the Member under this section, the following notification or a notification that is substantially similar:

“The costs in this report may not include any fees you pay directly to third parties, including custodial fees, intermediary fees or interest charges that may be deducted from your account. You can contact those service providers for more information.”;

- (j) the following notification or a notification that is substantially similar:

“What can you do with this information? Take action by contacting your advisor to discuss the fees you pay, the impact they have on the long-term performance of your portfolio and the value you receive in return. If you are a self-directed investor, consider how fees impact the long-term performance of your portfolio, and possible ways to reduce those costs.”.

- (2) A Member may exclude the information required under subclauses 5.3.3(1)(h)(i) and 5.3.3(1)(h)(v) and any approximations of such information for a newly established investment fund in which case the following notification or a notification that is substantially similar must be included in the report:

“The total amount of fund expenses reported may not include cost information for newly established investment funds.”.

- (3) A Member is not required to report the information under subclauses 5.3.3(1)(h)(i), 5.3.3(1)(h)(ii), 5.3.3(1)(h)(v), and any approximations of such information, or the disclosures under paragraphs 5.3.3(1)(h)(vi)(A) to 5.3.3(1)(h)(vi)(E), and clause 5.3.3(1)(i) with regards to:

- (a) a labour sponsored investment fund, or
- (b) an investment fund whose securities are distributed solely under an exemption from the prospectus requirement in compliance with securities laws.

- (4) A Member is permitted to report a reasonable approximation of the information required under subclauses 5.3.3(1)(h)(i), 5.3.3(1)(h)(ii) and 5.3.3(1)(h)(v), when relying on reasonable approximations to determine such information pursuant to subsection 5.3.3(5).
- (5) For the purposes of reporting the information under subclauses 5.3.3(1)(h)(i), 5.3.3(1)(h)(ii) and 5.3.3(1)(h)(v), and the disclosures under paragraphs 5.3.3(1)(h)(vi)(A), 5.3.3(1)(h)(vi)(B), 5.3.3(1)(h)(vi)(E) and 5.3.3(1)(h)(vi)(F), the Member must:
  - (a) rely on the information provided by the investment fund manager, pursuant to section 14.1.1 of National Instrument 31-103, unless the Member reasonably believes the information provided to be incomplete or misleading, and
  - (b) where no reliable information can be obtained pursuant to clause 5.3.3(5)(a), make reasonable efforts to obtain or determine by other means the required information, or a reasonable approximation of such information, and
  - (c) where it reasonably believes it cannot obtain or determine under clause 5.3.3(5)(b) information that is not misleading, exclude such information and disclose in the relevant statement or report that the information is excluded from calculations or not reported.
- (6) The information required to be reported under subsection 5.3.3(1) must be delivered in a separate report on charges and other compensation for each account of the client.
- (7) A Member may provide 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 if the following apply:
  - (a) the client has consented in writing; and
  - (b) the consolidated report specifies which accounts it consolidates.
- (8) **Consolidated Reporting for Same Accounts.** Where a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(7) and a consolidated performance report is sent to the client pursuant to Rule 700 (Performance Reporting), General Requirements, subsection (2), both consolidated reports must consolidate information for the same accounts.
- (9) **Disclosure of Compensation Not Reported.** Where a Member receives compensation or other payments in respect of an investment that is not a security, during the period covered by the report, the Member must either:
  - (i) disclose the information required under Rule 5.3.3(1) in respect of the investment; or
  - (ii) indicate that compensation or payments received related to the investment have not been included in the report on charges and compensation being provided to the client.

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### 5.3.5 Delivery of Report on Charges and Other Compensation and Performance Report

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- (3) A Member is not required to deliver a report under Rule 5.3.3 – Report on Charges and Other Compensation and a report under Rule 5.3.4 – Performance Report to an institutional client unless the Member has undertaken, in the relationship disclosure documentation or other communication to the institutional client, to provide such reports to this client.
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## 5.7 Client reporting responsibility

- (1) A Member who acts as a carrying broker, or only provides trade execution, clearing, settlement or custody services or a combination of these services, to another Member, or exempt market dealer or their respective clients, with regards to a client account, is exempt from the responsibility to send:
- (i) a report on charges and other compensation to the client, pursuant to section 5.3.3, except for its own service fees and charges to the client, and
- (ii) a performance report to the client, pursuant to section 5.3.4,

regarding such a client account, unless it has undertaken to send such reports on behalf of the other Member or exempt market dealer pursuant to an outsourcing or service arrangement.

## 5.8. Corporation exemptions

- (1) The Corporation may exempt a Member from the applicable reporting requirements under sections 5.3.2, 5.3.3 and 5.3.4 with respect to client name assets, when the costs of requiring the Member to comply with such requirements significantly outweigh the benefits to the Member's clients from reporting under these requirements.

- (2) The Corporation will grant such exemption if it is satisfied that to do so would not prejudice the interests of the Member's clients, the public or the Member.
- (3) In granting an exemption under section 5.8, the Corporation may impose any terms and conditions it considers necessary.

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## **15     RULE 700 – PERFORMANCE REPORTING**

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### **General Requirements**

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- (3) Where a consolidated performance report is sent to a client, pursuant to subsection (2), above and a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(7), both consolidated reports must consolidate information for the same accounts.