

## ANNEX B

### SUMMARY OF COMMENTS AND RESPONSES - SECURITIES

This annex summarizes the written public comments we received on the Proposals and our responses to those comments. Out of the 33 comment letters we received for the securities sector, 27 were from industry stakeholders (including registrants, industry associations and law firms), and 6 were from non-industry stakeholders (including investors, investor advocates, academics and others).

This annex contains the following sections:

- A. General comments and responses
- B. Transition
- C. Reportable costs
- D. Calculation Methodology
- E. Use of estimates and approximations
- F. IFMs' duty to provide information
- G. Dealer reliance on IFMs
- H. Issues related to specific product types
- I. Disclosure Format
- J. Exemptions
- K. List of securities commenters

#### A. GENERAL COMMENTS AND RESPONSES

	Comment	Response
<i>Balance of costs and benefits</i>		
1.	<p>Investor advocates and the majority of industry commenters expressed support for the objectives of the Proposals. However, there were some industry comments that expressed the view that TCR is or may be unnecessary or that the costs for the industry to implement and comply would outweigh the benefits to investors. Some of these commenters urged more research and consultation before proceeding further with the project. Investor advocates, however, urged us not to delay implementation of the Proposals, in light of its importance for investors.</p> <p>One industry commenter stated that they were unsure of why the TCR project was needed</p>	<p>We continue to believe that it is necessary to provide investors with complete and transparent information relating to the ongoing costs of owning investment funds because doing so will allow investors to make better-informed decisions and will ultimately result in better investing outcomes.</p> <p>We do not agree with suggestions that it is sufficient that investors be provided with a notification about fund expenses and be directed to contact their investment representative for more information.</p>

<p>and suggested that it could be adequately addressed through the proposed notification regarding fund expenses and by directing investors to contact their investment representative for more information regarding fund expenses.</p> <p>They also asked that further research be conducted to confirm whether TCR will change investment decision-making patterns by retail investors.</p> <p>This commenter was also of the view that it is unrealistic to expect that retail investors, through TCR, will achieve the same level of understanding as dealing representatives regarding the cost structures of investment funds.</p> <p>Investor advocates however noted that increased transparency should help investors identify the more expensive products in their portfolio and ways to lower their costs. One commenter cited a recent study which found that higher investment fees can set back an individual's retirement by four years.</p> <p>An investor advocate further qualified the ability for consumers to see and understand all the fees and costs associated with buying a product as a fundamental investor right and stated that the current regime leads many investors to believe that they already have full disclosure of costs.</p> <p>Investor advocates were of the view that the project would promote competition within the fund management industry and help drive down costs as firms compete on delivering products and services more efficiently. They also noted that Canada has some of the highest mutual fund costs in the world. However, an industry commenter asked that the CSA explain how transparency about</p>	<p>While registered representatives are required to make recommendations to clients which are suitable, clients, and not registered representatives, make investment decisions<sup>1</sup>. We also note that self-directed investors do not receive advice from registered representatives.</p> <p>We also believe that it is not sufficient that investors can access individual fund cost information on their own initiative, for example by consulting each investment fund's most recent Fund Facts or ETF facts. Finding and collecting up-to-date information for all the funds an investor has owned during the year, taking into account purchases and redemptions during this period, would be complex, time-consuming, especially for ordinary retail investors.</p> <p>Costs have a significant impact on returns, which add up over time. It is necessary for investors to be aware and understand the costs they pay in order to allow them to assess the value they receive in return and make informed decisions.</p> <p>Investors should therefore receive clear personalized information about the ongoing costs of their investment funds in the same way as they already receive such information about their other costs of investing.</p> <p>We aim to increase investor awareness and understanding of investment fund costs, which will help address the information asymmetry between investors and registrants. We do not believe that investors would be</p>
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<sup>1</sup> This excludes the specific case of managed account where discretionary trading authority has been delegated to a registered adviser or investment dealer.

	<p>costs would encourage more competition. Some industry commenters were also of the view that the project could lead to dealer consolidation.</p>	<p>required to achieve the same level of understanding as dealing representatives regarding the cost structures of investment funds in order to benefit from the TCR enhancements.</p> <p>In making enhancements to the ARCC, we have been careful in assessing what information should be included in the ARCC in order to increase investor awareness and understanding of costs, as discussed in more detail in other responses in this annex.</p> <p>We have provided a sample document showing how that information can be presented in an accessible format. It is also important to bear in mind that dealers and advisers are expected to provide the context for information contained in the reports that are sent to their clients.</p> <p>The need to address the information gap regarding costs and compensation paid by clients to other parties, such as IFMs, was publicly identified by securities regulators following the completion of the CRM2 project in 2016. The MFDA published a discussion paper for consultation in 2018<sup>2</sup>. The CSA and CCIR then established the joint TCR project and published the Proposals for comments, following extensive prior consultations with investor advocates and market participants, notably at the 2021 Joint Forum of Financial Market Regulators, as well as through informal technical consultations with industry associations and service providers. We are satisfied that</p>
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<sup>2</sup> [MFDA Bulletin #0748-P, Discussion Paper on Expanding Cost Reporting – Summary of Comments](#), April 19, 2018.

		<p>sufficient research and consultation has been done and that it is time to move forward with the Securities Amendments.</p> <p>We have made changes to the Proposals that will reduce the costs of implementation and compliance for industry stakeholders, including:</p> <ul style="list-style-type: none"> <li>• consolidation of the enhanced disclosure requirements in the ARCC, so that there will be no new elements in monthly or quarterly client statements</li> <li>• allowing the use of reasonable approximations where appropriate, without requiring overly detailed notifications</li> <li>• providing guidance that in the normal course, IFMs can provide reasonable approximations which rely on information in existing disclosure documents when providing information dealers and advisers who distribute their funds, without rigidly requiring them to do so in all circumstances</li> <li>• providing guidance that in the normal course, dealers and advisers can rely on the information provided by IFMs without undertaking burdensome due diligence</li> <li>• excluding private investment funds and LSIFs in light of their unique nature and potential implementation issues</li> <li>• providing a significantly longer transition period</li> </ul>
<i>Prospectus-exempt funds and labour-sponsored funds</i>		
2.	Industry commenters expressed significant concerns about the implementation issues	We have concluded that these differences and resulting

