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Rule Connection: IDPC Rules/ MFD Rules

Division: Investment Dealer/Mutual Fund Dealer

Enhanced Cost Reporting – Proposed Rule Amendments

Executive Summary

Comments Due By: January 8, 2025

The Canadian Investment Regulatory Organization (**CIRO**) is publishing for comments proposed amendments to the client reporting requirements in CIRO Rules (**Proposed Amendments**).

The Proposed Amendments seek to further investor protection by mandating enhanced transparency of investment fund costs and ensuring regulatory alignment on the matter. The Proposed Amendments:

- expand Dealer Member's responsibility to report to their clients, on top of their own fees and charges, ongoing investment fund expenses and charges incurred by the client;
- materially harmonize our cost reporting requirements with the Total Cost Reporting Enhancements (**CSA's TCR Enhancements**) recently introduced in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103)*; and
- bridge some of the existing differences in the client reporting requirements and practices of investment dealers and mutual fund dealers.

The Proposed Amendments apply to both investment dealers¹ and mutual fund dealers (jointly referred to as **Dealer Members** or for short **Dealers**). They introduce new requirements, and make changes to existing requirements, in both the Investment Dealer and Partially Consolidated (**IDPC**) Rules and the Mutual Fund Dealer (**MFD**) Rules (altogether referred to as **CIRO Rules** in this bulletin).

We anticipate the impact of the Proposed Amendments to be material which is why we are publishing them for public comment. At the same time this impact is derivative of the impact of the CSA's TCR

¹ For the purpose of this Bulletin, the term "investment dealers" also includes firms that are registered as both investment dealers and mutual fund dealers and carry out both businesses within the same legal entity. For more information refer to CIRO's website.

Enhancements, which underwent extensive public consultations, and no net new regulatory burden has been introduced because of the Proposed Amendments.

We are developing, and consulting on, these Proposed Amendments separately from the parallel Rule Consolidation Project.² Notwithstanding this, the Proposed Amendments are aligned with the direction of the Rulebook Consolidation, and we have sought to mitigate any cross-impact. It is likely that the Proposed Amendments are implemented before the Dealer Consolidated Rules and then integrated into the latter.

How to Submit Comments

Comments on the Proposed Amendments should be in writing and delivered by January 8 2025 (90 days from the publication date of this Bulletin) to:

Member Regulation Policy

Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4
e-mail: memberpolicymailbox@ciro.ca

A copy should also be delivered to the Canadian Securities Administrators (**CSA**):

Trading and Markets

Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West Toronto, Ontario M5H 3S8
e-mail: TradingandMarkets@osc.gov.on.ca

and

Capital Markets Regulation

B.C. Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2
e-mail: CMRdistributionofSROdocuments@bcsc.bc.ca

Commentators should be aware that a copy of their comment letter will be made publicly available on the CIRO website at www.ciro.ca

² The Rule Consolidation Project seeks to consolidate the rules applicable to investment dealers (IDPC Rules) and rules applicable to mutual fund dealers (MFD Rules) into one set of consolidated rules applicable to both dealer categories (**Dealer Consolidated Rules** or **DC Rules**). For further information and updates on this project refer to CIRO's website.

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1. Background

On April 20, 2023, the Canadian Securities Administrators (**CSA**) and the Canadian Council of Insurance Regulators (**CCIR**) jointly adopted the Total Cost Reporting Enhancements (**TCR Enhancements**), with the objective of enhancing the cost disclosures for investment funds and segregated fund contracts.³ These enhancements consist of:

- amendments to NI 31-103, with impact on securities registrants (i.e. the CSA's TCR Enhancements); and
- the Individual Variable Insurance Contract Ongoing Disclosure Guidance, with impact on insurers offering segregated fund contracts (Insurance Guidance).⁴

CIRO took part in the development of the TCR Enhancements⁵ and has committed to materially harmonize its rules to the CSA's TCR Enhancements.

The CSA's TCR Enhancements follow on work securities regulators carried after the completion of the Client Relationship Model (**CRM**) phases (CRM 1 and CRM 2). Within the scope of CRM, regulators sought to increase the transparency of cost reporting to clients, mainly fees and charges paid by investors to their dealer/advisor for their service. Such initiative did not go as far as to address the reporting of ongoing fees and charges investors pay, directly or indirectly, to investment funds with regards to their fund holdings.⁶ These fees can be easily overlooked, because they are embedded in the value of the investment fund (i.e. less visible to the investor) and either disclosed only at the point of sale or reported in a way that is not customized to specific investor holdings.

The CSA's TCR Enhancements (informally referred to as CRM 3) seek to address such a gap. Following these enhancements, the securities registrants (investment fund managers (**IFM**), dealers and advisors) are required to produce and report ongoing investment fund cost information to clients, in a form that is specific to the individual's holdings and easy to understand.

Most of investment funds are within the scope of the enhanced cost reporting (e.g. mutual funds, ETFs, scholarship plans, foreign funds made available to the Canadian investor). Products that are outside of the cost reporting scope but still subject to the expanded cost notification requirements, include structured products, prospectus exempt funds and labour sponsored investment funds (**LSIF**).

³ The CSA and CCIR Joint Notice of Publication can be found on CSA members' websites and on the CCIR website, under the title *CSA and CCIR Notice of Publication – CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance and 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 – Total Cost Reporting (TCR) for Investment Funds and Segregated Funds (TCR Enhancements Notice)*

⁴ We do not discuss the Insurance Guidance beyond this point in our memo, given that this guidance does not produce any impact on our rules for the time being.

