

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

PROPOSED AMENDMENTS TO MFDA RULES 2.8.3 (RATES OF RETURN), 5.3 (CLIENT REPORTING) AND 5.4 (TRADE CONFIRMATIONS)

I. OVERVIEW

A. Current Framework

Rule 2.8.3 (Rates of Return), prescribes requirements in respect of any client communication that contains or refers to a rate of return regarding a specific account or group of accounts. Rule 5.3 (Client Reporting), sets out requirements in respect of account statement delivery and content. Rule 5.4 (Trade Confirmations), prescribes requirements respecting the delivery and content of trade confirmations.

B. Reasons for Amendments

On March 28, 2013, the Canadian Securities Administrators (“CSA”) published Client Relationship Model Phase 2 (“CRM2”) amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”) and the Companion Policy to the Instrument. The CRM2 amendments introduce requirements under NI 31-103 in the areas of client statements, charges and compensation disclosure and performance reporting. These amendments came into force on July 15, 2013. Client statement requirements under NI 31-103 will come into effect on July 15, 2015. Requirements in respect of charges and compensation disclosure and performance reporting will come into effect on July 15, 2016.

Conforming changes are required to MFDA Rules 2.8.3 (Rates of Return), 5.3 (Client Reporting) and 5.4 (Trade Confirmations) to adopt client statement, charges and compensation disclosure and performance reporting requirements established under the CRM2 amendments to NI 31-103.

C. Objectives

The objective of the proposed amendments is to adopt MFDA Rule requirements that are substantially similar to the requirements established under the CRM2 amendments to NI 31-103, as noted above. If the CSA determines that the proposed amendments are materially harmonized with similar requirements under NI 31-103, MFDA Members will be exempted from some or all of such requirements under the Instrument.

D. Effect of Proposed Amendments

Under the amendments, as proposed, MFDA Members will be subject to substantially similar regulatory standards under securities legislation and MFDA Rules; the scope of client reporting currently being provided by MFDA Members will be preserved; and existing investor protections, related to the scope of client reporting, will be maintained.

II. DETAILED ANALYSIS

A. Proposed Amendments

Below is a summary of the proposed amendments. Attached as Schedules “A”, “B” and “C”, respectively, are: proposed changes to MFDA Rules 2.8.3, 5.3 and 5.4; proposed new Policy No. “X” (Performance Reporting); and proposed changes to MFDA Form 1 *Financial Questionnaire and Report*. The current versions of MFDA Rules and Form 1 have been blacklined to show changes introduced by the proposed amendments.

Definitions

The proposed amendments introduce a Definitions section into Rule 5.3. This section includes definitions in respect of: cost and the determination of position cost information; the meaning of “market value” and “investment”; and terms related to requirements in respect of charges and compensation disclosure.

Under proposed Rule 5.3(1)(c), “market value” of a security has the meaning given to it under MFDA Form 1 *Financial Questionnaire and Report* (“Form 1”). The definition of “market value”, as currently set out under MFDA Form 1, has been revised. The purpose of these revisions is to ensure that the Form 1 definition of market value is consistent with requirements, under NI 31-103, respecting the determination of market value. In addition, the Form 1 revisions are intended to avoid Member confusion by adopting a single definition of “market value” for the purpose of client reporting and financial reporting.

Client Statements

Under the proposed amendments, client statements would formalize the current practice of Members by requiring reporting in respect of all securities and other investment products transacted through, or transferred into, the Member. For the purpose of the Rule, “investments” has been defined as any asset, excluding cash, held or transacted in an account of the Member. Cash has been excluded from the definition of investments, as it is separately addressed in account statement content requirements under MFDA Rule 5.3.2.

The proposed amendments make the following key changes to account statement requirements under MFDA Rules:

Reliance on Trustee/Affiliated Fund Manager to Deliver Account Statement

Under NI 31-103, the Member may outsource the production of the account statement. However, even with such outsourcing, the account statement remains a Member statement and is not the statement of any other party. As a result, the Member is responsible for ensuring that the account statement meets requirements under MFDA Rules and securities legislation, including those in respect of statement content and frequency of delivery. Having regard to existing requirements under securities legislation that address similar matters, MFDA Rules that permit reliance on the

trustee or affiliated fund manager, as set out under Rules 5.3.1(c) and (d), are no longer necessary. Accordingly, these Rules would be deleted under the proposed amendments.

Content of Account Statement

Rule 5.3.2 currently prescribes separate account statement content requirements for client name and nominee name accounts and general content requirements applicable to both account types. The following changes have been made to Rule 5.3.2 to conform to requirements under NI 31-103:

- Separate account statement content requirements for client name and nominee name accounts have been removed. Under the proposed amendments, all account statement content requirements will now apply to both client name and nominee name accounts;
- Requirements in respect of account statement content have been divided into:
 - General Information (account type, number, period covered by the statement, etc.);
 - Account Activity (transaction information);
 - Market Value and Cost Reporting (including reporting in respect of the market value and cost of investment positions sold or held by the Member or transferred into an account at the Member during the period covered by the statement).
- Members may use either book cost or original cost. Definitions of “book cost” and “original cost” are the same as those prescribed under NI 31-103 and are included in the new definitions section under Rule 5.3.
- Conforming amendments under Rule 5.3.2 will also require account statements to disclose the following information:
 - the name of the party that holds or controls the security and a description of the way it is held;
 - which securities may be subject to a deferred sales charge if they are sold; and
 - disclosure, established by the MFDA IPC, respecting IPC coverage.

