

## Appendix E – Summary of public comments received

### Summary of Comments Received in Response to the Proposed Rule Amendments — Enhanced Cost Reporting

On October 10, 2024, CIRO issued Rules Bulletin 24-0288 requesting comments on the proposed amendments to the Investment Dealer and Partially Consolidated (**IDPC**) Rules and the Mutual Fund Dealer (**MFD**) Rules relating to cost reporting requirements (**Proposed Amendments**). We received seven (7) comment letters from the following commenters:

- Fdp Private Wealth Management
- The Canadian Independent Finance and Innovation Counsel (CIFIC)
- The Canadian Life and Health Insurance Association (CLHIA)
- The Investment Funds Institute of Canada (IFIC)
- The Investment Industry Association of Canada (IIAC)
- OMG Wealth Management Inc
- Shamez Kassam

Copies of these letters are publicly available on [CIRO's website](#):

The following table summarizes these comments and our response:

Summary of Comments		CIRO response
<b>General Comments</b>		
1.	<p>Overall, commenters support our proposal to enhance CIRO's cost reporting requirements in material harmonization with the CSA's requirements, which aim to enhance the transparency of investment fund costs (TCR Enhancements).<sup>1</sup> They stress the need for full alignment between the two regulators on both the enhanced requirements and implementation timelines. Commenters also commend CIRO's proposals to align client reporting requirements and practices between investment dealers and mutual fund dealers, as well as provide CIRO staff with exemptive authority to grant routine reporting exemptions, for greater efficiency.</p> <p>At the same time, commenters request further clarification and offer recommendations, which we discuss below.</p>	We thank the commenters for their feedback.
<b>Enhanced cost reporting in the annual fee/charges report [IDPC Rule 3811 / MFD Rule 5.3.3]</b>		
<i>Reporting of fund expenses, direct fund charges and fund expense ratios</i>		
2.	<p>Two commenters request greater drafting precision in the proposed reporting requirements for the "total amount of fund expenses", "total amount of direct investment fund charges", and the "fund expense ratio".<sup>2</sup> They observe that, despite CIRO's intent, the proposed language may be interpreted as requiring Dealer Members (Dealers) to report these totals on individual fund basis rather than as aggregate</p>	<p>As emphasized in Bulletin 24-0288, our TCR Enhancements are intended to be fully harmonized with the corresponding CSA's TCR Enhancements, in both scope and impact. For the very reason of avoiding conflicting interpretations, we have drafted the concerned provisions in CIRO Rules to be identical to the corresponding CSA's provisions.</p>

<sup>1</sup> In this publication, "TCR Enhancements", which stands for Total Cost Reporting Enhancements, has the same meaning as in Bulletin 24-0288.

<sup>2</sup> Proposed IDPC Rule subclauses 3811(2)(x)(a), 3811(2)(x)(b), 3811(2)(x)(e) / MFD Rule subclauses 5.3.3(1)(h)(i), 5.3.3(1)(h)(ii), 5.3.3(1)(h)(v).

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<p>sum for all funds held by the client over the reporting period. Commenters recommend clarifying in the rules that fund expenses and direct fund charges should be reported as a total aggregate sum, whereas fund expense ratios must be reported as separate ratios for each investment fund. It is also suggested that we reiterate such clarification in guidance or other regulatory instruments.</p>	<p>Consistent with the CSA’s requirements, under our rules Dealers are required to report in the annual fee/charges report to clients for the account as a whole, for all investment fund securities owned by the client during the reporting period:</p> <ul style="list-style-type: none"> <li>(i) the total (aggregate sum) amount of fund expenses, in dollars, for all investment fund securities;<sup>3</sup></li> <li>(ii) the total (aggregate sum) amount of direct investment fund charges, in dollars, for all investment fund securities,<sup>4</sup> and</li> <li>(iii) the fund expense ratio, as a percentage, for each investment fund class or series of securities.<sup>5</sup></li> </ul> <p>The message of full harmonization between CIRO’s and CSA’s TCR Enhancements has also been reinforced in the bulletin implementing the Proposed Amendments. CIRO will issue future guidance in the context of the Dealer Consolidated Rules. In the meantime, we encourage Dealers to refer to 31-103CP and the accompanying sample of the annual cost and compensation report for further guidance.<sup>6</sup></p>