⁵ The TCR Enhancements, for both the securities and insurance side, were developed by a joint project committee composed of members from the CSA, CCIR, the Canadian Insurance Services Regulatory Organizations (CISRO) and CIRO.

⁶ General information about embedded fees is included in offering documents such as the Fund Facts/ETF Facts (at the point of sale), and in continuous disclosure reports such as the Management Report of Fund Performance. This information however is fund specific and not customized to clients holdings, when compared to the more useful disclosure of cost information in a Dealer fee/charge report.

The impact of the CSA's TCR enhancements is systemic; they effect retail investors as the main beneficiaries of the enhanced cost transparency, as well as the IFMs, dealers, advisors and third-party service providers as the suppliers of cost information all the way to the investor. The CSA TCR Enhancements underwent a lengthy and public consultation. Details of the consultation and the rule development process for the CSA TCR Enhancements are outlined in the TCR Enhancements Notice.

The CSA's TCR Enhancements are planned to take effect on January 1, 2026. Securities registrants are expected to deliver the first annual reports that incorporate these enhancements for the year ending December 31, 2026.

Currently our Dealer Members are exempt from the cost reporting provisions of NI 31-103, by virtue of the applicability of comparable provisions in CIRO Rules.⁷ To preserve this status and keep with our commitment, the Proposed Amendments seek to adopt comparable total cost reporting enhancements into CIRO Rules which will take effect on **January 1, 2026**, the same time as the CSA's TCR Enhancements will take effect.

In developing the Proposed Amendments, we have given due consideration to the following:

- the importance of being materially harmonized with the CSA's TCR Enhancements, given the cost information dependency between our Dealers, who are subject to CIRO Rules, and other securities registrants who are subject to NI 31-103 (e.g. IFMs, scholarship plan dealers, Quebec dealers), and the benefits of uniform cost disclosures across the investor base;
- the likelihood that the CSA's TCR Enhancements will enter in effect before the MFD Rules and the IDPC Rules are consolidated under the Rule Consolidation Project, which is why the Proposed Amendments amend both the MFD Rules and IDPC Rules in tandem;
- inherited differences in the overall client reporting requirements, and practices, between investments dealers and mutual fund dealers. While the consolidation, and needed harmonization, of client reporting requirements for both dealer categories will be addressed more holistically within the scope of the parallel Rule Consolidation Project, we have determined that some of these differences can be bridged now within the scope of the Proposed Amendments;
- CRM exemptions issued by the Board of Directors of CIRO's predecessor, IIROC, to Dealer Members from several client reporting requirements, which are still active and are impacted by the CSA's TCR Enhancements.

The Proposed Amendments will have a direct material impact on our Dealers which is why we are publishing for comments, in compliance with our rule development and review process.⁸ At the same time such impact is derivative of the impact of the CSA TCR Enhancements, given that Dealers would be subjected to the CSA's TCR Enhancements if we were to not adopt the Proposed Amendments.⁹ In

⁷ Sections 9.3 and 9.4. of NI 31-103.

⁸ Under the CSA's Joint Rule Review Protocol (Appendix C, of the CSA's Memorandum of Understanding regarding the oversight of CIRO), any rule changes not meeting the classification of a housekeeping rule, must be published for comment.

⁹ In other words, if we were to not adopt the Proposed Amendments comparable to the CSA's TCR Enhancements, the current exemptions for Dealers from the client reporting provisions in NI 31-103, would not be maintained, and Dealers would be subjected to the direct applicability of the CSA TCR Enhancements and as a result their impact.

addition the Proposed Amendments are materially harmonized with the CSA's TCR Enhancements, which is why no net new regulatory burden has been introduced by virtue of such CIRO rule amendments. More details are discussed in the following sections.

2. Proposed Amendments to CIRO Rules

In this section 2, we provide a summary of the Proposed Amendments, which largely affect IDPC Rule 3800, *Dealer Member Records and Client Communications* and MFD Rule 5.3, *Client Reporting*. We discuss the Proposed Amendments under two categories:

- *Total cost reporting enhancements*, that correspond to, and are materially harmonized with, the CSA's TCR Enhancements; and
- *Additional related amendments*, that further clarify the CIRO Rule requirements and improve the efficiency of granting periodic reporting-related rule exemptions.

While most of the amendments are new requirements, others are drafting changes to add consistency, clarity and uniformity to our rules. With the description of each change, we discuss what we anticipate their impact to be.

The text of the Proposed Amendments to the IDPC Rules is set out in **Appendix 1** (clean version) and **Appendix 2** (blackline version). The text of the Proposed Amendments to the MFD Rules is set out in **Appendix 3** (clean version) and **Appendix 4** (blackline version). A summary table mapping out the Proposed Amendments alongside the corresponding provisions in NI 31-103 is provided in **Appendix 5**.

2.1 Total Cost Reporting Enhancements

Currently, under CIRO Rules, a Dealer is required to send an annual report to their clients disclosing the fees and charges the client paid, directly or indirectly, to the Dealer (or their registered representative) during the reporting period.¹⁰ We are proposing enhancements to such Dealer reporting obligation in our rules with the scope of achieving increased transparency of investment fund costs and ensure regulatory alignment on the matter. To this end, our proposed amendments:

- expand the Dealer responsibility to report - on top of their own fees and charges - ongoing investment fund expenses and charges incurred by the client for holding such funds, and
- are materially harmonized with the CSA's TCR Enhancements.