Member Business Only

Rule 5.3.3 would be deleted under the proposed amendments. References to transactions made “in an account at the Member”, as set out in the amended account statement content requirements under Rule 5.3.2, clarify that only transactions executed by the Member may appear on the statement.

Charges and Compensation Disclosure

Under NI 31-103, Members will be required to provide each client with an annual summary of charges paid by the client and compensation received by the Member, as specified under the Instrument, during the 12 month period covered by the report.

Proposed new Rule 5.3.3 (Report on Charges and Other Compensation), would conform to requirements under NI 31-103 by: directly adopting charges and compensation disclosure requirements established under the Instrument; and by requiring charges and compensation disclosure only in respect of transactions in securities.

Charges and compensation disclosure has been limited to transactions in securities as a result of concerns expressed to MFDA staff during the development of the proposed amendments. Specifically, it was noted that obtaining reliable data from product issuers in respect of all investment products might present challenges, particularly as other issuers are not subject to the jurisdiction of securities regulators. The proposed reporting requirements for the Report on Charges and Other Compensation represent a minimum standard. In the interests of providing consistent reporting to clients, Members may elect to provide charges and compensation information in respect of all securities and other investment products transacted through, or transferred into, the Member, where reliable data is available. Proposed Rule 5.3.3(4) requires that a Member provide disclosure where not all compensation received in respect of investments (i.e. securities and other investment products) has been included on the charges and compensation report.

Performance Reporting

Under NI 31-103, Members will be required to provide an annual investment performance report to clients. The performance report must include: the annual change in the value of the client's account for the 12 month period covered by the report; the cumulative change in the market value of the account, since the account was opened; and the annualized total percentage return for the client's account or portfolio, using a dollar-weighted methodology, for a 1, 3, 5 and 10 year period and since account inception.

Proposed new Rule 5.3.4 (Performance Report) would conform to requirements under NI 31-103 by directly adopting performance reporting requirements established under the Instrument, as summarized above. Under Rule 5.3.4, performance reporting is required to be provided in respect of all investments required to be reported on the account statement (i.e. all securities and other investment products transacted through, or transferred into, the Member).

Other Related Amendments

- **Rule 2.8.3 (Rates of Return):** Performance reporting under NI 31-103 prescribes requirements, including calculation methodologies, in respect of the provision of an annualized rate of return and percentage return information. These requirements have been adopted under proposed Rule 5.3.4 (Performance Report) and Policy No. "X" (Performance Reporting). Rule 2.8.3 addresses similar subject matter in respect of client communications that contain or refer to a rate of return. The proposed amendments clarify that the requirements of Rule 2.8.3, respecting the determination of an annualized rate of return, are not intended to replace the calculation methodology and other related requirements under Rule 5.3.4;

- **Rule 5.3.5 (Delivery of Report on Charges and Other Compensation and Performance Report):** Requirements under Rule 5.3.5 prescribe the manner in which the report on charges and other compensation and performance report must be delivered. These requirements have been adopted directly from NI 31-103;
- **Rule 5.3.6 (Exempt Market Dealers and Scholarship Plan Dealers – Client Reporting):** Under this requirement, where a Member is also registered as: (a) an exempt market dealer, and a client has purchased a security from the Member that is sold pursuant to an exemption under securities legislation; or (b) as a scholarship plan dealer, and a client has invested in a scholarship plan through the Member, the Member must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under securities legislation.

Proposed Policy No. “X” (Performance Reporting)

NI 31-103 contains detailed requirements in respect of performance reporting. In an effort to ensure that the proposed amendments remain relatively consistent with the current structure and format of the MFDA Rulebook, some of these requirements have been adopted in a Policy. The requirements addressed in proposed new Policy No. “X” (Performance Reporting), have been adopted directly from NI 31-103 and include: content of the performance report; calculation of annual/cumulative change in market value; annualized total percentage return; and presentation requirements for information in the performance report.

Trade Confirmations

Requirements under Rule 5.4.3 have been amended to include:

- in the case of a purchase of a debt security, disclosure of the security’s annual yield;
- in the case of a purchase or sale of a debt security, disclosure respecting remuneration charged by the Member;
- disclosure as to the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction; and
- if applicable, that the security was issued by a related or connected issuer of the Member.

These amendments have been adopted directly from NI 31-103.

Additional Amendments to Rules 2.2.5 (Relationship Disclosure), 2.4.3 (Service Fees or Charges) and 2.4.4 (Transaction Fees or Charges)

Rules 2.2.5 and 2.4.3

MFDA Rule 2.2.5 (Relationship Disclosure) requires that, on account opening, Members provide all clients with core information about the nature of their relationship with the Member and its Approved Persons.

Under MFDA Rule 2.4.3 (Service Fees or Charges), no Member shall impose on any client or deduct from the account of any client any service fee or service charge relating to services provided by the Member in connection with the client's account unless written notice shall have been given to the client on the opening of the account or not less than 60 days prior to the imposition or revision of the fee or charge.

