

Appendix C – Blackline comparison of the Amendments to the current rules

Investment Dealer and Partially Consolidated Rules

RULE 1200 | DEFINITIONS

1201. Definitions

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(2) The following terms have the meanings set out when used in the *Corporation requirements*:

"market value"	<p>(i) For the purposes of the monthly, quarterly, and annual reporting for <i>securities, derivatives</i> and precious metals bullion:</p> <p>. . .</p> <p>(b) where a reliable price cannot be determined:</p> <p>. . .</p> <p>(III) where insufficient recent information is available or there is a wide range of possible values and <u>position cost</u> (defined in subsection 3802(1)) represents the best value estimate within that range:</p> <p>(A) <u>position cost</u>, and</p> <p>. . .</p> <p>. . .</p>
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3802. Definitions

(1) The following terms have the meaning set out below when used in Rule 3800:

<u>“direct investment fund charge”</u>	<u>The amount charged to a client if the client buys, holds, sells or switches securities of an investment fund, including any taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund’s fund expenses.</u>
<u>“fund expenses per security for the day”</u>	<p><u>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:</u></p> <p><u>$A \times B = C$</u></p> <p><u>where:</u></p> <p><u>A = the fund expense ratio for the day of the applicable class or series of securities of the investment fund;</u></p> <p><u>B = the market value of a security for the day of the applicable class or series of securities of the investment fund;</u></p> <p><u>C = the fund expenses per security for the day in dollars for the investment fund class or series of securities;</u></p> <p><u>and where:</u></p> <p><u>(i) reasonable necessary adjustments to A or B are made to accurately determine C, or</u></p> <p><u>(ii) reasonable approximations of any or all of A, B and C are used, subject to subsections 3811(5) and 3811(6).</u></p>
<u>“fund expense ratio”</u>	<u>The sum of an investment fund’s management expense ratio and trading expense ratio, expressed as a percentage.</u>
<u>“management expense ratio”</u>	<u>The same meaning as in section 1.1 of National Instrument 81-106 Investment Fund Continuous Disclosure.</u>

<p><u>“newly-established investment fund”</u></p>	<p>An investment fund that:</p> <p>(i) <u>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</u></p> <p>(ii) <u>is established less than 12 months before the end of the period covered by the fee/charges report the Dealer Member is required to deliver pursuant to section 3811.</u></p>
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<p>“outside holdings”</p>	<p>The client positions for which the Dealer Member is the ‘dealer of record’ that are neither held at or under the control of the Dealer Member.</p> <p><u>Client positions that are neither held at or under the control of the Dealer Member:</u></p> <p>(i) <u>in securities 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 applicable laws and the Dealer Member is the dealer of record for the client on the records of the issuer of the security or the records of the issuer’s investment fund manager, or</u></p> <p>(ii) <u>in any other security, derivative or precious metals bullion positions on which the Dealer Member receives continuing compensation payments related to the client’s ownership of the position from the issuer of the position, the investment fund manager of the issuer or any other party.</u></p>
<p><u>“position cost”</u></p>	<p>For each <i>security</i> position in the account and each <i>security</i> position subject to the additional reporting obligation under section 3809:</p> <p>.</p> <p>.</p> <p>.</p> <p>(iii) where the Dealer Member reasonably believes it cannot determine the <u>position cost</u> in accordance with clause (i) and sub-clause (ii)(b) of this definition, the Dealer must include the following notification or a notification that is substantially similar:</p> <p>“The [book cost/original cost] of this security position cannot be determined.”</p>

<u>total amount of fund expenses”</u>	<p>The amount, expressed in dollars, determined by adding together the <u>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:</u></p> <p><u>$A \times B = C$</u></p> <p><u>where:</u></p> <p><u>A = the fund expenses per security for the day of the applicable class or series of securities of the investment fund;</u></p> <p><u>B = the number of the applicable class or series of securities of the investment fund owned by the client for that day;</u></p> <p><u>C = the daily fund expenses in dollars for a class or series of securities of the investment fund.</u></p> <p><u>A reasonable approximation of the total amount of fund expenses may be used, subject to subsections 3811(5) and 3811(6).</u></p>
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<u>“trading expense ratio”</u>	<p>The ratio, expressed as a percentage, of the total commissions and other <u>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.</u></p>
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3808. Client account statements

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- (4) The statement must include all of the following information about the client’s account at the end of the period for which the statement is made:

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- (vi) where the client is a *retail client* and the statement is a quarterly statement, the statement must also include:
 - (a) for each *security, derivative* and precious metals bullion position in the account:
 - (I) where the position cost is determinable, either the position cost or the total position cost, and
 - (II) where the position cost is not determinable, the notification required pursuant to clause (iii) of the definition of position cost in subsection 3802(1),
 - and
 - (b) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position cost* information included in the statement, provided that where the individual *position cost* information included in the statement is calculated using:
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- (viii) where the client is a *retail client* and the statement is a quarterly statement, the total cost of all cash, *security, derivative* and precious metals bullion positions in the account.