For clarity, these enhancements relate to expenses and charges imposed by investment funds, which are either embedded in the value of the fund or charged directly to the client, and not necessarily paid to the Dealer or their representative. These enhancements apply to client investment funds that are held by, or in control of the Dealer (i.e. nominee name holdings or client name holdings under Dealer control), as well as client's *outside holdings*¹¹ (i.e. client positions outside of Dealer control, such as electronic book-based client name positions for which the Dealer acts as a 'dealer of record' or receives compensation).

¹⁰ IDPC Rule section 3811 / MFD Rule subsection 5.3.3.

¹¹ See the definition of *outside holdings* under IDPC Rule subsection 3802(1), as amended under the Proposed Amendments. This is consistent with the approach in NI 31-103, section 14.17. While the MFD Rules use different verbiage and terminology, the outcome is the same in that mutual fund dealers have to report ongoing fees and charges on both nominee name and client name investments funds transacted via such a dealer.

We discuss each of the proposed cost reporting enhancements included in our Proposed Amendments in sections 2.1.1 through 2.1.4. Each enhancement is materially harmonized with the corresponding CSA's TCR Enhancements and does not produce any net new impact.

2.1.1 New requirements to report investment fund costs annually

We are proposing expanded requirements for Dealers to report to the client, within the annual fee/charge report, the following cost information, for the required investment funds securities owned by a client during the year:

- (i) the total amount of fund expenses,

[new IDPC Rule subclause 3811(2)(x)(a) / new MFD Rule subclause 5.3.3(1)(h)(i)];¹²

These are expenses embedded in the value of the investment fund and paid indirectly by the client; in other words, costs that are less visible to the client. These expenses consist of the sum of the fund management expenses and trading expense, inclusive of any performance fees and net of any fee waivers, rebates or absorptions. To prevent double reporting, Dealers must exclude any amount already reported within the annual fee/charge report as Dealer transaction charges.

For the purposes of compliance with this new requirement, we also set out in our rules the definition, and the methodology for determining, the “total amount of fund expenses” and the underlying amount of the “fund expenses per security for the day”, *[new definitions in IDPC Rule subsection 3802(1) and MFD Rule subsection 5.3(1)]*.¹³

- (ii) the total amount of direct investment fund charges,

[new IDPC Rule subclause 3811(2)(x)(b) / new MFD Rule subclause 5.3.3(1)(h)(ii)];¹⁴

These are charges paid by clients when transacting in or holding investment funds other than those charges already reported as investment fund expenses or Dealer transaction charges (e.g. switch fees, redemption fees and short-term trading fees).

For the purposes of compliance with this new requirement, we also set out in our rules the definition of “direct investment fund charges”, *[new definition in IDPC Rule subsection 3802(1) and MFD Rule subsection 5.3(1)]*.¹⁵

- (iii) the aggregate total amount of the reported fund expenses and charges discussed under paragraph (i) and (ii) above,

[new IDPC Rule subclause 3811(2)(x)(c) / new MFD Rule subclause 5.3.3(1)(h)(iii)];¹⁶

This aggregate amount is intended to inform the client of the total investment fund manufacturer costs they've incurred for the reportable year.

¹² Corresponding new requirement in section 14.17(1)(i) of NI 31-103 (CSA's TCR Enhancement).

¹³ Corresponding new sections 14.1.2 and 14.17(6) of NI 31-103 (CSA's TCR Enhancement).

¹⁴ Corresponding new requirement in section 14.17(1)(j) of NI 31-103 (CSA's TCR Enhancement).

¹⁵ Corresponding new definition in section 1.1 of NI 31-103 (CSA's TCR Enhancement).

¹⁶ Corresponding new requirement in section 14.17(1)(k) of NI 31-103 (CSA's TCR Enhancement).

- (iv) the aggregate total amount of investment fund costs (discussed under paragraph (iii) above) and investment fund distributor costs (i.e. Dealer operating and transaction charges currently reportable under CRO Rules),

[*new IDPC Rule subclause 3811(2)(x)(d) / new MFD Rule subclause 5.3.3(1)(h)(iv)*];¹⁷

This aggregate amount is intended to inform the client of the total investment fund manufacturer and distributor costs they've incurred for the reportable year; and

- (v) the fund expense ratio, for each investment fund class or series of securities, [*new IDPC Rule subclause 3811(2)(x)(e) / new MFD Rule subclause 5.3.3(1)(h)(v)*].¹⁸

The fund expense ratio (FER) is a percentage comprised of the sum of the MER and TER percentages, inclusive of performance fees and net of any fee waivers, rebates or absorptions. For the purposes of compliance with this new requirement, we also set out the definition of FER, MER and TER in our rules [*new definitions in IDPC Rule subsection 3802(1) and MFD Rule subsection 5.3(1)*].¹⁹

While securities registrants are encouraged to report exact cost information to clients, we understand that this may not be always feasible and efficient (e.g. producing exact information may result in unreasonable costs or delays). Consistent with the CSA TCR Enhancements,²⁰ our proposed requirements are permissive of the use of reasonable approximations when determining and reporting the *total amount of fund expenses*, the total amount of *direct investment fund charges* and the *fund expense ratio*. As such, as further discussed in section 2.1.4 of this Bulletin, IFMs are allowed to feed cost information based on reasonable approximations to the reporting Dealer; and the reporting Dealer is permitted to rely on such approximations, or use its own reasonable approximations as prescribed, for reporting purposes.