<p>related to the inclusion of prospectus-exempt investment funds (private funds) LSIFs, including the following:</p> <ul style="list-style-type: none"> <li>• IFMs of private funds do not typically calculate a FER as a percentage since they are not required to do so under National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i></li> <li>• private funds do not have publicly available information that would allow a dealer or adviser to calculate a FER or determine if a reported FER is misleading</li> <li>• investment funds with illiquid assets generally do not publish NAV on a daily basis and there is no standard valuation frequency with the result that if an IFM does not provide an exempt market dealer (EMD) with FER information for an investment fund that meets the requirements of the Proposals, it will be the norm and not the exception that an EMD's client account statements will simply state that such information is unavailable and not being reported</li> <li>• there is a wide variety of prospectus-exempt fund structures and features, some with complex pricing structures (e.g., alternative investments) that would be challenged in calculating and communicating cost information in a manner consistent with the Proposals</li> <li>• applying TCR to pooled funds may lead dealers and adviser to discontinue offering them to their clients, especially in the case of pooled funds of managers with smaller amounts of assets under management, who may not have the same resources as larger IFMs to build and maintain the necessary support for dealers and advisers to</li> </ul>	<p>implementation issues are sufficiently large that it would not be appropriate to include private funds and LSIFs in the Securities Amendments. Additional consultations would be necessary before making any proposals to include private funds and LSIFs.</p> <p>This would require consideration of the costs and benefits of including them in a potential future phase of the project.</p> <p>Our regulatory regime generally distinguishes the exempt market, among other things to encourage capital raising. Investors in exempt-market funds must be qualified under a prospectus exemption and meet certain investor criteria, such that less disclosure is required to be provided to them.</p>
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	<p>provide TCR regarding their pooled funds</p> <ul style="list-style-type: none"> <li>• investors in private funds must be accredited investors or satisfy other criteria</li> <li>• there is no pre-existing infrastructure to transmit information about private funds that could be built out to support TCR</li> <li>• due to the nature of LSIFs and the underlying small- and medium-sized business investment criteria, LSIFs with inactive trading status or in the wind-up phase may not have current prices</li> </ul>	
<i>Harmonization</i>		
3.	<p>Commenters supported harmonizing annual reporting requirements between the securities and the insurance sectors, with some noting the need to recognize unique features of the products in doing so.</p> <p>Commenters encouraged us to adopt the same timetable for the implementation of both the Securities Amendments and the Insurance Guidance. They pointed out that a shared schedule would be in the interests of investors and policyholders, who would wish to receive comparable information at the same time, and also in the interests of the industry participants in both sectors, who would be able to share some of the implementation costs.</p>	<p>Harmonization is a core objective of the TCR project. We have sought to ensure that the TCR enhancements are as consistent as possible between the securities and insurance sectors, taking into account the material differences among those products and in the ways the two sectors and their regulatory regimes operate.</p> <p>The removal of the proposed requirement to include new information in monthly or quarterly account statements has further increased harmonization, with both sectors requiring information to be reported on an annual basis.</p>
<i>Drafting comments</i>		
4.	<p>We received a number of drafting suggestions and comments on the Proposals.</p>	<p>While we incorporated some of these suggestions in the Securities Amendments, this summary does not include a detailed list of all the drafting comments or changes that we made.</p>
<i>General and Out-of-scope matters</i>		

5.	<p>We received a number of comments on topics that are outside the scope of the TCR project, including:</p> <ul style="list-style-type: none"> <li>• material revisions to the ARCC not related to ongoing cost information</li> <li>• extending the ARCC to include investment products not within the jurisdiction of CSA members</li> <li>• allowing consolidation of ARCCs for clients with multiple accounts with a registrant</li> <li>• allowing consolidation of ARCCs for portfolio manager clients whose accounts are held at an investment dealer</li> <li>• revisiting the content of the annual investment performance report</li> <li>• adding new exemptions or waivers to the existing requirements to deliver ARCCs or investment performance reports to clients</li> <li>• delivery methods for mandated reports</li> <li>• mandating a notification concerning proprietary product shelves</li> <li>• changes to Fund Facts and ETF Facts documents and other point-of-sale requirements</li> <li>• comments relating to other CSA projects</li> </ul> <p>We also received comments recommending that regulators:</p> <ul style="list-style-type: none"> <li>• strongly enforce the amendments</li> <li>• impose impactful sanctions and fines</li> <li>• undertake investor education initiatives regarding investment fees and costs</li> </ul>	<p>We note the comments, but have not provided specific responses to comments outside the scope of the project, as well as to general comments.</p>
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**B. TRANSITION**

	<b>Comment</b>	<b>Response</b>
	<i>Length of transition period</i>	

<p>6.</p>	<p>Most industry commenters asked that the transition period be extended.</p> <p>They underlined the complexity of the project and that it will require significant time and resources, and argued that the proposed implementation timeframe was unreasonable, given the need to develop infrastructure to automate the required cost calculations and transmit the required calculations between IFMs and dealers and advisers. Some also noted that not all funds are sold through Fundserv, so more than one solution may be required, including the use of manual processes and development of a new centralized infrastructure.</p> <p>Investor advocates and a few industry commenters, however, supported the proposed transition period or asked that it be shortened. They stressed the importance of providing enhanced cost information to investors. Some also questioned the validity of industry concerns about the amount of time that would be required to implement the new requirements.</p> <p>We also received some comments for and against different forms of phased implementation, with some commenters proposing that different products be phased in at different times.</p>	<p>We have extended the transition period in light of the significant implementation issues and concerns identified in the comment letters and the Additional Consultations.</p> <p>We believe that this extended transition period will result in the shortest possible delay for clients to receive enhanced reports, while providing industry with sufficient time to implement the new requirements. We do not anticipate extending it.</p> <p>Adopting a shorter implementation timeline would not have been realistic, as requiring that the first enhanced annual reports be received for the year 2025, as opposed to the year 2026, would have allowed for a transition period of only up to 20 months.</p> <p>We also considered, but rejected, an implementation period which would have required that TCR-enhanced information be delivered for only a portion of the reporting period, considering the potential regulatory burden of for registrants, as well as the limited benefits for investors of a report presenting partial information.</p> <p>Our assessment included consideration of a phased approach to implementation. We concluded that it would not be in the interests of investors to receive incomplete and potentially further delayed reports. We also concluded that it would be ultimately less efficient and more costly for industry to implement in stages, and considered the level playing field implications of doing so.</p>
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<i>Conflict with T+1 project</i>		
7.	<p>Several industry commenters in the securities sectors indicated that the proposed timeline for implementation of the Securities Proposals conflicts with the move from T+2 to T+1, which is proposed to take effect in September 2024.</p>	<p>We understand concerns about the pace of change, and we are mindful of that consideration. We considered the potential impact of the T+1 project in determining the extended transition period for the Securities Amendments.</p> <p>We also note that the CSA announced on December 15, 2022 that it is not proposing amendments to National Instrument 81-102 <i>Investment Funds</i> to mandate a shorter settlement cycle for investment funds<sup>3</sup>.</p>
<i>Starting implementation before final publication</i>		
8.	<p>Several industry commenters said that it would not be reasonable to expect firms to spend resources on building a system until amendments are published in final form and have received all necessary approvals.</p> <p>However, other commenters stated that there is no reason why industry groups could not have already had conversations about the data likely required.</p>	<p>We understand that registrants will not be able to fully begin implementing the Securities Amendments until they have the certainty that they will be fully approved.</p> <p>However, firms can begin reviewing their systems and conduct advanced planning in order to have all of the resources necessary for implementation in place at an early stage, before final approvals are obtained.</p>
<i>Implementation Committee</i>		
9.	<p>Many industry commenters recommended setting up an implementation committee of industry participants, including Fundserv and the various trading associations, in order for the securities regulators to facilitate timely dialogue with stakeholders and vendors to develop and implement a final rule.</p>	<p>As part of the Additional Consultations, the Project Committee established a joint working group and held consultations with industry stakeholders and service providers.</p>

<sup>3</sup> See : <https://www.securities-administrators.ca/news/canadian-securities-regulators-outline-steps-to-support-transition-to-t1/>

		<p>We will continue this work through the Implementation Committee which will be established jointly by the CSA and CCIR with New SRO participation to provide guidance, respond to questions and otherwise assist registrants to operationalize the TCR Enhancements. This could include assisting registrants in determining appropriate standards and timelines for transmission of information and obtaining high-level updates on the timely progress of the implementation of the TCR Enhancements.</p>
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**C. REPORTABLE COSTS**