The proposed amendments to Rules 2.2.5 and 2.4.3 would further clarify requirements under these Rules and conform to requirements under NI 31-103, with respect to the disclosure of operating and transaction charges (as defined under NI 31-103 and MFDA Rule 5.3(1)), by making the following changes:

- **Rule 2.2.5:** Under new subsection 2.2.5(h), Members will be required to describe the type of transaction charges that the client might be required to pay;
- **Rule 2.4.3:** Rule 2.4.3 will be amended to clarify that written notice of operating charges is required to be provided at account opening.

Rule 2.4.4

MFDA Rule 2.4.4 (Transaction Fees or Charges) requires that, prior to the acceptance of any order in respect of a transaction in a client account, the Member inform the client of any sales charge, service charge or any other fees or charges to be deducted in respect of the transaction. Currently, the disclosure requirements of Rule 2.4.4 apply to any order in respect of a transaction in a client account. Similar requirements under NI 31-103, respecting pre-trade disclosure of charges, apply only in respect of the purchase or sale of a security. The proposed amendments would make disclosure requirements under Rule 2.4.4 consistent with similar requirements under NI 31-103, by limiting disclosure required under the Rule to transactions in respect of securities.

The proposed amendments to Rules 2.2.5, 2.4.3 and 2.4.4 are attached as Schedules “D”, “E” and “F” to this memo.

B. Issues and Alternatives Considered

NI 31-103 prescribes client reporting in respect of transactions in securities and further prescribes when reporting is required in respect of securities held in client name.

The majority of MFDA Member business is conducted in client name. In addition, MFDA Member account statements currently reflect all transactions executed through the Member. This includes transactions in securities as well as other investment products that may not be recognized as securities in all jurisdictions (e.g. GICs, PPNs and segregated funds). Such statements offer a valuable service to clients and enhance investor protection by reducing the likelihood of fraud and client confusion and by providing a written record that serves to clarify the responsibilities of the Member.

However, adopting conforming MFDA Rule amendments that would require client reporting in respect of transactions in securities and other investment products could give rise to data availability issues that are unique to MFDA Members. Such issues could arise, in particular, in respect of charges and compensation disclosure and performance reporting requirements, as prescribed under NI 31-103. As a result, it was necessary to consider, and solicit Member input in respect of, different options for conforming amendments to MFDA Rules. To this end, staff engaged in preliminary consultations with Members. These consultations set out the following three options for conforming MFDA Rule amendments:

- 1) conform to reporting requirements under NI 31-103;
- 2) require client reporting for all transactions in securities; or
- 3) require client reporting to reflect all transactions executed through the Member.

Commenters generally expressed a preference for conforming MFDA Rule amendments that would formalize current practice and require client reporting to reflect all transactions executed through the Member and transactions in respect of any investment products transferred into the Member. However, it was noted that a requirement for charges and compensation disclosure that went beyond transactions in securities could give rise to data availability issues. Accordingly, it was suggested that MFDA Rule amendments should conform to requirements under NI 31-103 and require charges and compensation disclosure only in respect of transactions in securities.

C. Comparison with Similar Provisions

The proposed amendments are consistent with client statement, charges and compensation disclosure and performance reporting requirements introduced by the CRM2 amendments to NI 31-103, with the following exceptions:

Scope of Client Reporting: the proposed amendments require that client statement and performance reporting be provided in respect of all transactions executed through the Member (i.e. for all securities and other investments products).

Under NI 31-103 and proposed IIROC Rules, certain securities held in client name are subject to client reporting requirements. Under the proposed MFDA Rule amendments, Members would be required to report all securities registered in client name on the client statement and performance report (i.e. all such client name securities would be subject to client reporting requirements). In this respect, the proposed MFDA Rule amendments reflect both the current client reporting practices and specific business model of MFDA Members, who operate, predominantly, in client name. This is distinct from the business model of IIROC Members who operated largely in nominee name.

Under the proposed MFDA Rule amendments, charges and compensation disclosure would be required only in respect of transactions in securities. This approach is consistent with similar requirements under NI 31-103 and proposed IIROC Rules. Where the charges and compensation report does not include all compensation received in respect of investments (i.e. securities and other investment products), the proposed MFDA Rule amendments would require Members to provide disclosure to the client making them aware of this fact.

Definition of “Market Value”:

The proposed amendments revise the definition of market value and make amendments to Form 1. The purpose of these revisions is to ensure that the Form 1 definition of market value is consistent with requirements, under NI 31-103, respecting the determination of market value. In addition, the Form 1 revisions are intended to avoid Member confusion by adopting a single definition of “market value” for the purpose of client reporting and financial solvency reporting. The revised definition of market value is consistent with the market value definition being proposed by IIROC in its conforming amendments.

D. Systems Impact of Amendments

It is anticipated that there will be significant cost and systems impacts for Members resulting from the new reporting requirements. It is not anticipated that the proposed amendments will have any additional impact upon Members’ systems, impose any burden or constraint on competition or innovation, impose costs or restrictions on the activities of market participants, or result in any increased costs of compliance beyond those that might arise as a result of compliance with similar requirements under NI 31-103.

E. Best Interests of the Capital Markets

The Board has determined that the proposed amendments are consistent with the best interests of the capital markets.