2.1.2 Expanded cost notifications

We are also proposing expanded requirements for Dealers to provide additional disclosures in the annual fee and charges report to clients to better assist them in understanding what is being reported and what is not, such as:

- if information reported about the fund expenses, direct investment fund charges or fund expense ratio(s) is based on an approximation or any other assumption, a notification that this is the case, [*new IDPC Rule paragraph 3811(2)(x)(f)(I) / new MFD Rule paragraph 5.3.3(1)(h)(vi)(A)*];²¹
- an explanation of the reported direct investment fund charges, [*new IDPC Rule paragraph 3811(2)(x)(f)(II) / new MFD Rule paragraph 5.3.3(1)(h)(vi)(B)*];²²

¹⁷ Corresponding new requirement in section 14.17(1)(l) of NI 31-103 (CSA's TCR Enhancement).

¹⁸ Corresponding new requirement in section 14.17(1)(m) of NI 31-103 (CSA's TCR Enhancement).

¹⁹ Corresponding new definition in section 1.1 of NI 31-103 (CSA's TCR Enhancement).

²⁰ New sections 14.1.2, 14.17(8) and 14.17.1. of NI 31-103 (CSA's TCR Enhancements).

²¹ Corresponding new section 14.17(1)(r) of NI 31-103 (CSA's TCR Enhancement). For clarity Dealers are expected to notify the client when reasonable approximations or assumption have been used to calculate the required information, rather than provide a detailed description of those approximations or assumptions.

²² Corresponding new section 14.17(1)(q) of NI 31-103 (CSA's TCR Enhancement).

- a notification explaining reported investment fund expenses, [*new IDPC Rule paragraph 3811(2)(x)(f)(III) / new MFD Rule paragraph 5.3.3(1)(h)(vi)(C)*];²³
- a notification which refers clients to fund issuers' documents for more information about reported fund expenses and fund performance, and to their account statements for information about their current holdings, [*new IDPC Rule paragraph 3811(2)(x)(f)(IV) / new MFD Rule paragraph 5.3.3(1)(h)(vi)(D)*];²⁴
- an explanation of reported deferred sales charges (DSC), [*new IDPC Rule paragraph 3811(2)(x)(f)(V) / new MFD Rule paragraph 5.3.3(1)(h)(vi)(E)*];²⁵
- if any foreign investment funds are owned by the client, a notification that information about those funds may not be directly comparable to equivalent information for Canadian investment funds, and that it may include different types of fees, [*new IDPC Rule paragraph 3811(2)(x)(f)(VI) / new MFD Rule paragraph 5.3.3(1)(h)(vi)(F)*];²⁶
- if a structured product, LSIF or prospectus exempt investment fund securities is owned by the client, a notification that such products have embedded fees which may not be required to be reported in the annual fee/charges report, [*new IDPC Rule paragraph 3811(2)(x)(f)(VII) / new MFD Rule paragraph 5.3.3(1)(h)(vi)(G)*];²⁷
- if the Dealer knows or has reason to believe that the client paid custodial fees, intermediary fees or interest charges to third parties related to securities, precious metal bullion and derivatives, owned by the client, a notification that such charges or fees may not be reported in the annual fee/charges report, [*new IDPC Rule clause 3811(2)(xi) / new MFD Rule clause 5.3.3(1)(i)*];²⁸
- a notification drawing the client attention to investment fees, [*new IDPC Rule clause 3811(2)(xii) / new MFD Rule clause 5.3.3(1)(j)*].²⁹

2.1.3 Reporting exemptions for certain investment funds

Consistent with the CSA's TCR Enhancements, we propose reporting carve-outs for certain investment fund holdings on the basis that at this time the required cost information may not be available or feasible to obtain on a time- or cost-efficient basis. More specifically, Dealers are not required to report:

- the "total amount of fund expenses", the "fund expense ratio" or any approximations of such information for "newly established investment funds" (as such funds are defined³⁰ under the proposed amendments), in which case a notification of such exclusions must be provided in the

²³ Corresponding new section 14.17(1)(n)(i) of NI 31-103 (CSA's TCR Enhancement).

²⁴ Corresponding new section 14.17(1)(n)(ii) of NI 31-103 (CSA's TCR Enhancement).

²⁵ Corresponding new section 14.17(1)(p) of NI 31-103 (CSA's TCR Enhancement).

²⁶ Corresponding new section 14.17(1)(t) of NI 31-103 (CSA's TCR Enhancement).

²⁷ Corresponding new section 14.17(1)(s) of NI 31-103 (CSA's TCR Enhancement).

²⁸ Corresponding new section 14.17(1)(u) of NI 31-103 (CSA's TCR Enhancement).

²⁹ Corresponding new section 14.17(1)(o) of NI 31-103 (CSA's TCR Enhancement).