	<b>Comment</b>	<b>Response</b>
<i>Use of MER or FER</i>		
10.	<p>Some industry comments recommended reporting the MER only, as opposed to the FER, as, according to those commenters, the TER, which forms part of the FER, is not generally a material cost associated with investing and the MER makes up the majority of the embedded fees over the long term.</p> <p>Many industry commenters and investor advocates, however, were of the view that reporting MERs, but not TERs would not be acceptable, notably as TCR needs to include all costs and failing to disclose the TER could lead to a failure to disclose material costs to the client.</p> <p>An industry commenter more specifically highlighted that while TERs generally average about 10 basis points annually, there are instances where a fund's TER is significant, in some cases exceeding the same fund's MER.</p>	<p>We believe that using the FER, which includes both the MER and TER, is necessary in order to provide investors with a complete picture of their total costs of investing.</p> <p>We considered that for some funds, the amount of the TER is material and may exceed the amount of the MER.</p>

	Some industry commenters also acknowledged that the FER is a more comprehensive metric for investors.	
<i>Disclosure of the FER or MER as a percentage for each fund</i>		
11.	<p>Many industry commenters and investor advocates were in favour of including disclosure of the FER or MER of each fund as a percentage. They stated that providing investors with such disclosure would give them clear and useful information. They also indicated that while dollar amounts fluctuate, percentages remain stable.</p> <p>On the contrary, some industry commenters were not in favour of including disclosure of fund costs as a percentage.</p> <p>Some industry commenters were of the view that the FER fails to provide adequate information for clients to assess cost appropriateness and could be confusing or misleading if provided without cost data for other products or performance indications, which could in turn be counterproductive for clients' financial objectives.</p> <p>Some industry commenters also mentioned that Fund Facts already include MER and TER information for funds subject to NI 81-106. Some further added that this information could conflict with the new metric suggested in the Proposals.</p>	<p>We believe that requiring disclosure of the FER as a percentage will increase investors' awareness and understanding of their costs of investing.</p> <p>More specifically, we believe that it will allow them to understand which funds they owned during the reporting period have higher or lower costs. We believe that this will in turn allow them to make better-informed investment decisions, for example by enabling them to ask relevant questions about the costs of different products to their advisors.</p> <p>While the FER of many investment funds is disclosed in their Fund Facts or ETF Facts, this information is not personalized to an investor's holdings and is only communicated at the point of sale, as opposed to an ongoing basis. Thus, the information found in those documents is not sufficient to allow investors to become aware of the current total ongoing costs of the investment funds they own or owned during the reporting period.</p>
<i>Separate reporting of MER and TER</i>		
12.	<p>Some commenters were in favour of reporting the MER and TER separately, as opposed to combining them in a single FER number, indicating that it would provide investors with superior information.</p> <p>A commenter expressed the view that combining the MER and TER into a single FER metric would not allow investors to ask informed questions and make informed</p>	<p>The Securities Amendments do not require separate disclosure of the MER and TER, considering the benefits of providing simple and clear disclosure to investors and policyholders, as well as the potential burden of requiring such additional disclosure.</p>

	<p>decisions about their investments. They also expressed that disclosure should allow investors to use MERs to compare the compensation of IFMs in respect of different funds while also alerting them to the impact of TER as a cost of their investments. They recommended including a breakdown of the management fees and other costs reflected in MER and the trading expenses reflected in TER, with clear, separate explanations of what these each of these measures and their underlying expenses represent.</p>	
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*Disclose FER or MER information in annual report only*

<p>13.</p>	<p>Many industry commenters expressed concerns about the client confusion and the operational and system challenges that may arise from providing fund FER or MER reporting on a quarterly or monthly basis, especially if it is provided without a holistic CRM2 view on annual returns and full distribution costs. Those commenters also underlined that reporting fund FER in periodic account statements may be duplicative and present clients with information in a different format.</p> <p>Industry commenters also mentioned that the proposed data elements may be operationally prohibitive for IFMs to provide to dealers within a time period required to produce monthly or quarterly statements.</p> <p>Consequently, some industry commenters, as well as an investor advocate recommended that the FER be included in the ARCC, in order to keep all cost-related information in one place.</p> <p>An industry commenter was of the view that reporting information annually would be sufficient, except in the case of significant portfolio restructuring.</p>	<p>We have moved the requirement to report the FER for each fund from the quarterly or monthly account statements to the ARCC.</p> <p>We believe that consolidating all information related to costs in a single annual report will facilitate investor understanding of this information.</p>
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*Reporting of fund expenses per fund in dollars*

14.	<p>Some industry and independent commenters indicated that fund-level cost information should be reported both in percentage and in dollars, indicating notably that providing costs in percentage only would only inconvenience clients by requiring them to do the math themselves.</p>	<p>The Securities Amendments do not require reporting the amount of fund expenses in dollars incurred for each investment fund. Fund-by-fund dollar costs would not allow clients to make meaningful comparisons, since the principal amounts invested in different funds will vary, as will the time periods during which they were held.</p> <p>We also note that implementing the proposed change would have required additional consultations.</p>
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*Disclose fund MER and estimated cost per \$1000 invested only*

15.	<p>An industry commenter recommended that the MER not be used to attempt to calculate an actual dollar cost for an investor due to the resulting costs being an estimate that could be materially misleading. This commenter instead recommended that the MER be disclosed, along with the estimated cost per \$1,000 invested, as is done for Fund Facts and ETF Facts.</p>	<p>We believe that requiring reporting of the MER and estimated cost per \$1,000 invested of each fund would not be an acceptable alternative to requiring reporting of the total amount of fund expenses in dollars for all funds owned by a client, as it would not allow clients to become aware of the total ongoing costs of the funds they own in dollars.</p>
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*Inclusion of performance fees in reported FER and fund expenses*

16.	<p>Some industry commenters and investor advocates were in favour of including performance fees to improve investors' understanding and assessment of fund costs, including for alternate funds, mentioning that performance fees subtract from returns.</p> <p>An industry commenter in favour of including such fees also mentioned that performance fee disclosures are confusing and that stated management fees can be significantly different than MERs.</p> <p>This commenter also mentioned that funds with performance fees are better equipped to provide up-to-date fee disclosures, noting that overseeing these funds requires sophisticated systems to track fee accruals given the</p>	<p>Investors and policyholders should be made aware of all the fees and expenses associated with the investment funds and segregated funds they own, including the performance fees they pay.</p> <p>We have made changes to the Proposals to ensure that the FER reported for each fund, as well as the total amount of fund expenses reported, are inclusive of performance fees.</p> <p>We have also made adjustments to the calculation method for fund expenses, which is now based on a fund's FER for each day that it was owned by the</p>
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	<p>complex nature of performance fee calculations and that, often, fees must be tracked daily.</p> <p>A securities industry association also recommended that the CSA provide guidance allowing appropriate adjustments to the FER calculation to account for variation of the performance fee from one year to another.</p> <p>On the contrary, an industry association suggested excluding performance fees from the MER calculation as, in their view, (1) the focus on reporting costs to investors should be on costs that they will incur regardless of whether the fund is profitable, as those costs are manageable to a degree by the IFM, whereas performance fees are only incurred if an investor’s holdings are increasing in value and represent a portion of that increase and (2) inclusion of performance fees in annualized MER for a fund that has performance fees at varying periods of the year can distort the estimated expenses reported.</p>	<p>client, to ensure that performance fees incurred at varying periods of the year and material changes in a fund’s FER throughout the year are accurately accounted for. We, however, continue to allow for the use of reasonable approximations.</p>
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*Presentation of performance fees as separate line item*

17.	<p>An industry commenter suggested that performance fees should be presented as a separate line or noted as in Fund Facts to highlight how much of the MER it accounts for.</p>	<p>We have added guidance to clarify that performance fees can be presented as a separate line item.</p>
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*Reporting of MER waivers or rebates*

