

## ANNEX F

### **BLACKLINE SHOWING PROPOSED CHANGES TO COMPANION POLICY 31-103CP National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations**

#### **Division 1 Investment fund managers**

Section 14.1 sets out the limited application of Part 14 to investment fund managers. The sections of Part 14 that apply to investment fund managers when performing their investment fund manager activities include section 14.1.1, section 14.5.2, section 14.5.3, section 14.6, section 14.6.1, section 14.6.2, subsection 14.12(5) and section 14.15. An investment fund manager that is also registered as a dealer or adviser (or both) is subject to all relevant sections of Part 14 in respect of that firm's dealer or adviser activities.

Section 14.1.1 requires investment fund managers to provide information that is known to them or which is required to be calculated by them concerning position cost, fund expense ratio, fund expenses, deferred sales charges and any other charges deducted from the net asset value of the securities, and trailing commissions to dealers and advisers who have clients that own the investment fund manager's funds. This information must be provided within a reasonable period of time, in order that the dealers and advisers may comply with their client reporting obligations. This is a principles-based requirement.

When relying on information disclosed in an investment fund's previous disclosure documents, we would expect investment fund managers to inform the advisers or dealers of any assumptions or approximations in the information reported to the advisers or dealers.

An investment fund manager must work with the dealers and advisers who distribute fund products to determine what information they need from the investment fund manager in order to satisfy their client reporting obligations. The information and arrangements for its delivery may vary, reflecting different operating models and information systems. The information and arrangements for its delivery may vary, reflecting different operating models and information systems.

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#### **14.14. Account statements**

Section 14.14 requires registered dealers and advisers to deliver statements to clients at least once every 3 months. There is no prescribed form for these statements but they must contain the information referred to in subsections 14.14(4) and (5). The types of transactions that must be disclosed in an account statement include any purchase, sale or transfer of securities, dividend or interest payment received or reinvested, any fee or charge, and any other account activity. The fund expense ratio of each series of each investment fund in the account and a description of any assumptions or approximations used to calculate this ratio must also be disclosed. A firm must deliver an account statement with the information referred to in subsection (4) if any transaction was made for the client in the reporting period. A firm is only required to provide the account

position information referred to in subsection (5) if it holds securities owned by a client in an account of the client.

There is no provision for consolidated statements in section 14.14 (or 14.14.1), so a registered firm must provide every client with an applicable statement for each of their accounts. Firms may provide supplementary reporting that they think a client might find useful. For example, a firm might provide a consolidated year-end statement where a client has requested a consolidated performance report under subsection 14.18(4).

#### **14.14.1. Additional statements**

A firm is required to deliver additional statements if the circumstances described in subsection 14.14.1(1) apply. The additional statements must be delivered once every 3 months, except that an adviser must deliver the statements on a monthly basis if requested by the client as provided in subsection 14.14.1(3). The requirements set out for the frequency of delivering account statements and additional statements are minimum standards. Firms may choose to provide the statements more frequently.

Paragraph 14.14.1(2)(g) requires disclosure about applicable investor protection funds. However, subsection 14.14.1(2.1) exempts a firm from this requirement where a client's securities are held or controlled by an IIROC or MFDA member. SRO rules require members to be participants in specified investor protection funds and prescribe client disclosures about them. To avoid the potential that clients may be confused or misinformed, registrants that are not participants in an investor protection fund should refrain from discussing its terms and conditions with clients.

Firms may choose to include securities that must be reported under the additional statement requirement in a document that it refers to as an account statement, consistent with their clients' expectations that their accounts are not limited to securities held by the firm, provided it satisfies the requirements for content of statements set out in sections 14.14 and 14.14.1.

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#### **14.17. Report on charges and other compensation**

Registered firms must provide clients with an annual report on the firm's charges and other compensation received by the firm in connection with their investments. Examples of operating charges and transaction charges are provided in the discussion of the disclosure of charges and other compensation in section 14.2 of this Policy Statement. The annual report must include information about all of the firm's current operating charges that might be applicable to a client's account. A firm is only required to include the charges for those of its services that it would reasonably expect the particular client to utilize in the coming 12 months.

The discussion of debt security disclosure requirements in section 14.12 of this Policy Statement is also relevant with respect to paragraph 14.17(1)(e).

Scholarship plans often have enrolment fees payable in instalments in the first few years of a client's investment in the plan. Paragraph 14.17(1)(f) requires that scholarship plan dealers include

a reminder of the unpaid amount of any such fees in their annual reports on charges and other compensation.

Payments that a registered firm or its registered representatives receive from issuers of securities or other registrants in relation to registerable services to a client must be reported under paragraph 14.17(1)(g). This disclosure requirement includes any form of payment to the firm or a representative of the firm linked to sales or other registerable services to the client receiving the report. Examples of payments that would be included in this part of the report on charges and other compensation include some referral fees, success fees on the completion of a transaction, or finder's fees. This part of the report does not include trailing commissions, as they are specifically addressed in paragraph 14.17(1)(h).

Registered firms must disclose the amount of trailing commissions they received related to a client's holdings. The disclosure of trailing commissions received in respect of a client's investments must be included with a notification prescribed in paragraph 14.17(1)(h). The notification must be in substantially the form prescribed, so a registered firm may modify it to be consistent with the actual arrangements. For example, a firm that receives a payment that falls within the definition of "trailing commission" in section 1.1 in respect of securities that are not investment funds can modify the notification accordingly. The notification set out is the required minimum and firms can provide further explanation if they believe it will be helpful to their clients.

Registered firms should not include in the total amount of direct investment fund charges required to be reported under paragraph 14.17(1)(j), the amount of a charge, including a sales commission, which is required to be reported by the registered firm to the client under paragraph 14.17(1)(c), concerning transaction charges, or (f), specific to scholarship plan dealers, in order to avoid any potential double counting of such charge in the total cost amount required to be reported under paragraph 14.17(1)(l).

Registered firms may want to organize the annual report on charges and other compensation with separate sections showing the charges paid by the client to the firm, and the other compensation received by the firm in respect of the client's account.

Appendix D of this Policy Statement includes a sample Report on Charges and Other Compensation, which registered firms are encouraged to use as guidance.

#### **14.17.1 Reporting of fund expenses and direct investment fund charges**

Dealers and advisers are required to rely on information provided by registered investment fund managers pursuant to section 14.1.1. However, they may be unable to rely on such information in certain circumstances, including if:

- there is no registered investment fund manager
- such information is not required to be provided for a fund (for example, as in the case of certain non-Canadian investment funds)

- an investment fund manager does not comply with section 14.1.1 for any reason, or
- the dealer or adviser reasonably believes that relying on this information would cause the information delivered to a client to be misleading.

In cases where paragraph 14.17.1(3)(a) applies, the registered firm must make reasonable efforts to obtain information about the investment fund's fund expenses, fund expense ratio or direct investment fund charges by other means. Those other means may include:

- relying on information disclosed in disclosure documents of the investment fund other than those referred to in paragraph 14.17.1(2), including documents prepared according to the reporting requirements applicable in a foreign jurisdiction
- requesting that the information be provided in writing by the investment fund or investment fund manager, or
- relying on information reported by a reliable third-party service provider.

We expect registered firms to use their professional judgement in determining what other means of obtaining the information would be appropriate, notably taking into account that doing so must not cause the information reported to clients to be misleading.

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Appendix D Annual Charges and Compensation Report is replaced by [TCR sample account statement and cost report]