³⁰ Proposed definition of "newly established investment funds" in IDPC Rule subsection 3802(1) / MFD Rule section subsection 5.3(1). Corresponding new definition in section 1.1. of NI 31-103.

report as earlier discussed, [new IDPC Rule subsection 3811(3)/ new MFD Rule subsection 5.3.3(2)],³¹

- the “total amount of fund expenses”, the “direct investment fund charges”, the “fund expense ratio” and related notifications with regards to LSIFs and prospectus exempt investments funds, [new IDPC Rule subsection 3811(4) / new MFD Rule subsection 5.3.3(3)].³²

2.1.4 Dealer responsibility for the reportable information and use of approximations

Investment fund managers are primarily responsible for producing and feeding the required investment fund cost information to Dealers so that the latter can fulfill their regulatory obligation to report the applicable fund fees and charges to clients on an annual basis. Such responsibility is already set out in NI 31-103 and further enhanced under the CSA’s TCR Enhancements.³³

At the same time, consistent with the CSA TCR Enhancements, we are proposing setting out in our rules the Dealer responsibility for when they can rely on the IFMs for the needed cost information or rather use alternative means for determining such information, [new IDPC Rule subsection 3811(6) / MFD Rule subsection 5.3.3(5)].³⁴ In discharging such responsibility, as with other areas of Dealer responsibility in our rules, we expect Dealers to exercise professional judgment.

Under the proposed provisions, Dealers must rely on the information provided by the IFMs, including any used approximations by the latter, when complying with the applicable cost reporting requirements under our rules. As an exception, a Dealer cannot rely on such information when they reasonably believe that the information provided by an IFM is not reliable, meaning it is incomplete or misleading. In such case, the Dealer must make reasonable efforts to obtain or determine the required information by other means. If, however, the Dealer reasonably believes that it cannot obtain or determine reliable information even via such alternative means, the Dealer must exclude such information from calculations, or the report altogether, and disclose such exclusion in the relevant report to the client.

For avoidance of any doubt, our proposed amendments specify that Dealers are permitted to report reasonable approximations of the required investment fund cost information, to the extent it does not result in misleading information being provided to the client, [new IDPC Rule subsection 3811(5) / new MFD Rule section 5.3.3(4)].³⁵

When using or reporting approximations, Dealers are expected to consider the cumulative effect of multiple approximations in assessing their reasonableness and whether their combined use may cause misleading information to be reported to clients, notwithstanding that any one such approximation may be reasonable on its own.³⁶ Also, as discussed earlier in this Bulletin, Dealers must disclose the use of approximations, for determining the reported cost information, in the relevant report.³⁷

³¹ Corresponding new section 14.17(7) of NI 31-103 (CSA’s TCR Enhancement).

³² Corresponding new section 14.17(9) of NI 31-103 (CSA’s TCR Enhancement).

³³ Section 14.1.1 as amended, and new section 14.1.2 of NI 31-103 (CSA’s TCR Enhancement).

³⁴ Corresponding new section 14.17.1 of NI 31-103 (CSA’s TCR Enhancement).

³⁵ Corresponding new section 14.17(8) of NI 31-103 (CSA’s TCR Enhancement).

³⁶ This is consistent with the regulatory expectation set out in section 14.17 of 31-103CP (CSA’s TCR Enhancement).

³⁷ See section 2.1.2 of this Bulletin.

2.2 Additional related amendments

Together with the Total Cost Reporting Enhancements discussed in section 2.1 above, we are proposing additional amendments to CIRO Rules which fall within the broader scope and impact of such enhancements. These proposed amendments seek to:

- further clarify CIRO Rule requirements and align the practices of investment dealers and mutual fund dealers, and
- improve the efficiency of CIRO's exemption process for routine periodic reporting-related exemptions.

2.2.1 Annual reporting triggers

We are proposing amendments to provisions in the IDPC Rules and MFD Rules to bridge certain existing differences in the annual reporting triggers between investment dealers and the mutual fund dealers, and also ensure alignment with the scope and impact of the cost reporting enhancements.

Reporting of fund fees paid outside of the Dealer Member [IDPC Rule subsection 3811(1) amendment]

As discussed in section 2.1, the cost reporting enhancements require Dealers to send an annual fee/charge report to clients disclosing investment fund expenses and charges incurred by the client, even when these amounts are not paid to the Dealer. This enhancement necessitates consequential drafting changes to IDPC Rule subsection 3811(1), which currently limits Dealer's responsibility to send an annual fee/charge report to clients only when the client pays fees directly or indirectly to the Dealer, or their registered representative. Our proposed amendments to subsection 3811(1) expand the Dealer fee/charge reporting trigger accordingly so as to ensure alignment with the intent of the cost reporting enhancements.

In comparison, no amendment is needed to the MFD Rules, given that the reporting trigger of section 5.3.3 is sufficiently generic to accommodate the expanded scope of the cost reporting requirements.

These proposed amendments align our reporting trigger with the scope of CSA's TCR Enhancements, and do not produce any net new impact.