3809. Report on client positions held outside of the Dealer Member

- (1) A *Dealer Member* must send a quarterly report on *outside holdings* (report to be called “Report on client positions held outside of the *Dealer Member*”) to each *retail client* who, at the end of the quarter ~~holds outside of the Dealer Member’s control, either in book-based client name or physical client name,~~ has one or more ~~positions:~~ *outside holdings*.
 - (i) ~~in securities 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 applicable laws and the Dealer Member is the dealer of~~

~~record for the client on the records of the issuer of the security or the records of the issuer's investment fund manager, and~~

- ~~(iii) in any other security, derivative or precious metals bullion positions on which the Dealer Member receives continuing compensation payments related to the client's ownership of the position from the issuer of the position, the investment fund manager of the issuer or any other party.~~

- (2) The report must include all of the following information about the client's *outside holdings* at the end of the period for which the report is made:

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- (iii) for each position:

where the position cost is:

- (a) determinable, either the position cost or the total position cost, and
(b) not determinable, the notification required pursuant to clause (iii) of the definition of position cost in subsection 3802(1),

- (iv) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position cost* information included in the statement, provided that where the individual *position cost* information included in the statement is calculated using:

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- (vi) the total position cost of all positions, and

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3811. Fee/charge report

- (1) A *Dealer Member* must send a fee/charge report to each *retail client* who, at the end of the 12-month period covered by the report or a shorter period in the case of the first report delivered after a client has opened an account, has:
 - (i) an account, or
 - (ii) holds one or more *outside holdings* for which quarterly reporting pursuant to section 3809 is required,and
 - (iii) such client paid ~~either directly or indirectly any~~ fee, charge or other payment, ~~including payments referred to in clauses 3811(2)(viii) and 3811(2)(ix), either directly or indirectly, to the Dealer Member or any of its registered individuals reportable under subsection 3811(2)~~ during the period covered by the report.
- (2) The annual fee/charge report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:
 - (i) a discussion of the *operating charges* which might be applicable to the client's account,
 - (ii) 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,
 - (iii) the aggregate total amount of all *operating charges* related to the client's account paid by the client during the period covered by the report,
 - (iv) the total amount of each type of *transaction charge* related to the purchase or sale of *securities* and precious metals bullion and transactions in *derivatives* paid by the client during the period covered by the report,
 - (v) the aggregate total amount of all *transaction charges* related to the client's account paid by the client during the period covered by the report,
 - (vi) the aggregate total amount of all charges reported under clauses 3811(2)(iii) and 3811(2)(v),
 - (vii) if the *Dealer Member* purchased or sold *debt securities* for the client during the period of the report, either of the following:
 - (a) the total amount of any mark-ups, mark-downs, commissions or other fees or charges the *Dealer Member* applied on the purchases or sales of *debt securities*,
 - (b) the total amount of any commissions charged to the client by the *Dealer Member* on the purchases or sales of *debt securities* and, if the *Dealer Member* applied mark-ups, mark-downs or other fees or 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.”,

- (viii) the total amount of each type of payment, other than *trailing commissions*, that is made to the *Dealer Member* or any of its registered *individuals* by a *securities* or *derivatives* issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment, ~~and~~
- (ix) if the *Dealer 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 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.”

- (x) if the client owned investment fund *securities* during the period covered by the report, the following information about those *securities* for such period:
 - (a) 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 3811(2)(iv),
 - (b) 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 3811(2)(iv),
 - (c) the aggregate total amount of all expenses and charges reported under subclauses 3811(2)(x)(a) and 3811(2)(x)(b),
 - (d) the aggregate total amount of all *Dealer Member* charges and investment fund expenses and charges reported under clause 3811(2)(vi) and subclause 3811(2)(x)(c),
 - (e) 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,
 - (f) the following disclosures:

- (I) if information reported under subclauses 3811(2)(x)(a), 3811(2)(x)(b) and 3811(2)(x)(e) is based on an approximation or any other assumption, a notification that this is the case,
- (II) 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,
- (III) 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.”,

- (IV) in relation to *the fund expense ratios* required to be reported under subclause 3811(2)(x)(e), 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.”,

- (V) 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.”.

- (VI) 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 3811(2)(x)(a), 3811(2)(x)(b) and 3811(2)(x)(e) 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.”.

- (VII) 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.”.

- (xi) if the *Dealer Member* knows or has reason to believe that the client paid, to third parties, custodial fees, intermediary fees or interest charges related to *securities*, precious metals bullion and *derivatives* 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 *Dealer 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.”.

- (xii) 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.”.