F. Public Interest Objective

The proposed amendments will: ensure that Members are subject to similar requirements under MFDA Rules and securities legislation; and preserve the scope of client reporting currently being provided by MFDA Members, while maintaining investor protections related to the scope of client reporting. The proposed amendments are consistent with the public interest.

G. Classification

The proposed amendments have been classified as Public Comment Rule proposals.

III. COMMENTARY

A. Filing in Other Jurisdictions

The proposed amendments will be filed for approval with the Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia and Ontario Securities Commissions, the Superintendent of Securities of Prince Edward Island, and the Saskatchewan Financial and Consumer Affairs Authority.

B. Effectiveness

The proposed amendments are simple and effective.

C. Process

Based on input received during the preliminary consultations with Members, as noted above, proposed amendments were brought forward in final draft form. In accordance with the MFDA's regular Rule development process, these amendments were reviewed by the PAC, MFDA Investor Protection Corporation ("IPC"), Regulatory Issues Committee of the MFDA Board of Directors ("RIC") and, subsequently, approved by the full MFDA Board. The MFDA Board of Directors approved the proposed amendments on June 5, 2014. In approving the proposed amendments, the MFDA has followed its established internal governance practices and has considered the need for consequential amendments.

D. Effective Date

The proposed amendments will be effective on a date to be subsequently determined by the MFDA.

E. Exemption from Requirements under Securities Legislation

Relationship Disclosure, Trade Confirmations and Pre-Trade Disclosure of Charges

Section 9.4 of NI 31-103 currently exempts MFDA Members from: relationship disclosure information requirements under section 14.2(2); and trade confirmation requirements under section 14.12 of the Instrument, provided that MFDA Members comply with the corresponding MFDA provisions that are in effect. MFDA requirements in respect of relationship disclosure information and trade confirmations are set out under Rules 2.2.5 and 5.4.

CSA Staff Notice 31-339

Additional amendments were made to Rules 2.2.5 and 2.4.4 (Transaction Fees or Charges) to conform to requirements under NI 31-103 that will come into effect on July 15, 2014. These amendments were approved / not objected to by the CSA. As a result, the CSA issued parallel orders that provide MFDA Member firms with relief from the relevant provisions of NI 31-103, provided that Members comply with corresponding MFDA requirements. In addition, on May 29, 2014, the CSA published *CSA Staff Notice 31-339 Omnibus/Blanket Orders Exempting IIROC and MFDA Registrants from Certain Provisions of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

F. Conflict with Applicable Laws or Terms and Conditions of Recognition Order

The proposed amendments do not conflict with applicable laws or the Terms and Conditions of a Recognizing Regulator's Recognition Order.

IV. SOURCES

MFDA Rule 2.2.5 (Relationship Disclosure)
MFDA Rule 2.4.3 (Service Fees or Charges)
MFDA Rule 2.4.4 (Transaction Fees or Charges)
MFDA Rule 2.8.3 (Rates of Return)
MFDA Rule 5.3 (Client Reporting)
MFDA Rule 5.4 (Trade Confirmations)
MFDA Form 1 *Financial Questionnaire and Report*
National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*
Proposed IROC Rule amendments (Client Relationship Model – Phase 2 Performance Reporting and Fee / Charge Disclosure Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1 – Published December 12, 2013)

V. REQUIREMENT TO PUBLISH FOR COMMENT

The MFDA is required to publish for comment the proposed amendments so that the issues referred to above may be considered by the Recognizing Regulators.

The MFDA has determined that the entry into force of the proposed amendments would be in the public interest and is not detrimental to the capital markets. Comments are sought on the proposed amendments. Comments should be made in writing. One copy of each comment letter should be delivered within **90** days of the publication of this notice, addressed to the attention of:

Paige Ward
General Counsel, Corporate Secretary and Vice-President, Policy
Mutual Fund Dealers Association of Canada
121 King St. West, Suite 1000
Toronto, Ontario M5H 3T9 pward@mfd.ca

and one copy addressed to the attention of:

Kate Holzschuh
Senior Legal Counsel, Capital Markets Regulation Division
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre Vancouver, British Columbia V7Y 1L2
KHolzschuh@bcsc.bc.ca

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the MFDA website at www.mfda.ca.

Questions may be referred to:

Paige Ward
General Counsel, Corporate Secretary and Vice-
President, Policy Mutual Fund Dealers Association
of Canada
(416) 943-5838

DM#380289v2

SCHEDULE A

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

On June 5, 2014, the Board of Directors of the Mutual Fund Dealers Association of Canada made the following amendments to the MFDA Rules 2.8.3 (Rates of Return), 5.3 (Client Reporting) and 5.4. (Trade Confirmations):

2.8 CLIENT COMMUNICATIONS

2.8.3 Rates of Return

(a) In addition to complying with the requirements in Rule 2.8.2, any client communication, other than the investment performance report required under Rule 5.3.4, containing or referring to a rate of return regarding a specific account or group of accounts must:

(i) disclose an annualized rate of return calculated in accordance with standard industry practices; and

(ii) explain the methodology used to calculate such rate of return in sufficient detail and clarity to reasonably permit the client to understand the basis for the rate of return.

(b) In addition to complying with the requirements in Rule 2.8.2 and Rule 2.8.3(a), any client communication containing or referring to a rate of return regarding a specific account or group of accounts that is provided by an Approved Person must be approved and supervised by the Member.