<sup>3</sup> IDPC Rule subclause 3811(2)(x)(a) / MFD Rule subclause 5.3.3(1)(h)(i), corresponding to the new requirement in section 14.17(1)(i) of National Instrument 31-103 (CSA’s TCR Enhancement). As discussed in Bulletin 24-0288, the determination of the total amount of fund expenses in the new section 14.17(6) of National Instrument 31-103 (CSA’s TCR Enhancement) has been brought into CIRO Rules under the definition of the “total amount of fund expenses” in IDPC Rule subsection 3802(1) / MFD Rule subsection 5.3(1).

<sup>4</sup> IDPC Rule subclause 3811(2)(x)(b) / MFD Rule subclause 5.3.3(1)(h)(ii), corresponding to the new requirement in section 14.17(1)(j) of National Instrument 31-103 (CSA’s TCR Enhancement).

<sup>5</sup> IDPC Rule subclause 3811(2)(x)(e) / MFD Rule subclause 5.3.3(1)(h)(v), corresponding to the new requirement in section 14.17(1)(m) of National Instrument 31-103 (CSA’s TCR Enhancement).

<sup>6</sup> Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations (**31-103CP**).

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<i>Transparency of fee disclosures</i>		
3.	<p>One commenter notes that performance fees can be significant and vary widely, especially for investments in alternative strategies. To avoid misleading reporting to clients, they recommend that the total cost rate is reported separately from performance fee, together with clear disclosure regarding the nature of the performance fees.</p> <p>The commenter also calls for greater transparency regarding which percentage of costs are paid to Dealers (and affiliated entities) and which are paid to independent investment funds managers or other third parties. According to the commenter, this would help investors better assess the value provided by those involved in their investment portfolios</p>	<p>These are comments of a systemic nature, which touch upon areas beyond CIRO's jurisdiction alone (including the type and format of data distribution an investment fund manager is responsible for). Such comments have been discussed and addressed as part of the consultations on the CSA's TCR Enhancements.<sup>7</sup></p> <p>In terms of Dealer's reporting responsibility under our rules, CIRO's TCR Enhancements set out minimum requirements. Dealers have the flexibility of providing additional information in the reports to clients or presenting such information in a more detailed fashion, when available to them, to the extent such disclosure remains compliant with our rule requirements. For instance, nothing in the rules prohibits a Dealer from reporting the performance fee separately from the total cost rate, in addition to the total fund expense figure (which includes the performance fee) requested in the rules.</p>
<i>Reporting notifications</i>		
4.	<p>One commenter suggests that, in the future, we create sample notifications based on the new proposed requirements, which Dealers could use or adapt as needed for their business models and reduce burden.</p>	<p>We will consider addressing requests of this nature in future guidance.</p>
<i>Cost reporting for foreign investment funds</i>		

<sup>7</sup> For more information refer to the CSA's notices adopting the CSA's TCR Enhancements (April 20, 2023), available on the CSA members' websites.