18.	<p>An industry commenter suggested that the effective rate the client pays, after accounting for any fee reduction program, and not the stated rate of the funds should be reported to clients.</p>	<p>We agree that the effective rate the client pays, as opposed to the posted rate, should be used.</p> <p>As such, we have made changes in the Securities Amendments to require that the FER for each fund and the amount of fund expenses reported are inclusive of performance fees and net of fee waivers, rebates or absorptions.</p>
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*Proposed notification concerning householding and management fee rebates*

19.	<p>A securities industry commenter recommended the inclusion of a footnote to explain that actual costs could be materially different than those listed, due to the impact of householding and management fee rebates.</p>	<p>The Securities Amendments require that the FER for each fund and the amount of fund expenses reported are inclusive of performance fees and net of fee waivers, rebates or absorptions.</p> <p>We have also clarified through guidance that if a dealer or adviser provides a client with fee waivers, rebates or absorptions, as would be the case for a householding rebate provider by a dealer or adviser, they must not be included in the total amount of fund expenses reported, but should be included in the corresponding dealer or adviser charges required to be reported under paragraphs 14.17(1)(a) to (f) of NI 31-103.</p>
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*Scope of costs captured*

20.	<p>According to some investor advocates and industry commenters, TCR should capture all direct and indirect costs incurred by a client in their account. This includes, but is not limited to, product costs, advice and service fees, account fees, fund trading costs, DSC early redemption penalty fees, NSF charges, switch fees, transaction commissions, RRSP account fees, front loads, embedded trailing commissions, short-term trading fees, cost of borrowing, sales commissions embedded in IPO offerings and the like.</p> <p>An investor advocate also suggested that interest costs should be included if an investor uses leveraging or has borrowed stock on margin. If the figure is not known, the report should state that the investor should add the interest expense to his/her total investing cost. If regulators decide not to include interest charges, the report should explicitly state that any costs incurred for leveraging are not included in the report.</p>	<p>We have striven to ensure that the Securities Amendments capture clients' total costs of investing, while accounting for the need to minimize the regulatory burden imposed on registrants and considering which types of fees are related to securities or derivatives, as opposed to other types of products.</p> <p>We have added a mandatory notification to clients, in the cases where it would be appropriate, that the fees reported may not include any fees the client pays directly to third parties, including custodial fees, intermediary fees or interest charges which may be deducted from the client's account.</p> <p>We have also added a mandatory notification concerning the embedded fees which may be associated with ownership of products which are not</p>
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	One investor advocate further suggested that foreign exchange fees be included since their disclosure is opaque because the conversion is subsumed in the exchange rate charged.	included within the scope of the Securities Amendments, such as structured products.
<i>Presentation of costs as a percentage of total portfolio in ARCC</i>		
21.	<p>An industry association recommended stating the cost as a percentage of the total portfolio next to each section of the total cost reporting table that details the cost in dollars. According to this commenter, this will give investors a better understanding of the portion of their total cost that is attributable to each line item, as well as their total weighted average cost.</p> <p>An investor advocate also suggested adding a footnote which would disclose a client's total costs as a percentage of their portfolio. This commenter believed that it will encourage clients to put the cost of investing in perspective and, in turn, help in getting investors more engaged with value-for-money considerations.</p>	<p>We note that requiring the presentation of a client's total costs of investing as a percentage of their portfolio would have required additional consultations, notably to determine which calculation method should be used to calculate this percentage.</p> <p>For example, it could be calculated as a percentage of a client's current assets or as a percentage of a client's average monthly assets over the reporting period, which would better account for deposits and withdrawals made during the reporting period.</p> <p>We would also have concerns about adding to the amount and complexity of information in the ARCC, as presenting too much information may in some cases be detrimental to investor understanding.</p> <p>For these reasons, we have not made the change.</p>
<i>Deferred Sales Charges (DSC) and Redemption Fees</i>		
22.	One industry commenter recommended that the proposed footnote concerning DSC should be adjusted to reference the prospectus or fund facts at the time the units or shares were purchased, as DSC options are no longer offered.	We agree and have modified the notification concerning DSC to reference the prospectus or fund facts document made available at the time of purchase.
<i>Specify in notification that DSC are not paid to dealer</i>		
23.	One industry commenter suggested modifying the notification concerning DSC to specify that redemption fees are not received	No changes were made. We believe that the mention in the notification that the redemption fee is payable to



	by the dealer or dealing representative, to avoid investor confusion.	the investment fund company is sufficient to avoid investor confusion.
<i>Direct investment fund charges</i>		
24.	An industry commenter asked that we clarify whether amounts charged by other parties such as dealers, registered plan administrators and custodians are intended to be included since those “other parties” are not included in the definition of “direct investment fund charges”.	We have clarified in the Securities Amendments that direct investment fund charges include amounts charged to the client by an investment fund, IFM or any other party, in relation to securities of investment funds owned by the client during the period covered by the report.
<i>Newly established funds</i>		
25.	Many industry commenters and an investor advocate mentioned that the Proposals do not address new funds for which the MER and TER are not available and many suggested that they be excluded until year two and there is an established MER and TER.	We have added new provisions specifying in which circumstances cost information about newly established funds may be excluded, considering that this information may not be available for those funds. In the case where such information is excluded, a notification must be included in the report.
<i>Taxes – Separate tax deductible and non-deductible fees</i>		
26.	An industry commenter recommended that a separate line item be added below the total cost disclosure that provides the tax-deductible portion of the disclosed fees.	The purpose of the ARCC is to provide investors with information on their costs and other compensation received by registrants in connection with their accounts.  It is not intended to be a substitute for other sources of information that provide information for tax purposes.
<i>Exclude or disclose sales taxes as a separate line item</i>		
27.	Some industry commenters and an investor advocate noted that sales taxes are significant.  One commenter recommended that they be disclosed as a separate line item even where taxes are already included under an existing reportable (i.e., MER).	We believe that investors and policy holders should be made aware of their actual total costs of investing, which should include sales taxes, when applicable.

	An industry association also suggested excluding taxes from the MER calculation.	
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**D. CALCULATION METHODOLOGY**

	<b>Comment</b>	<b>Response</b>
<i>Calculation methodology and format should be prescribed</i>		
28.	Industry commenters and some investor advocates suggested that the calculation methodology and format should be prescribed.	<p>The Securities Amendments prescribe the calculation methodology for determining required cost information.</p> <p>We have also made changes to the Securities Amendments and added guidance to clarify the calculation methodology for information required to be reported.</p>
<i>Suggested calculation methodology for fund expenses</i>		
29.	<p>An industry association recommended using the following methodology for calculating fund expenses:</p> <p>Determine the reporting date cost per unit/share calculated as <math>A/B = C</math>, where:</p> <p>Reporting date = a day on which fund purchase/sale transactions are allowed. This could be either daily or monthly.</p> <p>A = the expenses charged/accrued to each class/series of the fund for the reporting date. This is done by the IFM, or the administrator, as part of the calculation of NAV.</p> <p>B = determine the number of units/shares of the class or series outstanding on the reporting date.</p> <p>Calculate <math>A/B = C</math>. This provides a clear allocation of actual fund dollars to a unit holder on the reporting date and is reconcilable to the fund f/s since actual dollars accrued are allocated. If the fund is valued monthly, or on some other period, this</p>	<p>We have revised the calculation method for fund expenses, which is now based on the FER for the day for each day that a fund was owned by a client during the reporting period, in order to enhance the accuracy of this calculation and avoid potential implementation issues.</p> <p>This will ensure that that performance fees incurred at varying periods of the year and material changes in a fund's FER throughout the year are accurately accounted for.</p> <p>We expect that the FER for the day will reflect the actual expenses charged or accrued to each security of the applicable class or series of the investment fund for that day.</p> <p>We note that the Securities Amendments continue to allow for the use of reasonable approximations.</p>