~~(c) Notwithstanding the provisions of paragraphs (a) and (b), where an account has been open for less than 12 months, the rate of return shown must be the total rate of return since account opening.~~

5.3 CLIENT REPORTING

(1) **Definitions.** For the purpose of client reporting requirements under Rule 5.3

(a) “cost” for each investment position in the account means either,

(i) book cost, being the total amount paid to purchase an investment, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations, presented on an average cost per unit or share basis or on an aggregate basis, and determined as at the end of the applicable period; or

- (ii) original cost, being the total amount paid to purchase an investment, including any transaction charges related to the purchase, presented on an average cost per unit or share basis or on an aggregate basis, and determined as at the end of the applicable period.
 - (iii) **Investment Positions Opened before July 15, 2015.** For investment positions in an account statement, as required under Rule 5.3.1, that were opened before July 15, 2015, cost, as determined in accordance with subsections 5.3(1)(a)(i) or (ii), above; or the market value of the investment position as at July 15, 2015 or an earlier date, if the same date and value are used for all clients of the Member holding that investment and it is also disclosed in the account statement that it is the market value as of that date, not the cost of the investment position, that is being disclosed.
 - (iv) **Investment Positions Transferred In.** For investment positions transferred into an account at the Member, cost as determined in accordance with subsections 5.3(1)(a)(i) or (ii), above; or the market value of the investment position as at the date of the position's transfer if it is also disclosed in the account statement that it is the market value as of the transfer date, not the cost of the investment position, that is being disclosed.
 - (v) **Where Position Cost Not Determinable.** Where a Member reasonably believes that it cannot determine position cost in respect of an investment position, the Member must provide disclosure of that fact in the statement.
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- (b) “investment” means any asset, excluding cash, held or transacted in an account of the Member;
 - (c) “market value” of a security has the meaning given to it under MFDA Form 1 *Financial Questionnaire and Report*;
 - (d) “operating charge” means any amount charged to a client by a Member in respect of the operation, transfer or termination of a client’s account and any federal, provincial or territorial sales taxes paid on that amount;
 - (e) “total percentage return” means the cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage;
 - (f) “trailing commission” means any payment related to a client’s ownership of a security that is part of a continuing series of payments to a Member or Approved Person by any party;
 - (g) “transaction charge” means any amount charged to a client by a Member in respect of a purchase or sale of a security and includes any federal, provincial or territorial sales taxes paid on that amount.

5.3.1 Delivery of Account Statement

(a) Each Member shall, in a timely manner, send an account statement to each client at least once every three months. ~~in accordance with the following minimum standards:~~

~~(i) at least once every 3 months for a client name account; and~~

~~(ii) at least once every 3 months for a nominee name account.~~

~~(b) A Member may not rely on any other person (including an Approved Person) to send account statements as required by this Rule.~~

~~(c) Notwithstanding the provisions of 5.3.1(b), a Member may rely on the trustee administering a self-directed registered plan to send the account statement required by paragraph (a)(i) where the following conditions are met:~~

~~(i) The Member does not act as agent for the trustee for the registered plans;~~

~~(ii) The trustee meets the definition of "Acceptable Institution" as defined in Form 1;~~

~~(iii) There is a services agreement in place between the Member and the trustee which complies with the requirements of MFDA Rule 1.1.3 and provides that the trustee is responsible for sending account statements to clients of the Member that comply with the requirements of MFDA Rule 5;~~

~~(iv) There is clear disclosure about which trades are placed by the Member;~~

~~(v) Clear disclosure must be provided on the account statement regarding which securities positions referred to on the statement are eligible for coverage by the MFDA Investor Protection Corporation and which are not (once the Corporation is offering coverage);~~

~~(vi) The Member's full legal name must appear on the account statement together with the name of the trustee; and~~

~~(vii) The Member must receive copies of the statements, or have other systems in place, to ensure that the information contained on the statements matches its own information regarding the transactions it executes.~~

~~(d) Notwithstanding the provisions of Rule 5.3.1(b), where a Member is affiliated with a fund manager and in connection with a specific client account is selling only the mutual fund securities of an issuer managed by such affiliated fund manager for that client account, the Member may rely on the affiliated fund manager to send the account statement required by paragraph (a)(i) for that specific account.~~

5.3.2 Content of Account Statement. Each account statement must contain the following information:

(a) General Information.

- (i) the type of account;
- (ii) the account number;
- (iii) the period covered by the statement;
- (iv) the name of the Approved Person(s) servicing the account, if applicable;
- (v) the name, address and telephone number of the Member; and
- (vi) as applicable, the definition of “book cost” or “original cost”, as set out under Rule 5.3(1)(a).

(b) Account Activity.

for each transaction made for or in respect of the client, in an account at the Member, during the period covered by the statement:

- (i) the date of the transaction;
- (ii) the type of transaction;
- (iii) the total value of the transaction;

for each purchase, sale or transfer made for the client, in an account at the Member, during the period covered by the statement:

- (i) the name of the investments;
- (ii) the number of investments; and
- (iii) the price per investment.