- (3) A Dealer Member may exclude the information required under subclauses 3811(2)(x)(a) and 3811(2)(x)(e) 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.”,
- (4) A Dealer Member is not required to report the information under subclauses 3811(2)(x)(a), 3811(2)(x)(b), 3811(2)(x)(e), and any approximations of such information, or the disclosures under paragraphs 3811(2)(x)(f)(I) to 3811(2)(x)(f)(V) and clause 3811(2)(xi) with regards to:
- (i) a labour sponsored investment fund, or
 - (ii) an investment fund whose securities are distributed solely under an exemption from the prospectus requirement in compliance with securities laws.
- (5) A Dealer Member is permitted to report a reasonable approximation of the information required under subclauses 3811(2)(x)(a), 3811(2)(x)(b) and 3811(2)(x)(e), when relying on reasonable approximations to determine such information pursuant to subsection 3811(6).
- (6) For the purposes of reporting the information under subclauses 3811(2)(x)(a), 3811(2)(x)(b) and 3811(2)(x)(e) and the disclosures under paragraphs 3811(2)(x)(f)(I), 3811(2)(x)(f)(II), 3811(2)(x)(f)(V) and 3811(2)(x)(f)(VI), the Dealer Member must:
- (i) rely on the information provided by the investment fund manager, pursuant to section 14.1.1 of National Instrument 31-103, unless the Dealer Member reasonably believes the information provided is incomplete or misleading, and
 - (ii) where no reliable information can be obtained pursuant to clause 3811(6)(i), make reasonable efforts to obtain or determine by other means the required information, or a reasonable approximation of such information, and
 - (iii) where it reasonably believes it cannot obtain or determine under clause 3811(6)(ii) 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.
- (37) For the purposes of this section 3811, the information in respect of *security*, *derivative* and precious metals bullion positions of a client required to be reported under section 3808 must be provided in a separate report for each of the client’s accounts.
- (48) For the purposes of this section 3811, the information in respect of *outside holdings* of a client required to be reported under section 3809 must be included in the report for each of the client’s accounts through which these positions were transacted.
- (59) Subsections 3811(37) and 3811(48) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client’s accounts and any *outside holdings* of a client required to be reported under section 3809 provided:
- (i) the client has consented in writing to receiving a consolidated report, and

- (ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.
- (~~6~~10) All annual fee/charge reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3811(~~5~~9), must:
 - (i) be prepared for the same 12-month period, and
 - (ii) include aggregated information for the same accounts and *outside holdings*, as the annual performance reports that are sent to the same client.
- (~~7~~11) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*, the *Dealer Member* shall not be required to send an annual fee/charge report under this section 3811, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following information about the client's account for the period covered:
 - (i) itemized transaction charge and operating charge information in accordance with this section 3811, and
 - (ii) if applicable, itemized information on compensation received by the *Dealer Member* in connection with a transaction.
- (~~8~~12) For purposes of clause 3811(~~7~~11)(ii), the following information will be acceptable where the compensation received by the *Dealer Member* relates to a bulk distribution arrangement:
 - (i) a calculated product distribution compensation amount, or
 - (ii) where the distribution compensation amount cannot be unbundled from the manufacturer compensation amount,
 - (a) the entire compensation amount, and
 - (b) a note explaining that the amount disclosed is the entire product compensation amount.

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3835. Option of earlier date

- (1) *Dealer Members* have the option of providing clients with the following *position cost* and performance information:
 - (i) *position cost* information included in client account statements [Definition of *cost* in subsection 3802(1) and clauses 3808(3)(vii) and 3808(3)(ix)],
 - (ii) *position cost* information included in the report on client positions held outside of the *Dealer Member* [Definition of *position cost* in subsection 3802(1) and clauses 3809(2)(iii) and 3809(2)(vi),
 that is prepared as at a date earlier than December 31, 2015.

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- (3) Where the option in subsection 3835(1) is pursued, all of the *position cost* information referenced in clauses 3835(1)(i) and 3835(1)(ii) must be prepared for all similar clients as at the same date.
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3846. Client reporting responsibility

(1) A Dealer 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 Dealer Member, Mutual Fund Dealer Member, portfolio manager, exempt market dealer or their respective clients, with regards to a client account or outside holding positions, is exempt from the responsibility to send:

- (i) a performance report to the client, pursuant to section 3810, and
- (ii) a fee/charge report to the client, pursuant to section 3811, except for its own service fees and charges to the client,

regarding such a client account or outside holding positions, unless it has undertaken to send such reports on behalf of the other Dealer Member, Mutual Fund Dealer Member, portfolio manager or exempt market dealer pursuant to an outsourcing or service arrangement.

3847. Corporation exemptions

- (1) The Corporation may exempt a Dealer Member from the applicable reporting requirements under sections 3809, 3810 and 3811 with respect to client's outside holdings, when the costs of requiring the Dealer Member to comply with such requirements significantly outweigh the benefits to the Dealer 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 Dealer Member's clients, the public or the Dealer Member.
- (3) In granting an exemption under section 3847, the Corporation may impose any terms and conditions it considers necessary.

3846.3848. – 3899. Reserved.