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5.	<p>Commenters note the reporting challenges that arise when dealing with foreign investment funds and foreign fund managers who do not comply with the Canadian regulations.</p> <p>One commenter recommends adding a rule provision to address situations where a foreign-incorporated fund manager does not provide the necessary information for a Dealer to meet its reporting obligations. The commenter suggests drafting revisions to the proposed IDPC Rule subsection 3811(6) / MFD Rule 5.3.3(5) to:</p> <ul style="list-style-type: none"> <li>• specify when a Dealer may exclude the required cost information related to foreign funds, and</li> <li>• prescribe the required notification regarding the excluded information.</li> </ul> <p>Another commenter remarks that appropriate data solutions must be made available to Canadian dealers to allow them to collect foreign funds information in an automated manner and properly communicate it to investors.</p>	<p>We understand the challenges Dealers may face in obtaining the required cost information with regard to foreign investment funds, in the absence of publicly available information, third-party service providers or voluntary disclosure by the foreign investment fund. The TCR Enhancements do take such situations into account, by permitting Dealer to exclude the required information from the report, when no reliable information can be obtained despite the Dealer's reasonable efforts. At the same time, the regulators have been informed through industry discussions that some third-party service providers are developing solutions which may help address such challenges.</p> <p>We appreciate the drafting suggestions put forward by the commenter, but we do not believe such prescriptive rule provisions specific for foreign funds are necessary. The Dealer responsibility under IDPC Rule subsection 3811(6) / MFD Rule 5.3.3(5) has been set out at a principles level, and such principle applies the same regardless of whether the Dealer is dealing with a Canadian or foreign fund.</p>
<i>Cost reporting for segregated funds</i>		
6.	<p>One commenter requests CIRO to provide guidance on how Dealers should disclose TCR information for segregated funds held in "nominee name" within client accounts. They recommend encouraging Dealers to include embedded costs and FER% information for these funds in the annual fee/charge report to clients, when available. According to the</p>	<p>In existing guidance, both CIRO's predecessors (IIROC and MFDA) have taken the stance that Dealers are permitted to include information about segregated funds in the reports to clients. Such position continues to apply.</p> <p>Further clarification regarding Dealer reporting responsibility for products beyond securities and derivatives under our rules,</p>

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	commenter, this aligns with the approach CIRO took for the CRM2 <sup>8</sup> disclosures and supports the concept of harmonizing reporting requirements for investment funds and segregated funds.	will be provided following the consultations and decisions taken as part of the Rule Consolidation Project.
<i>Excluded products: prospectus-exempt investment funds</i>		
7.	Two commenters express concerns about the exclusion of prospectus-exempt funds from the TCR Enhancements. They point out that these products carry significant costs and are increasingly offered through Fundserv. One commenter questioned whether investment fund managers would voluntarily provide the necessary data unless mandated to do so. Specifically, clients with portfolios heavily allocated to exempt funds may face under-reporting of actual investment costs, or Dealers may struggle with the burden of estimating or excluding such costs from reports. The commenters recommend including prospectus exempt funds in the scope of enhanced cost reporting to ensure greater transparency for investors.	These are comments of a systemic nature, which touch upon areas beyond CIRO's jurisdiction alone. Such comments have been discussed and addressed as part of the consultations on the CSA's TCR Enhancements.
8.	One commenter is asking whether the TCR Enhancements apply on a Dealer that sells prospectus exempt funds, ETF's and mutual funds, exclusively to accredited investors.	Under the Proposed Amendments, the current exemption for Dealers from the requirement to provide an annual fee and charge report to institutional clients has been maintained and extended to mutual fund dealers as well. This means that the Dealer reporting exemption, discussed here, applies with

<sup>8</sup> "CRM" stands for Client Focused Reforms, further discussed in Bulletin 24-0288.