(c) Market Value and Cost Reporting

for all investments sold or held by the Member or transferred into an account at the Member:

- (i) as at the beginning of the period for which the statement is made:

(A) the total market value of all cash and investments in the account; and

- (ii) as at the end of the period for which the statement is made:

(A) the name and quantity of each investment in the account;

(B) the market value of each investment in the account and, if applicable, a notification to the client that there is no active market for the investment and that its value has been estimated. Where a value cannot be reliably determined, the Member must include the following notification or a notification that is substantially similar: “Market value not determinable.”

(C) the cost of each investment position;

(D) the total cost of all investment positions;

(E) the total market value of each investment position in the account;

(F) any cash balance in the account;

(G) the total market value of all cash and investments in the account; and

(H) the name of the party that holds or controls each security and a description of the way it is held.

(d) **Deferred Sales Charges.** Each account statement must disclose which securities may be subject to deferred sales charges if they are sold.

(e) **MFDA IPC Coverage.** Each account statement must include disclosure, as established by the MFDA IPC, respecting MFDA IPC coverage.

~~(a) for nominee name accounts or accounts where the Member acts as an agent for the trustee for the purposes of administering a self directed registered retirement savings or similar plan:~~

~~(i) the opening balance;~~

~~(ii) all debits and credits;~~

~~(iii) the closing balance;~~

~~(iv) the quantity and description of each security purchased, sold or transferred and the dates of each transaction, and;~~

~~(v) the quantity, description and market value of each security position held for the account;~~

~~(b) for client name accounts:~~

~~(i) all debits and credits;~~

~~(ii) the quantity and description of each security purchased, sold or transferred and the dates of each transaction; and~~

~~(iii) for automatic payment plan transactions, the date the plan was initiated, a description of the security and the initial payment amount made under the plan.~~

~~(c) for all accounts:~~

~~(i) the type of account;~~

~~(ii) the account number;~~

~~(iii) the period covered by the statement;~~

~~(iv) the name of the Approved Person(s) servicing the account, if applicable; and~~

~~(v) the name, address and telephone number of the Member.~~

~~5.3.3 **Member Business Only.** Only transactions executed by the Member may appear on the statement of account required pursuant to Rule 5.3.2.~~

5.3.3 Report on Charges and Other Compensation

(1) **Content of Report on Charges and Other Compensation.** For each 12 month period, a Member must deliver to a client a report on charges and other compensation containing the following information, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:

- (a) the Member's current operating charges which might be applicable to the client's account;
- (b) the total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report, and the total amount of those charges;
- (c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report, and the total amount of those charges;
- (d) the total amount of the operating charges reported under subsection (b) and the transaction charges reported under subsection (c);
- (e) if the Member purchased or sold debt securities for the client during the period covered by the report, either of the following:
 - (i) the total amount of any mark-ups, mark-downs, commissions or other services charges the Member applied on the purchases or sales of debt securities;
 - (ii) the total amount of any commissions charged to the client by the Member on the purchases or sales of debt securities and, if the Member applied mark-ups, mark-downs or any service charges other than commissions on the purchases or sales of debt securities, the following notification or a notification that is substantially similar:

"For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged."

(f) the total amount of each type of payment, other than a trailing commission, that is made to the Member or any of its Approved Persons by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(g) if the Member received trailing commissions related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

“We received \$[amount] in trailing commissions in respect of securities you owned during the 12-month period covered by this report.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund’s return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.”

(2) The information required to be reported under subsection 5.3.3(1) must be delivered in a separate report on charges and other compensation for each account of the client;

(3) A Member may provide a report on charges and other compensation that consolidates into a single report the required information for more than one of a client’s accounts if the following apply:

(a) the client has consented in writing; and

(b) the consolidated report specifies which accounts it consolidates.

(4) **Consolidated Reporting for Same Accounts.** Where a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(3) and a consolidated performance report is sent to the client pursuant to Policy No. “X” (Performance Reporting), General Requirements, subsection (2), both consolidated reports must consolidate information for the same accounts.

(5) **Disclosure of Compensation Not Reported.** Where a Member receives compensation or other payments in respect of an investment that is not a security, during the period covered by the report, the Member may either:

(i) disclose the information required under Rule 5.3.3(1) in respect of the investment;
or

- (ii) indicate that compensation or payments received related to the investment have not been included in the report on charges and compensation being provided to the client.

5.3.4 Performance Report.

A Member must deliver a performance report, in respect of all investments required to be reported under Rule 5.3.2, to a client every 12 months, except that the first report delivered after a Member first makes a trade or transfer for a client may be sent within 24 months after that trade or transfer. The performance report required under Rule 5.3.4 must include:

- (i) the annual change in the market value of the client's account for the 12-month period covered by the report;
- (ii) the cumulative change in the market value of the account, since the account was opened;
- (iii) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry, provided for 1, 3, 5 and 10 year periods and since account inception; and

must otherwise meet the requirements set out under Policy No. "X" (Performance Reporting).

5.3.5 Delivery of Report on Charges and Other Compensation and Performance Report.

- (1) A report under Rule 5.3.3 – Report on Charges and Other Compensation and a report under Rule 5.3.4 – Performance Report must include information for the same 12 month period and the reports must be delivered together in one of the following ways:
 - (a) combined with the account statement required to be delivered under Rule 5.3.1;
 - (b) accompanying the account statement required to be delivered under Rule 5.3.1; or
 - (c) within 10 days after the delivery of the account statement required to be delivered under Rule 5.3.1.
- (2) Subsection (1) does not apply in respect of the first report under Rule 5.3.3 – Report on Charges and other Compensation and the first report under Rule 5.3.4 – Performance Report for a client.

