

ANNEX A

SUMMARY OF CHANGES TO NI 31-103 AND THE COMPANION POLICY

This annex summarizes the changes that the Securities Amendments will make to the current versions of NI 31-103 and the Companion Policy. In addition to the changes summarized in this annex, the Securities Amendments also include technical drafting changes and clarifications.

Reporting of investment fund cost information in ARCC

We have expanded section 14.17 of NI 31-103 to require reporting the following information in the ARCC, for the account as a whole, for all investment funds securities owned by a client during the year, with the exception of LSIFs and prospectus-exempt funds (references to investment funds in this annex therefore exclude LSIF and prospectus-exempt funds):

- the total amount of fund expenses, in dollars, for all investment fund securities;
- the total amount of direct investment fund charges (e.g., short-term trading fees or redemption fees), in dollars, for all investment fund securities, and;
- the fund expense ratio, as a percentage, for each investment fund class or series of securities.

The total amount of fund expenses, as well as each fund expense ratio must be reported inclusive of performance fees and net of any fee waivers, rebates or absorptions.

In addition, the following total amounts must be reported in the ARCC:

- the total investment fund expenses and charges, consisting of the total amount of (a) the fund expenses and (b) the direct investment fund charges
- the total costs of investing, consisting of the total amount of (a) the registered firm's charges, which are required to be reported under current requirements and (b) the total investment fund expenses and charges, which are newly required under the Securities Amendments.

Notifications to clients in ARCC

We have expanded section 14.17 to require the following notifications to be included in the ARCC:

- a notification explaining to clients how they can take action based on the information provided in the report;
- if the client owned investment fund securities during the period covered by the report:
 - a notification which provides explanations to clients concerning fund expenses;
 - a notification which refers clients to fund issuers' documents for more information about fund expenses and fund performance, and to their account statements for information about their current holdings;
- if deferred sales charges (DSC) were paid by the client, an explanation of those charges;

- if other direct investment fund charges were charged to client, an explanation of those charges;
- 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 case¹;
- if a structured product, LSIF or prospectus-exempt investment fund securities were owned by the client, a notification that such products have embedded fees which may not be required to be reported in the ARCC;
- if the registered firm knows or has reason to believe that the client paid custodial fees, intermediary fees or interest charges to third-parties related to securities owned by the client, a notification that such charges or fees may not be reported in the ARCC;
- if any foreign funds were 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.

IFM duty to provide information to dealers and advisers

We have expanded the IFM's duty to provide information under section 14.1.1 of NI 31-103 to encompass the additional information dealers and advisers are required to deliver to clients under the Securities Amendments.

We have added section 14.1.2 [*Determination of fund expenses per security*] to specify what information IFMs should provide registered dealers and advisers to allow them to comply with section 14.17(1)(i), as well as to specify how the fund expenses per security for the day, which are used as an input in the formula for calculating the aggregate amount of fund expenses under section 14.17(6), must be calculated.

Calculation methods for cost information

We have added subsection 14.17(6) to specify the method which must be used for calculating the aggregate amount of fund expenses.

In summary, for each day in the reporting period, registered dealers and advisers must multiply the amount of fund expenses per security for that day by the number of securities owned by the client on that day, for each class or series of investment fund securities owned by a client. The dealer or adviser must then add together the resulting amounts for each class or series of investment fund securities owned by a client and for each day in the reporting period to obtain the aggregate amount of fund expenses for the year.

Reporting of fund expenses and direct investment fund charges by dealers and advisers

¹ A detailed description of those approximations or assumptions is not required to be reported.

We have added section 14.17.1 to specify that registered dealers and advisers must report information based on the information provided by IFMs, in the case where IFMs are required to do so.

We have added subsection 14.17.1(2)(a) which provides that, in certain exceptional circumstances, such as if no information is provided by the IFM, the registered firm must make reasonable efforts to obtain or determine the required information by other means. This subsection also allows dealers or advisers to obtain or determine a reasonable approximation of that information.

Use of reasonable approximations

We have added subsection 14.1.2(2) to allow for the use of approximations by IFMs where it would not result in misleading information:

- paragraph 14.1.2(2)(a) allows IFMs to use a reasonable approximation of the inputs referenced in the formula for calculating the fund expenses per that security for the day;
- paragraph 14.1.2(2)(b) allows IFMs to provide dealers or advisers with a reasonable approximation of the aggregate amount of fund expenses, aggregate amount of direct investment fund charges and fund expense ratio for each class or series of investment fund securities.

We have added subsection 14.17(8) to allow registered dealers or advisers to report reasonable approximations to their clients, in the case where approximations are provided by IFMs or determined by the registered dealer or adviser consistent with other requirements in the Securities Amendments.

Companion Policy guidance discusses our expectations with respect to the use of approximations contemplated in the Securities Amendments.

Exemptions

We have included exemptions from certain reporting requirements for newly-established investment funds, considering that information about the fund expenses and fund expense ratio of such funds may not be available.

We note that the existing exemption from the requirement to provide an ARCC to a non-individual permitted client (including, for example, many institutional investors), pursuant to subsection 14.17(5) will continue to apply.

There are no grandfathering provisions.