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		regard to the accredited investor that qualifies as an institutional client under CIRO Rules. <sup>9</sup>
<b>Reporting exemptions</b>		
<i>Existing CRM exemptions from the outside holding reporting requirements</i>		
9.	<p>Commenters believe that active CRM exemptions should be maintained even in the face of the TCR Enhancements, to prevent significant and unnecessary burden for both Dealers and CIRO.</p> <p>One commenter requests clarification on why existing CRM exemptions would be impacted by the TCR Enhancements, arguing that these exemptions were issued on rules not affected by the Proposed Amendments (i.e. the quarterly reporting and performance reporting provisions of CIRO's rules). As such, they believe the CRM exemptions should neither become void nor require expansion.</p> <p>Another commenter recommends that CIRO consider 'grandfathering' or expanding the existing CRM exemptions to apply to the Proposed Amendments. They note that a 'grandfathering' approach is particularly appropriate for those exempt Dealers who do not provide services to the client in respect of the outside holdings, or those holdings that do not carry reportable costs.</p>	<p>Once the TCR Enhancements enter into effect, Dealers with outside holding positions who carry reportable fund fees, would have to start reporting such fees in the annual fee/charge reporting to clients, unless specifically exempt from such requirements. The existing CRM exemptions are limited to the provisions Dealers are specifically exempt from, and do not expand automatically to also exempt Dealers from the TCR Enhancements. CIRO will consider granting exemptions on a case-by-case basis based on the Dealer's own assessment and application for the need to be exempt from the TCR Enhancements.</p> <p>We are not persuaded by the claim that a renewal or expansion of existing CRM exemptions creates unnecessary burden for both Dealers and CIRO. Exempt Dealers can follow the already-established practice for applications of this nature. Also, in Bulletin 24-0288 we clearly indicate our intention to assess exemption renewal/expansion applications on grounds that are similar or comparable to the CRM exemptions.</p>
<i>Future outside holding exemptions</i>		

<sup>9</sup> Refer to the definition of "institutional client" in the IDPC Rule subsection 1201(2), which the Proposed Amendments also bring into the MFD Rules.

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10.	<p>Commenters express support for future exemptions from the cost reporting requirements because of the complex challenges the industry may face following the implementation of the TCR Enhancements.</p> <p>One commenter notes that the exemptions should be assessed on a case-by-case basis in consideration of each unique exemption request.</p> <p>One commenter requests CIRO to specify that future outside holding exemptions will be granted on the same grounds and conditions as the past CRM exemptions. They believe that CIRO's statement in Bulletin 24-0288, whereby exemptions may be granted "on comparable grounds and conditions" to the CRM exemptions, is too vague. They recommend CIRO publishes such clarification substantially before the implementation of the Proposed Amendments, so that there is adequate time for Dealers to set up necessary controls and system changes.</p>	<p>As set out in the Proposed Amendments, we will consider granting outside holding reporting exemptions where the costs for the Dealer of complying with the reporting requirements outweigh the benefits to clients. We also indicated in Bulletin 24-0288, that we make such an assessment on similar or comparable grounds to those of the CRM exemptions.</p> <p>We believe such approach provides adequate clarity and predictability of the exemption process to be followed by staff. It also allows needed flexibility for staff to consider new, yet comparable, exemption grounds in consideration of the novelty of the TCR Enhancements and the scope of the reporting exemptions being expanded to now include mutual fund dealers.</p> <p>As noted earlier, under the Proposed Amendments staff has authority to grant exemptions on a case-by-case basis in consideration of the specific Dealer application for exemption.</p>
<i>Reporting exemption regarding institutional clients</i>		
11.	<p>One commenter points out that existing exemptions from the annual fee/charge reporting requirements and performance report with regard to permitted clients, including institutional clients, should also be maintained.</p>	<p>As noted in Bulletin 24-0288, the existing exemption from the annual fee/charge reporting requirements of the IDPC Rules has been maintained. In addition, in the Proposed Amendments we proposed introducing the same exemptions in the MFD Rules, so as to level the playing field between investment dealers and mutual fund dealers.</p>
<b>Other</b>		



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12	One commenter notes that TCR Enhancements will have a significant cost impact on industry players, and to some extent the client, which is difficult to estimate at this stage. They stress that investment fund managers and third-party service providers play a major role in the ability of dealers to obtain and distribute the required information to their client in a timely manner.	We recognize that the effectiveness of the TCR Enhancements depends on the collaborative efforts of all involved industry players and stakeholders. We encourage dealers to be proactive and continue engaging with their business partners, such as investment funds and service providers, as well as industry forums and regulators.
13	One commenter indicates that “precious metals bullion” is not a security and therefore not subject to CIRO’s jurisdiction. They recommend that CIRO’s consolidated dealer member rules ought to exclude all references to “precious metals bullion” and “precious metals bullion position” included in the current version of the Investment Dealer and Partially Consolidated Rules.	This comment is outside of the scope of this specific consultation.