5.3.6 Exempt Market Dealers and Scholarship Plan Dealers – Client Reporting. Where a Member is also registered as:

- (a) an exempt market dealer, and a client has purchased a security from the Member that

is sold pursuant to an exemption under securities legislation; or

(b) as a scholarship plan dealer, and a client has invested in a scholarship plan through the Member,

the Member must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under securities legislation.

5.4 TRADE CONFIRMATIONS

5.4.1 Delivery of Confirmations. Every Member who has acted as principal or agent in connection with any trade in a security shall promptly send by prepaid mail or deliver to the client a written confirmation of the transaction containing the information required under Rule 5.4.3.

The Member need not send to its client a written confirmation of a trade in a security of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under Rule 5.4.3.

5.4.2 Automatic Plans. Where a transaction relates to a client's participation in an automatic plan that provides for systematic trading in the securities of a mutual fund on a monthly or more frequent basis, and the Member registers the mutual funds pursuant to the plan, the Member is required to send a trade confirmation for the initial transaction only.

5.4.3 Content. Every confirmation of trade sent to a client must set forth the following information:

(a) the quantity and description of the security purchased or sold;

(b) the price per security paid or received by the client~~share or unit at which the trade was effected;~~

(c) in the case of a purchase of a debt security, the security's annual yield;

(d) in the case of a purchase or sale of a debt security, either of the following:

(i) the total amount of any mark-up or mark-down, commission or other service charges the Member applied to the transaction;

(ii) the total amount of any commission charged to the client by the Member and, if the Member applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

“Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.”

(e) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction;

~~(e) the consideration;~~

~~(f)~~ the name of the Member;

~~(g)~~ whether or not the Member is acting as principal or agent;

~~(h)~~ if acting as agent, the name of the person or company from or to or through whom the security was bought or sold;

~~(i)~~ the type of the account through which the trade was effected;

~~(h) the commission, if any, charged in respect of the trade;~~

~~(i) the amount deducted by way of sales, service and other charges;~~

~~(j) the amount, if any, of deferred sales charges;~~

~~(k)~~ the name of the Approved Person, if any, involved in the transaction;

~~(l)~~ the date of the trade; ~~and~~

~~(m)~~ the settlement date of the transaction; ~~and-~~

(m) if applicable, that the security was issued by a related or connected issuer of the Member.

DM# 373216



MUTUAL FUND DEALERS ASSOCIATION OF CANADA

On June 5, 2014, the Board of Directors of the Mutual Fund Dealers Association of Canada made new MFDA Policy No. "X" (Performance Reporting):

MFDA POLICY NO. "X"

PERFORMANCE REPORTING

Purpose

Under Rule 5.3.4 (Performance Report), Members are required to deliver a performance report to a client. The purpose of this Policy is to set out additional requirements that Members must comply with when meeting requirements under MFDA Rules respecting the performance report.

General Requirements

- (1) The performance report required under Rule 5.3.4 must be delivered in a separate report for each account of the client;
- (2) Notwithstanding subsection (2), a Member may provide a performance report that consolidates, into a single report, the required information for more than one of a client's accounts if:
 - (a) the client has consented in writing; and
 - (b) the consolidated report specifies which accounts it consolidates.
- (3) Where a consolidated performance report is sent to a client, pursuant to subsection (2), above and a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(3), both consolidated reports must consolidate information for the same accounts.
- (4) The requirement to provide a performance report, as prescribed under Rule 5.3.4, does not apply to a client account that has existed for less than a 12-month period.
- (5) If a Member reasonably believes there are no investments of a client for which a market value can be determined, the Member is not required to deliver a report to the client for the period.

Content of Performance Report

- (1) A performance report required to be delivered under Rule 5.3.4 must include all of the following in respect of investments reported on the account statement required to be delivered under Rule 5.3.1:
 - (a) the market value of all cash and investments in the client's account as at the beginning of the 12-month period covered by the report;
 - (b) the market value of all cash and investments in the client's account as at the end of the 12-month period covered by the report;
 - (c) the market value of all deposits and transfers of cash and investments into the client's account, and the market value of all withdrawals and transfers of cash and investments out of the account, in the 12-month period covered by the report;
 - (d) subject to subsection 1(e), the market value of all deposits and transfers of cash and investments into the client's account, and the market value of all withdrawals and transfers of cash and investments out of the account, since opening the account;
 - (e) if the client's account was opened before July 15, 2015 and the Member reasonably believes market values are not available for all deposits, withdrawals and transfers since the account was opened, the following:
 - (i) the market value of all cash and investments in the client's account as at July 15, 2015;
 - (ii) the market value of all deposits and transfers of cash and investments into the account and the market value of all withdrawals and transfers of cash and investments out of the account, since July 15, 2015;

Annual Change in Market Value

- (f) the annual change in the market value of the client's account for the 12-month period covered by the performance report, determined using the following formula:

$$\mathbf{A - B - C + D}$$

where

- A** = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;
- B** = the market value of all cash and investments in the account at the beginning of that 12-month period;
- C** = the market value of all deposits and transfers of cash and investments into the account in that 12-month period; and

D = the market value of all withdrawals and transfers of cash and investments out of the account in that 12-month period.