	<p>value would be divided by the number of days in the reporting period to determine a daily cost. The daily value from a Friday would be assumed to apply to the following Saturday and Sunday.</p> <p><i>Impact on accuracy of using annualized ratios in calculation methodology</i></p> <p>Some industry commenters also stated that, since the MER and TER are annualized ratios, applying them daily will not necessarily be representative of how the fund is incurring expenses over time. This may be especially the case if the MER includes performance fees.</p>	
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*Use of NAV or market value (Securities question 3)*

<p>30.</p>	<p>Some commenters were in favour of using the net asset value (NAV) per security for the purposes of the fund expenses calculation, while others supported using the market value. One argument for using the NAV is that it's readily available for conventional mutual funds.</p> <p>However, some commenters recommended using market value instead of the NAV for investment funds that trade on a stock exchange.</p>	<p>We have replaced references to the NAV with references to the market value, which must be determined according to section 14.11.1. of NI 31-103 [<i>Determining market value</i>].</p> <p>This provision and accompanying guidance prescribe the methodology which must be used to determine market value, which will, in some cases, be determined by reference to a fund's NAV.</p>
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*Number of days to be used in calculations*

<p>31.</p>	<p>Many industry commenters recommended using a 365-day period for calculating the fund expenses, but highlighted that it would be challenging for products which do not have daily valuations.</p>	<p>We have removed the specific reference to a period of 365 days in the formula for calculating fund expenses to instead require that they be calculated based on the FER for the day for each day that a fund was owned by a client during the reporting period, in order to enhance the accuracy of this calculation and avoid potential implementation issues.</p> <p>We note that the Securities Amendments continue to allow for the use of reasonable approximations.</p>
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<i>Clarifications for funds with no daily NAV or other</i>		
32.	<p>Many securities industry commenters requested clarifications and guidance for funds that no longer strike a NAV, do not strike a daily NAV (e.g., weekly, monthly, or quarterly NAV), and with respect to funds with delayed NAVs, which are common in private market products.</p>	<p>Registrants should use their professional judgment and refer to section 14.11.1. of NI 31-103 [<i>Determining market value</i>] and appropriate guidance in order to determine the market value per security in the case of funds which do not strike a daily NAV, no longer strike a NAV or use a delayed NAV.</p> <p>We have also required IFMs to make any adjustments which are reasonably necessary to accurately determine the amount of fund expenses per security for the day. These could include adjustments to address these circumstances.</p> <p>We note that the Securities Amendments continue to allow for the use of reasonable approximations, which may be appropriate in the case where no NAV or market value was calculated or was available for the day.</p> <p>We also note that we have excluded prospectus-exempt investment funds from the scope of the Securities Amendments, which more frequently do not strike a daily NAV or use a delayed NAV.</p>
<i>TER calculation issues</i>		
33.	<p>Some industry commenters indicated that while the MER is generally stable day-to-day, the TER exhibits a higher degree of variability depending on fund flows and changes in portfolio holdings and can be distorted by significant purchases or redemptions of a fund activity in the fund. Therefore, applying a TER as of a specific point in time, such as the most recently</p>	<p>We have revised the formula for calculating fund expenses, so that it be based on the calculation of the FER for the day of each day that a client owned the fund.</p> <p>We expect that the FER for the day will reflect the actual expenses charged or accrued to each security of</p>

	<p>published TER, could lead to inaccurate reporting.</p>	<p>the applicable class or series of the investment fund for that day, including trading expenses included in a fund’s TER.</p> <p>We also note that the Securities Amendments continue to allow the use of reasonable approximations.</p> <p>We believe this will be sufficient to ensure accurate reporting of the expenses included in the TER, while minimizing the burden for registrants.</p>
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*Fund expenses calculation*

<p>34.</p>	<p>A securities industry commenter noted that section 14.17(6) provides a formula to be used where the term “A” used in the formula cross-references section 14.1.1(2) which only includes the FER.</p> <p>This commenter stated that it would provide an accurate calculation for the amounts in section 14.17(1)(i)(b), but does not believe that it would be correct for expenses charged directly to the investor described in section 14.17(1)(i)(a).</p>	<p>We have removed the requirement in subparagraph 14.17(1)(i)(a) to report the amount of fund expenses charged to the client by an investment fund, its IFM or any other party, as it was duplicative with the requirement to report direct investment fund charges under paragraph 14.17(1)(j).</p>
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**E. USE OF ESTIMATES AND APPROXIMATIONS**

	<b>Comment</b>	<b>Response</b>
<i>Allow use of approximations based on existing disclosure</i>		
<p>35.</p>	<p>Many industry commenters were of the view that IFMs should be able to rely on approximations based on an investment fund’s most recent Fund Facts/ETF Facts document, prospectus, or management report of fund performance (MRFP). An investor advocate also viewed approximations as an acceptable imperfection.</p> <p>An industry commenter suggested that IFMs should apply uniform assumptions or</p>	<p>The Securities Amendments continue to allow, but not require, registrants to use reasonable approximations where they would not result in misleading information being reported to clients.</p> <p>We have removed the requirement that approximations must be based on information found in a fund’s most recently disclosed fund facts document, ETF facts document, prospectus or management report of</p>

	<p>approximations to provide meaningful information to investors.</p> <p>A securities industry association also suggested making it mandatory for IFMs to provide approximate cost information based on an investment fund’s most recent Fund Facts/ETF Facts document, prospectus, or MRFP.</p>	<p>fund performance in order to grant registered firms additional flexibility in using approximations and to minimize the regulatory burden imposed. We have however provided guidance that those documents can generally be relied on for these purposes.</p> <p>We have not made the use of approximations mandatory, as we believe that investors should receive exact information whenever possible without unreasonable cost or delay.</p> <p>We have added guidance which strongly encourages IFMs to provide exact information, whenever available, considering that doing so would enhance investor understanding of their costs of investing.</p> <p>We have also taken into account comments by dealers and advisers who highlighted the importance of receiving accurate and timely information in order to report reliable data to their clients.</p> <p>We believe that this adequately balances the regulatory burden, while maximizing investor awareness and understanding of their costs of investing.</p> <p>We also note that we have established the Implementation Committee which may assist industry stakeholders in the development of common standards.</p>
<p><i>Requirement that approximations should not result in misleading information being reported to clients should be struck</i></p>		
<p>36.</p>	<p>An industry association requested the removal of the prohibition on the use of approximations if the IFM reasonably believes that doing so would cause the</p>	<p>We have not removed the requirement that approximations used must not result in misleading information being</p>

	<p>information disclosed in the statement or report to be misleading.</p> <p>According to this commenter, the standard places too high a burden on IFMs, is subjective and places a significant legal obligation to report information rather than using estimates.</p> <p>This commenter also highlighted that IFMs are already subject to an obligation not to provide misleading information to investors.</p>	<p>reported to a dealer or adviser’s clients.</p> <p>We continue to believe that the inclusion of this requirement is necessary, as misleading information should not be reported to clients, and that the test of “reasonable belief” will adequately balance the potential burden imposed on IFMs.</p> <p>We also considered that the existing legal and regulatory duties which apply to IFMs when transmitting information to dealers and advisers may not be sufficiently specific to adequately prevent misleading information from being reported to clients.</p>
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*Make explicit allowance of estimates and threshold for “misleading” disclosure*