Reporting to institutional clients [new MFD Rule subsection 5.3.5(3)]

The main beneficiary of the enhanced cost reporting is intended to be the retail investor, which is why the CSA's TCR Enhancements carry forward existing exemptions from the annual fee/charge reporting requirements with regards to permitted clients (such as the institutional clients), which is consistent with similar exemptions from the performance report as well.³⁸

The same approach is being maintained under the IDPC Rules, whereby current client reporting carve-outs for institutional clients are not being impacted by the cost reporting enhancements. In other words, the Dealer must send an enhanced annual fee/charge report together with the annual performance

³⁸ Sections 14.17(5) and 14.18(5) of NI 31-103, which have not been affected by the TCR Enhancements. See also TCR Enhancements Notice for such a clarification.

report to the retail client only.³⁹ In comparison, no such client reporting exemption exists for the mutual fund dealers under the MFD Rules.⁴⁰

Alignment of client reporting requirements for both investment dealers and mutual fund dealers, where justified, is being contemplated in parallel with the Rule Consolidation Project. Meanwhile, we are proposing some alignment at this earlier stage to level the impact of the CSA's TCR Enhancements on both investment dealers and mutual fund dealers. As such, under the new proposed MFD Rule subsection 5.3.5(3), mutual fund dealers will have the same option of not sending the annual fee/charges report and the annual performance report to institutional clients, that investment dealers currently have under the IDPC Rules and consistent with NI 31-103. Also, the proposed "institutional client" definition in the MFD Rule 1.A. is by cross-reference to the definition of the same term within the IDPC Rules, in order to ensure the same application of this client category between the two rule sets.

No significant impact of this proposal is anticipated on mutual fund dealers, given that they do not have many clients that fall into the institutional client category and the categorization of clients for annual reporting purposes is optional. Where a mutual fund dealer opts to take advantage of this categorization of clients for annual reporting purposes, we expect the mutual fund dealer to have adequate procedures, controls and records in place to be able to demonstrate compliance with the annual reporting carve-out.

Reporting obligation with regards to outside holdings

The IDPC Rule requirements for client reporting⁴¹ differentiate between client assets that are held or otherwise under the control of the Dealer, and client assets that are not controlled by the Dealer (i.e. outside holdings). In comparison, the MFD Rule requirements on client reporting apply the same regardless of whether client assets are held or otherwise controlled by the Dealer.⁴² These differences are more material with regards to the periodic client account reporting requirements,⁴³ which is outside of the scope of this rule proposal, and less so when it comes to the annual reporting requirements (i.e. fee/charges report and performance report).⁴⁴ We have not pursued recommend rule alignment on this matter at this time, as we believe this is best addressed within the Rule Consolidation Project rule amendments.

³⁹ IDPC Rule subsection 3811(1) and subsection 3810(1). The "institutional client" and "retail client" are defined concepts in IDPC Rule subsection 1201(2).

⁴⁰ The IDCP Rules, consistent with NI 31-103, differentiate between retail and institutional clients, upholding Dealers to more onerous standards when dealing with the retail client as opposed to the more sophisticated institutional clients, including in the area of client reporting. In comparison the MFD Rules treat all clients of mutual fund dealers as retail clients, mainly because at present the mutual fund dealers business model does not attract institutional clients.

⁴¹ IDPC Rule section 3800.

⁴² MFD Rule section 5.3.

⁴³ IDPC Rule section 3808 (client account statements) and section 3809 (report on clients outside holdings) when compared to the MFD Rule section 5.3.1 (delivery of accounts statements) and section 5.3.2 (content of account statements).

⁴⁴ IDPC Rule section 3810 and section 3811 / MFD Rule section 5.3.3 and section 5.3.4.

2.2.2 Client reporting responsibility in shared service arrangements

We are proposing new provisions in CRO Rules, with the scope of clarifying who is responsible for sending the annual reports to clients in the situation of shared service arrangements, [*new IDPC Rule section 3846 / new MFD Rule section 5.7.*].

Shared service arrangements, whereby two or more securities registrants (e.g. Dealer Member, portfolio manager or exempt market dealer) service the same client account, are common. Examples include introducing broker / carrying broker arrangements, external custody arrangements and service arrangements between portfolio managers and Dealer Members. Without rule clarification, there may be confusion as to which of these securities registrants is primarily responsible for annual client reporting.

The proposed provisions set out that the client-facing securities registrant (e.g. the introducing broker, the Dealer outsourcing custody or the portfolio manager) is primarily responsible for sending the annual performance and fee/charge reports to the client. The servicing Dealer (e.g. the carrying broker, the Dealer providing custodial services or the Dealer providing services to the portfolio manager) is responsible together with the client-facing registrant only in those situations where they prepare the annual reports as part of their service offering. The servicing Dealer is also primarily responsible for reporting its own fees and charges to the client, where these fees and charges have been passed directly to the client.

This proposed approach codifies current principles and practices of outsourcing and service arrangements, existing CRM exemptions for “custodial accounts”⁴⁵ and the clarifications provided on the matter during the CRM reforms.⁴⁶ For this reason, apart from the benefits of the added clarity that this rule proposal brings for all stakeholders involved, we do not anticipate any significant impact.

2.2.3 Corporation exemptions

We are proposing new provisions in CRO Rules that give senior CRO staff authority to exempt Dealers from certain client reporting requirements with regards to client *outside holdings* / certain client name holdings, [*new IDPC Rule section 3847 / new MFD Rule section 5.8.*]. Staff will grant such exemptions only when doing so would not be prejudicial to the interest of the Dealer’s clients, the public or the Dealer. The objective of this proposal is to enhance the procedural efficiency of renewing and granting routine exemptions on this matter, for the reasons discussed below.