37.	<p>An industry commenter stated that the threshold for “misleading” disclosure should be made explicit in requirements.</p>	<p>Registrants should use their professional judgment to determine when the use of an approximation could result in misleading information being reported to clients. Attempting to prescribe in advance the threshold for misleading disclosure risks omitting unforeseen circumstances and precluding a reasonable evaluation by registrants.</p>
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*Relying on outdated information*

38.	<p>An industry association stated that the requirement that an IFM must not rely on previously publicly disclosed MER and TER information if it is outdated or if the IFM reasonably believes doing so would cause the information in the statement or report to be misleading should be struck. The rationale for doing so is that at the time dealers and advisers prepare their December 31 client statements, the most recent MER and TER figures available for most ETFs will be as of the previous June 30 (i.e., six months old).</p>	<p>We have removed the requirement that reasonable approximations must be based on information in a fund’s most recently disclosed fund facts document, ETF facts document, prospectus or management report of fund performance in order to grant registered firms additional flexibility in using approximations and to minimize the regulatory burden imposed.</p>
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	<p>Consequently, the requirement would, in some circumstances, require IFMs to revise the MER and TER figures for an ETF between already regulated disclosure intervals.</p>	<p>We have also removed the prescription that registrants must not rely on outdated information, as we consider that the requirement that the approximations used must be reasonable and must not result in misleading information being reported to a dealer or adviser’s clients are sufficient to ensure adequate investor protection.</p>
<p><i>Add/remove or modify notifications regarding use of approximations</i></p>		
<p>39.</p>	<p>Some industry commenters suggested that the requirements to disclose a description of the assumption or approximation should be removed.</p> <p>They suggested that a notification be added explaining that the provided data are estimates based on the historical MER and TER of the fund and reflect the estimated costs that could be incurred in connection with the investor’s holdings.</p>	<p>We have removed the requirement to report a description of the assumptions or approximations used.</p> <p>We considered the potential burden of reporting such descriptions, as well as the fact that this could result in overly lengthy disclosure to clients, as the approximations or assumptions used may vary for each investment fund.</p> <p>The Securities Amendments however require inclusion of a notification that reported cost information is based on an approximation or any other assumption, when that is the case.</p>
<p><i>Double counting of trailing commissions</i></p>		
<p>40.</p>	<p>One industry commenter highlighted that under the Proposals, there is potential for trailing commissions to be double counted, since the MER already includes trailing commissions.</p> <p>A securities industry association similarly stated that the presentation of the ARCC raises the issue of potential double counting because a client could add the “Your total cost of investing” amount in the “What you paid” table and the “Total we received for advice and services we provided to you” amount in the “Our Compensation table”.</p>	<p>We took into account potential concerns regarding disclosure of trailing commissions in developing the Proposals and have made changes to the sample documents to clarify that the fund expenses include trailing commissions.</p> <p>We have however avoided making extensive changes to the proposed sample documents, which were developed following testing by IORBIT of various prototypes to determine which ones would be most effective in maximizing</p>



	<p>This commenter suggested using an alternative prototype provided in its submission, which deducts the amount of the trailing commissions from the amounts indirectly paid to the IFMs and/or investment funds and adds it to the amounts paid to the dealer or adviser.</p>	<p>investor or policyholder’s comprehension of cost information.</p> <p>We also note that trailing commissions will not be double-counted in the investor’s total costs of investing required to be reported under paragraph 14.17(1)(l).</p>
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**F. IFMs’ DUTY TO PROVIDE INFORMATION**

	<b>Comment</b>	<b>Response</b>
<i>Guidance that IFMs must work with advisors and dealers</i>		
41.	<p>A securities industry association suggested that guidance indicating that IFMs must work with advisors and dealers to determine the dealer and advisor data needs be removed. Instead, the rules should set out the required data that IFMs need to provide dealers.</p> <p>Another industry commenter, however, noted that IFMs send hundreds of data points to data providers and that dealers and IFMs work diligently to exchange holdings and price details with FundSERV, CDS and custodians. According to this commenter, there is no reason they will not be able to do the same for the benefit of their clients.</p>	<p>We believe that the principles-based requirements specified in section 14.1.1 of NI 31-103 that IFMs must work with advisors and dealers are adequate.</p>
<i>Request for regulators to set timelines and uniform standards</i>		
42.	<p><i>Request for regulators to set timelines</i></p> <p>Some industry commenters requested that an industry standard be provided for what is a reasonable period of time, as that concept is used in section 14.1.1, to ensure consistency across the industry, or that regulator. Another commenter requested guidance from the regulator regarding an “as at” date for alignment across the industry, as MERs and TERs are calculated on certain cycles for each fund and vary across fund families and fund managers.</p>	<p>We believe that the principles-based requirements specified in section 14.1.1 of NI 31-103 are adequate.</p> <p>We expect IFMs to work with the dealers and advisers who distribute their funds to determine what information they need from them and how it will be delivered in order to satisfy the dealers’ and advisers’ client reporting obligations.</p> <p>We strongly encourage the development of common standards</p>

	<p>A securities industry association suggested that regulators prescribe a maximum period of time for IFMs to provide information to dealers.</p> <p>An industry commenter also pointed out that delays by IFMs in delivering cost information would impact delivery of all client reporting.</p> <p><i>Request for uniform standards</i></p> <p>A commenter also indicated that there must be a uniform standard of what information is required to be provided by the IFM to the dealer, and when that information must be delivered.</p> <p>Another commenter highlighted that, from an IFM perspective, significant work would have to be done to ensure consistency in: (i) calculation methodology and (ii) reporting format.</p>	<p>and arrangements for its delivery across the industry, but acknowledge that those arrangements may sometimes vary, reflecting different operating models and information systems.</p> <p>We also note that IFMs are already required to transmit certain information to dealers and advisers under the existing CRM2 requirements, for example concerning the amount of the trailing commission paid to the dealer or adviser.</p> <p>We have established the Implementation Committee which will work jointly with industry to provide guidance, respond to questions and assist registrants to operationalize the Securities Amendments. This could include assisting registrants in determining appropriate standards and timelines for transmission of information.</p>
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**G. DEALER RELIANCE ON IFMS**

	<b>Comment</b>	<b>Response</b>
	<i>Dealers and advisers should be able to fully rely on IFMs</i>	
43.	<p>Many industry commenters were of the view that dealers and advisers should be able to fully rely on cost information provided to them by IFMs or on IFMs disclosure documents without having to make additional validations themselves stating the impracticality for dealers to source and calculate cost data where the IFM does not provide total cost data (e.g., ETFs and foreign funds).</p> <p>As such, industry commenters recommended that, in cases where the required information is not provided by the IFMs or unavailable,</p>	<p>We agree that dealers and advisers should generally be able to rely on cost information provided to them by IFMs. We have clarified both through guidance and changes to the Securities Amendments that we do not expect dealers and advisers to routinely undertake a due diligence review of the information provided to them by IFMs, outside of certain exceptional circumstances.</p> <p>However, we believe that in those exceptional circumstances, for</p>

	<p>no information should be reported, and the dealer should indicate that the information is unavailable/unreported.</p> <p>One commenter recommended that the required information be excluded from calculations if the registrant has not obtained it from an IFM within a reasonable timeframe.</p> <p>Furthermore, some commenters recommended that the proposed section 14.17.1 be revised and some provisions, such as s. 14.17.1 (2) and (3), be deleted entirely.</p>	<p>example in the case of foreign funds for which no cost information is provided by a registered IFM, dealers and advisers should be required to make reasonable efforts to obtain this information, subject to considerations about the materiality and costs of doing so. We expect dealers and advisers to exercise their professional judgment in determining when such exceptional circumstances apply.</p> <p>We believe this adequately balances the regulatory burden imposed, while maximizing investor and policy holder awareness of their costs of investing.</p>
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*Require IFMs to ensure accuracy of information transmitted*