During the CRM reform, IIROC (CRO’s predecessor) communicated that it would consider exemption requests from Dealers who could demonstrate that the costs of building and administering reporting capability for client outside holdings (off book positions) significantly outweigh the benefits to the client from such reporting.⁴⁷ In considering such exemption requests, IIROC needed to be satisfied that the Dealer Member:

- had made a good faith effort to convert off-book client name positions into on-book nominee name positions;

⁴⁵ CRM - Phase 2 Decisions of the Board of Directors - Exemption applications concerning the implementation of requirements to annually report on account performance and fees / charges (Notice 17-0006).

⁴⁶ IIROC, *Client Relationship Model – Frequently Asked Questions* (#27).

⁴⁷ IIROC Notice 15-0013 - *Client Relationship Model - Phase 2 Performance Reporting and Fee / Charge Disclosure amendments to Dealer Member Rule 200 and to Dealer Member Form 1*

- did not maintain material number or amount of off-book client named positions;
- was not promoting, or otherwise actively making available, the option of holding off-book client named positions; and
- did not receive any ongoing compensation on the off-book client named positions.

IIROC's Board of Directors at that time granted exemptions from the requirements to send periodic reports and a performance report on outside holdings to approximately 46 Dealer Members (outside holding exemptions), on the basis of the above criteria.⁴⁸

Most of these outside holding exemptions are still active, mainly due to Dealers being unable to convert residual off-book client named holdings into nominee name holdings. These exemptions are impacted by the Total Cost Reporting Enhancements, such as they may become void or need to be expanded as a result.⁴⁹ We believe that renewing these exemptions, or issuing new exemptions on comparable grounds and conditions, once the Total Cost Reporting Enhancements enter in effect, is justified.

At present only CIRO's Board of Directors can grant exemptions from the client reporting requirements, and it can do so only on a case-by-case basis; in other words, the Board cannot issue group exemptions or blanket exemptions. We expect that there will be a considerable number of Dealer requests for exemption renewals or expansions once the Total Cost Reporting Enhancements enter in effect.

To ensure that we can respond quickly and efficiently to these routine exemption renewal and expansion requests, we are proposing that senior authorised staff at CIRO be given authority in our rules to grant these outside holding exemptions. Consistent with past practices, staff will consider exempting Dealers from the prescribed client reporting requirements when the costs outweigh the benefits to the Dealer's clients from reporting under these requirements [*new IDPC Rule section 3847 / new MFD Rule section 5.8*].

Overall, we expect the impact of this proposal to be neutral to positive for affected stakeholders, given the added efficiency to a routine process.

2.2.4 Other non-material amendments

We are also proposing a few non-material changes to our rules for added rule clarity and consistency. More specifically we are proposing to:

- replace the current term "cost" with "position cost" throughout both IDPC Rules and MFD Rules in order to differentiate between the cost of an investment position and the more general use of the term costs, such as total costs; the definition of such term does not change;

⁴⁸ IIROC Notice 15-0274 - *Client Relationship Model - Phase 2 Decisions of the Board of Directors - Exemption applications concerning new requirement to provide clients with a "Report on client positions held outside of the Dealer Member"*.

⁴⁹ Under the current reporting trigger in IDPC Rule subsection 3811(1), the exempt Dealer Members do not need to send a fee/charge report to clients with regards to outside holdings, because of the exemption condition that such Dealer would not receive any payment in connection with such holdings. As discussed in section 2.2.1 of this Bulletin, the Total Cost Reporting Enhancements change that, whereby Dealers will have to send a fee/charge report regarding the costs of client name funds even when Dealer does not receive any payments from the client. Exempt Dealers who cannot meet this requirement, for reasonable grounds, need to request an exemption from the fee/charge reporting requirements of CIRO Rules.

- streamline the definition of “outside holding”, in IDPC Rule subsection 3802(1), by including within the definition the defining criteria currently set out in IDPC Rule subsection 3809(1); and
- adjust section numbering and cross – references as a result of adding and amending provisions under the Proposed Amendments.

3. Impacts of the Proposed Amendments

3.1. Stakeholder impact

The Proposed Amendments will have a small positive impact on Dealers as, while they are materially the same as the CSA’s TCR Enhancements, they will enable Dealers to continue to comply exclusively with CIRO requirements relating to periodic reporting to clients (rather than both CIRO and CSA requirements). Because the impact of the CSA’s TCR Enhancements has been consulted at length with investor advocates, market participants and the public.⁵⁰, we determined to rely on such an assessment rather than carry out a Dealer focused impact assessment.

As identified during the CSA’s TCR Enhancements consultations, the added reporting requirements will likely have a significant cost impact on securities registrants (investment funds, dealers and advisors), their technological systems, human resources and data storing/ processing capacities. Estimating the actual cost is difficult because it varies between stakeholders, and it also depends on the solutions brought forward by the industry (e.g. centralized versus decentralized solutions). Ultimately, some of the added industry costs may be passed on to the client.

At the same time, investor advocates expressed support for the enhanced cost transparency, which should enable investors to make better-informed decisions. According to investor advocates added fund costs transparency, especially in Canada where fund fees are some of the highest worldwide, would promote competition within the fund management industry and help drive down costs as firms compete on delivering products and services more efficiently.

Regulators believe that overall, the benefits from addressing the current information gap regarding investment fund cost outweigh the anticipated implementation costs.

3.2. Regional impact

No regional-specific effects of the Proposed Amendments have been identified at this time as they, together with the CSA’s TCR Enhancements, impact indiscriminately all industry stakeholders across Canada.

3.3. Impact of the Proposed Amendments on existing exemptions

The Proposed Amendments will impact directly or indirectly exemptions that have been issued by CIRO’s predecessor (IIROC), following the CRM reform, and which are still active.⁵¹

⁵⁰ Refer to the TCR Enhancements Notice for a more detailed discussion of the consultation process and feedback received. A high-level impact assessment was also published as part of the request for comments notice on the proposed TCR Enhancements, published on April 28, 2022, and available on the CSA’s members website.

⁵¹ An outline of the exemptions and the basis for such exemptions is published under IIROC Notice 17-0006 and IIROC Notice 15-0274.

In some cases, Dealer may not need these exemptions any longer, because the circumstances that lead to these exemptions have been resolved or because some of these exemptions have been, or may be, codified into our rules. This is the case with the exemptions that have been codified into our rules by the Derivatives Rules Modernization amendments,⁵² and the ones that have been proposed for codification under the Proposed Amendments (provided they are approved for implementation).⁵³

In other cases, Dealers may need to renew or expand their existing exemptions in anticipation of the enhanced client reporting obligation. We remind Dealers of their responsibility to assess the impact of the Proposed Amendments on their exemptions and take the necessary actions, including reaching out to CRO staff for clarification, if needed.

3.4. Impact of other policy projects

We have sought to balance any dependencies between the Proposed Amendments and the parallel Rule Consolidation Project and mitigate significant cross-impact between the two projects. The current annual cost reporting provisions affected by the Proposed Amendments in both the MFD Rules and IDPC Rules are already substantially aligned. In those limited areas where we propose to bridge existing gaps between the two rule sets, we do so in alignment with the direction of the Rule Consolidation Project. Any reporting differences at a broader level will be addressed as part of the Rule Consolidation Project.

We expect the impact of having to reflect the Proposed Amendments, once approved, into the new consolidated rules to be minimal.

4. Alternatives Considered

Any alternative to the adoption of the Proposed Amendments in alignment with the TCR Enhancements, would result in undesirable consequences for our Dealers, other impacted stakeholders, and CRO alike. Dealers would not be able to maintain the current exemptions from the reporting requirements of NI 31-103 in the event there are no comparable reporting requirements in CRO Rules. Similarly, Proposed Amendments that are not materially aligned with the TCR Enhancement would undermine the purpose of enhanced and uniform cost reporting transparency across the investment sector.

5. Implementation

In alignment with the CSA's TCR Enhancements, we intend to make the Proposed Amendments effective on January 1, 2026. Dealer Members will be expected to deliver the first annual reports that incorporate the required information under the Proposed Amendments for the year ending December 31, 2026.

6. Scope of Comments Sought

The Proposed Amendments are materially harmonized with the CSA's TCR Enhancements, the latter having gone through extensive and public consultations. As such, while comments on all aspects of the Proposed Amendments are welcome, we encourage comments on aspects of the proposal that have not been already discussed and addressed during the CSA's TCR Enhancements consultations.

In addition, we also request comments on the following question:

⁵² CRO Bulletin 24-0014 – *Derivatives Rule Modernization, Phase 1*.

⁵³ See the discussion in section 2.2.3 of this Bulletin of the proposal to codify in our rules reporting exemptions for servicing Dealers, such as those Dealers who carry custodial accounts for portfolio managers.

- **Question:** Do you anticipate that there will be a justified need for CIRO to consider any exemptions from the cost reporting requirements as a result of the Proposed Amendments and for what reasons?

7. Policy Development Process

7.1 Regulatory Purpose

The Proposed Amendments seek to further investor protection by mandating enhanced transparency of investment fund costs and ensure regulatory alignment on the matter. The Proposed Amendments have been determined to be in the public interest because they would:

- ensure compliance with securities laws,
- foster fair, equitable and ethical business standards and practices,
- promote the protection of investors.

The Proposed Amendments involve Rules that CIRO, its Dealer Members or Approved Persons must comply with in order to be exempted from a requirement of securities legislation and any applicable references to such requirement.

7.2 Regulatory Process

The Board of Directors of CIRO (**Board**) has determined the Proposed Amendments to be in the public interest and on September 20, 2024, approved them for public comment.

Our rule development work included consultations with the following groups:

- the Operations and Mutual Fund Dealers Sub-Committees of the Financial and Operations Advisory Section,
- the Retail and Order Execution Only Sub-Committees of the Conduct, Compliance and Legal Advisory Section, and
- the Investor Advisory Panel.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the CSA, CIRO staff may recommend revisions to the Proposed Amendments. If the revisions and comments received are not material in nature, the Board has authorized the President to approve the revisions on CIRO's behalf and the revised Proposed Amendments will be subject to approval by the CSA. If the revisions or comments are material, CIRO staff will submit the Proposed Amendments, including any revisions, to the Board for approval for republication or implementation, as applicable.

8. Appendices

[Appendix 1](#) - Proposed Amendments to IDPC Rules (clean)

[Appendix 2](#) - Proposed Amendments to IDPC Rules (blackline)

[Appendix 3](#) - Proposed Amendments to MFD Rules (clean)

[Appendix 4](#) - Proposed Amendments to MFD Rules (blackline)

[Appendix 5](#) - Summary table of the Proposed Amendments alongside the CSA's TCR Enhancements