<p>44.</p>	<p>An industry commenter recommended that IFMs be required to ensure processes are in place to ensure the accuracy of the information provided to dealers, since dealers are not afforded any protection from investor complaints if the IFM’s information proves to be inaccurate or prevents dealers from getting the client statements out in a timely manner.</p>	<p>We note that registered IFMs must establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation. This includes complying with their duty to provide required information to dealers and advisers.</p> <p>We also note that any approximations used by IFMs must be reasonable and cannot result in misleading information being reported to clients.</p> <p>We have also added guidance encouraging IFMs to provide exact information wherever they are able to do so without unreasonable cost or delay.</p> <p>We believe this will be sufficient to ensure that misleading information is not reported to the dealer or adviser’s clients.</p>
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<i>Implementation costs for dealers</i>		
45.	<p>One industry commenter stated that the Proposals put the onus on dealers to compile and present very detailed information, in reliance on an unverifiable third-party source of information, that will involve significant system and technology builds and an enormous amount of data from many service providers, as dealers are being asked to ingest, calculate, and publish detailed, unverified information for costs they do not collect nor control.</p>	<p>We believe that the Securities Amendments adequately balance the regulatory burden imposed, while maximizing investor and policy holder awareness of their costs of investing.</p> <p>We have clarified through guidance that dealers and advisers should generally be able to rely on cost information provided to them by IFMs and that we do not expect dealers and advisers to routinely undertake a due diligence review of the information provided to them by IFMs, outside of certain exceptional circumstances.</p> <p>We also believe that the extended transition period should provide registrants with sufficient time to develop the necessary infrastructure to transmit the required cost information.</p>

## H. ISSUES RELATED TO SPECIFIC PRODUCT TYPES

	<b>Comment</b>	<b>Response</b>
<i>ETFs</i>		
46.	<p>Industry commenters noted that ETF IFMs do not have access to investors' identities, which are only accessible to dealers and advisers.</p> <p>Commenters also expressed concerns regarding the lack of standards within the industry as to how ETFs are treated, with certain dealers treating them as equity, making it difficult to calculate their cost.</p> <p>An industry commenter noted that, as the TER is driven by portfolio transactions executed by ETFs, it is not possible for an IFM to determine at any point whether the</p>	<p>We believe that the extended transition period should provide registrants with sufficient time to develop the required infrastructure and resolve any implementation related to the inclusion of ETFs.</p> <p>We have also established the Implementation Committee which will work jointly with industry to assist registrants to operationalize the Securities Amendments.</p> <p>We also note that the Securities Amendments continue to allow the</p>

	<p>current TER will be the same as the publicly disclosed TER.</p>	<p>use of reasonable approximations. We believe that the use of such approximation may be appropriate in cases where a precise figure for daily trading costs included in a fund's TER would be overly costly or burdensome to determine.</p>
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*Foreign funds*

<p>47.</p>	<p>Many industry commenters recommended excluding foreign investment funds from the scope of the Proposals, because they may use a different calculation methodology for the required MER and TER figures, or do not provide them altogether.</p> <p>On the contrary, an industry commenter noted that allowing the use of methodologies used in foreign markets would be a close approximation for costs incurred by Canadian investors (for example, for foreign ETFs). This commenter further speculated that IFMs and dealers are already adjusting costs disclosed by foreign-listed funds to make an apples-to-apples comparison and meet suitability requirements.</p> <p>One industry commenter was also concerned that foreign investment funds would cease to offer their products to Canadians as a result of the new requirements. Commenters also noted that foreign investment funds are not traded on Fundserv.</p>	<p>The Securities Amendments continue to mandate the inclusion of foreign funds, considering the importance for investors to be aware of their total costs of investing, as well as the importance of ensuring a level playing field between Canadian and foreign funds.</p> <p>We believe that the extended transition period should provide registrants with sufficient time to develop the required infrastructure and resolve any implementation related to the inclusion of foreign funds.</p>
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*Calculation issues specific to foreign funds*

<p>48.</p>	<p>An industry commenter noted that the Total Expense Ratio is used in the US, as opposed to the MER.</p> <p>Another industry commenter highlighted that while U.S. funds generally disclose the dollar amount of fund-level brokerage commissions in the Statement of Additional Information (SAI), this commenter was not able to obtain such information for U.S. closed-end fund, making TER calculations impossible.</p>	<p>In the case of information required to be reported for a foreign investment fund, we believe it would generally be acceptable for registrants to report a reasonable approximation based on similar information which is required to be reported in the foreign fund's jurisdiction, if more accurate information cannot be obtained by other means using reasonable efforts.</p>
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	<p>This commenter also noted that cost data for all U.S. funds is not available in an electronic format to feed into Canadian registrants' reporting systems, or that it would be challenging to obtain.</p>	<p>For example, we believe that the following could generally be considered a reasonable approximation of a foreign fund's FER:</p> <ul style="list-style-type: none"> <li>• for a US mutual fund, its total expense ratio;</li> <li>• for a fund to which the Undertakings for the Collective Investment in Transferable Securities (UCITS) framework applies, its ongoing charges.</li> </ul> <p>We also believe that third-party service providers may be able to develop their service offering and assist registrants in accessing data about foreign funds.</p>
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*Enforcement of regulation outside of Canada*

<p>49.</p>	<p>One commenter expressed the view that applying the TCR requirements to non-Canadian fund managers would give rise to the extraterritorial application of Canadian regulation, which would be problematic.</p>	<p>We agree that if the manager of a fund is not required to register as an IFM in a CSA jurisdiction, it will not be subject to the requirements of NI 31-103, including those related to the delivery of information to Canadian dealers and advisers. We are not proposing to enforce this requirement on foreign investment fund managers not required to register as an IFM.</p> <p>In such circumstances, dealers and advisers must make reasonable efforts to obtain or determine this information or a reasonable approximation.</p> <p>We believe this adequately balances the regulatory burden imposed, while maximizing investor awareness and understanding of their costs of investing.</p>
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		We have also added in the ARCC a notification to clients who have foreign funds in their accounts.
<i>Reporting issue for funds holding foreign funds</i>		
50.	<p>An industry association noted that if a fund of funds is unable to obtain cost information from non-Canadian fund managers, it will not be able to accurately report its expenses. This commenter suggested providing an exemption from the TCR requirements to allow the NI 81-102 fund to report the total cost, excluding U.S. ETFs. A note would be added, indicating that it does not include foreign investment fund total cost, as this is not available.</p> <p>Other commenters noted that similar issues would apply in the case of prospectus-exempt funds.</p>	<p>Investment funds subject to National Instrument 81-102 <i>Investment Funds</i> are generally already required to report their MER and TER according to the requirements in National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i>. Section 15.2 of that regulation specifies how the MER should be calculated in the case of a fund of funds.</p> <p>The Securities Amendments will not modify cost reporting requirements that apply to investment funds. We have also exempted prospectus-exempt funds from the scope of the amendments. As such, no change is required.</p>

**I. DISCLOSURE FORMAT**

	<b>Comment</b>	<b>Response</b>
<i>Format of ARCC</i>		
51.	<p>We received mixed feedback on whether to prescribe the format of the ARCC.</p> <p>Several industry members identified a need for flexibility to implement the Proposals and adapt them to their client base.</p> <p>Several investor advocates asked that the format of the ARCC be mandated. Their concerns included readability, which they thought could be better assured with prescribed fonts and layouts, and comparability across accounts at different firms.</p>	<p>We have adopted a flexible approach which allows registrants to make changes to the format of the reports. We believe that adopting a more prescriptive approach would be unduly limiting in view of the variety of business models used by registrants, and burdensome in that it might require firms that already report cost information to clients to make costly changes to the format of their client reports.</p> <p>As indicated in the notice of publication of the Proposals, we worked with IORBIT to develop</p>

	<p>Some of these commenters expressed preferences for the formats of sample documents published during the earlier MFDA consultation process or proposed their own alternative content or formats.</p> <p>More specifically:</p> <ul style="list-style-type: none"> <li>• some commenters suggested that we develop our sample report through testing with investors and in collaboration with behavioural science experts;</li> <li>• an investor advocate suggested that we include a glossary of terms and include hyperlinks leading to expanded reporting details, terminology and calculators;</li> <li>• investor advocates recommended that the report contain language nudging investors to ask questions and take action, as well as provide a simple list of actions investors can take to lower costs, referencing research which indicates that investors are not aware of all the actions they can take based on the information they receive.</li> </ul> <p>Commenters also suggested including certain key elements, such as :</p> <ul style="list-style-type: none"> <li>• disclosure of a client’s total costs of investing at the top of the report,</li> <li>• (1) the current value of a client’s investments (2) how much their value increased or decreased (3) their cost of investing;</li> <li>• a brief description of the information in the report and why it’s important</li> <li>• an explanation of how costs affect a client’s returns</li> <li>• what steps a client can take if concerned about their costs</li> </ul>	<p>prototypes for TCR-enhanced reports, which were tested with investors, to determine which ones would be most effective in maximizing investor comprehension of cost information.</p> <p>Considering that the sample document included in the Proposals was developed following this process, we have made the minimum changes necessary to this document in order to reflect changes to the Securities Amendments and address comments received. We also took into account that providing more information can sometimes reduce comprehension.</p> <p>We also note that many suggested elements, such as inclusion of clients’ total costs of investing at the top of the report, have been included in the sample report.</p> <p>We have made changes to require the inclusion of a notification nudging investors to ask questions and take action based on the information in the report.</p>
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*Revisiting point-of-sale disclosure documents*

52.	We received comments encouraging greater integration of cost disclosure requirements in point-of-sale documents, such as the Fund	We have referenced and made use of metrics from existing point-of-sale disclosure documents in developing
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	<p>Facts, and ongoing reports to clients, such as the ARCC. Suggestions included designing cost disclosure and point-of-sale disclosures together with references to each other and employing common metrics and design features.</p>	<p>the Proposals and Securities Amendments.</p> <p>We note that reviewing the format of current point-of-sale disclosure documents was beyond the scope of this project. Any proposals in this direction would require a further consultation as part of a separate regulatory project to consider their costs and benefits.</p> <p>We also considered it important that investors be provided with enhanced cost information at the earliest time possible.</p>
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*Link cost, performance and other information*

<p>53.</p>	<p>A securities industry association and an investor advocate suggested linking performance information with costs in account statements to provide a better comparison of costs and performance among different investment funds and so that investor can understand cost information in relation to performance.</p>	<p>Section 14.20 of NI 31-103 and corresponding New SRO rules provide that the ARCC and the Investment Performance Report (IPR) must be delivered together and must include information for the same 12-month period.</p> <p>We note that the ARCC is currently limited to presenting information about costs and compensation, while information about performance is presented in the IPR and information about a client’s current holdings is presented in the account statement.</p> <p>An extensive review of the format and information presented in each of the ARCC, IPR and account statement was beyond the scope of this project and would have required additional consultations.</p> <p>We also note that registered firms and their representatives are expected to provide contextual information to clients about the costs of their investments in relation to investment</p>
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		<p>performance and other relevant factors.</p> <p>Registered firms can also include additional information, including performance information, in the ARCC, if they believe doing so would enhance client understanding.</p> <p>If doing so, we strongly recommend that firms undertake behavioural testing to ensure that any additional information increases investor understanding and does not lead to investor confusion.</p>
<i>Modify notification concerning fund expenses</i>		
54.	<p>According to an industry commenter, the concern with respect to fund expenses can be more correctly stated as fund costs are relevant to the extent that the costs do not generate additional return.</p>	<p>We believe the mandated notification is accurate in stating that investment fund fees affect clients because they reduce the fund's returns, which in turn affects the performance of the client's portfolio.</p>
<i>Proposed notifications</i>		
55.	<p>An industry commenter suggested adding an additional explanation that ongoing fees such as MERs or TERs are charged by managers and not by dealers or salespeople.</p> <p>An industry association also suggested adding a notification that fees paid a client's advisor are in consideration for services provided by them.</p>	<p>The mandatory notification in section 14.17(1)(n)(i) includes an explanation that fund expenses are periodically deducted from the value of a client's investments by the companies that manage and operate those funds.</p> <p>We believe this notification adequately explains that fund expenses are charged by investment fund companies.</p> <p>We note that registered firms and representatives can provide information to clients about the value of the services they offer in exchange for their costs.</p> <p>We also considered that providing more information can sometimes reduce comprehension and have</p>

		strived to minimize the number of mandated notifications.
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## J. EXEMPTIONS

	Comment	Response
<i>Exemptions for non-individual permitted clients</i>		
56.	A securities industry association recommended that the exemptions in 14.14.1(6) and 14.17(5) of NI 31-103 be expanded to include “overflow accounts” where a non-individual permitted client opens additional related accounts, as well as to health and welfare trusts, union and union-related benefit plans, multi-employer benefit plans, some foundations and registered charities, some overflow pension accounts, supplemental employee retirement plans, disability plans, First Nations trust vehicles and retirement compensation arrangements.	Expansion of the statutory exemptions in those sections was beyond the scope of this project. Exemptive relief orders have been provided for overflow accounts in the context of other regulatory projects. However, only a very small number of registrants have found it necessary to seek such relief. We therefore do not think that adding a statutory exemption is necessary, but will consider exemptive relief applications on this subject.

## K. LIST OF SECURITIES COMMENTERS

1	Advocis
2	The Alternative Investment Management Association (AIMA)
3	Arthur Ross
4	Banque Nationale / National Bank (BNC/NBC)
5	Borden Ladner Gervais (BLG)
6	Canadian Advocacy Council of CFA Societies Canada (CAC)
7	Canadian ETF Association (CETFA)
8	CARP
9	Citibank Canada Investment Funds Limited
10	FAIR Canada
11	Fasken Martineau DuMoulin LLP
12	Federation of Mutual Fund Dealers (FMFD)
13	Fidelity Investments
14	Financial Planning Association of Canada (FPAC)
15	Franklin Templeton
16	High Level Wealth Management
17	Highview

18	The Investment Funds Institute of Canada (IFIC)
19	IGM Financial Inc.
20	Investment Industry Association of Canada (IIAC)
21	Invesco Canada Ltd.
22	Investor Advisory Panel
23	Kenmar Associates
24	MICA Capital Inc.
25	Pacific Spirit Investment Management Inc.
26	Peter Whitehouse
27	Portfolio Management Association of Canada (PMAC)
28	Private Capital Markets Association of Canada (PCMA)
29	Raymond James Ltd.
30	Royal Bank of Canada (RBC)
31	Scotiabank
32	Steadyhand Investment Management Ltd.
33	TD