Cumulative Change in Market Value

(g) subject to paragraph (h), the cumulative change in the market value of the account since the account was opened, determined using the following formula:

$$\mathbf{A - E + F}$$

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

E = the market value of all deposits and transfers of cash and investments into the account since account opening; and

F = the market value of all withdrawals and transfers of cash and investments out of the account since account opening.

(h) if the Member reasonably believes the market value of all deposits and transfers of cash and investments into the account since the account was opened or the market value of all withdrawals and transfers of cash and investments out of the account since the account was opened, as required in subsection (g), is not available to the Member, the cumulative change in the market value of the account determined using the following formula:

$$\mathbf{A - G - H + I}$$

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

G = the market value of all cash and investments in the account as at July 15, 2015;

H = the market value of all deposits and transfers of cash and investments into the account since July 15, 2015; and

I = the market value of all withdrawals and transfers of cash and investments out of the account since July 15, 2015.

Annualized Total Percentage Return

(i) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry;

- (j) the definition of “total percentage return” set out under Rule 5.3(1) and a notification indicating the following:
 - (i) that the total percentage return in the performance report was calculated net of charges;
 - (ii) the calculation method used; and
 - (iii) a general explanation in plain language of what the calculation method takes into account.

Annualized Total Percentage Return – Reporting Periods

- (2) The information delivered for the purposes of paragraph (1)(i) must be provided for each of the following periods:
 - (a) the 12-month period covered by the performance report;
 - (b) the 3-year period preceding the end of the 12-month period covered by the report;
 - (c) the 5-year period preceding the end of the 12-month period covered by the report;
 - (d) the 10-year period preceding the end of the 12-month period covered by the report;
 - (e) the period since the client’s account was opened if the account has been open for more than one year before the date of the report or, if the account was opened before July 15, 2015 and the Member reasonably believes the annualized total percentage return for the period before July 15, 2015 is not available, the period since July 15, 2015.
- (3) Despite subsection (2), if any portion of a period referred to in paragraphs (2)(b), (c) or (d) was before July 15, 2015, the Member is not required to report the annualized total percentage return for that period.

Presentation

- (4) The information required to be delivered under Rule 5.3.4 must be presented using text, tables and charts and must be accompanied by notes in the performance report explaining:
 - (a) the content of the report and how a client can use the information to assess the performance of the client’s investments; and
 - (b) the changing value of the client’s investments as reflected in the information in the report.
- (5) If a Member delivers information required under Rule 5.3.4 in a report to a client for a period of less than one year, the Member must not calculate the disclosed information on an annualized basis.

- (6) If a Member reasonably believes the market value cannot be determined for an investment position, the market value must be assigned a value of zero in the calculation of the information required to be delivered under Rule 5.3.4 and the fact that its market value could not be determined must be disclosed to the client.

DM#367896v5

SCHEDULE C

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

On June 5, 2014, the Board of Directors of the Mutual Fund Dealers Association of Canada made the following amendments to MFDA Form 1 *Financial Questionnaire and Report*:

MFDA Form 1 *Financial Questionnaire and Report* – Market Value of a Security (Revised Definition)

5. "market value of a security~~ies~~" means:

(a) For securities, precious metals bullion and commodity futures contracts quoted on an active market, the published price quotation using:

~~(a)(i) for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used. Where not readily marketable, no market value shall be assigned.~~

~~(ii) for unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date.~~

~~(iii) for all other unlisted ~~and debt securities~~ (including unlisted debt securities) ~~and precious metals bullion~~, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of debt securities, based on a reasonable yield rate. Where not readily marketable, no market value shall be assigned.~~

(ive) for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.

(vd) for money market fixed date repurchases (no borrower call feature), the market price is ~~the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.~~

(vie) for money market open repurchases (no borrower call feature), the prices are to be ~~determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value Market price is to be determined as in (vd) and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.~~

- (vii) for money market repurchases with borrower call features, the market price is the borrower call price and after making any adjustments considered by the Member to be necessary to accurately reflect the market value.
- (b) Where a reliable price for the security, precious metals bullion or commodity futures contract cannot be determined:
- (i) the value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly; or
 - (ii) where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions; or
 - (iii) where insufficient recent information is available and/or there is a wide range of possible values and cost represents the best value estimate within that range, cost.
- (c) Where a value cannot be reliably determined under subsections 5(a) and 5(b) above, no value shall be reported.

DM# 372136

SCHEDULE D

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

On June 5, 2014, the Board of Directors of the Mutual Fund Dealers Association of Canada made the following amendments to MFDA Rule 2.2.5 (Relationship Disclosure):

2.2.5 **Relationship Disclosure.** For each new account opened, the Member shall provide written disclosure to the client:

- (a) describing the nature of the advisory relationship;
- (b) describing the products and services offered by the Member;
- (c) describing the Member's procedures regarding the receipt and handling of client cash and cheques. In the case of a Level 2 dealer, the disclosure must include an explanation that all client cheques shall be payable to the issuer or carrying dealer, as applicable;
- (d) describing the Member's obligation to ensure that each order accepted or recommendation made for any account of a client is suitable for the client in accordance with Rule 2.2.1 and advising when the Member will assess the suitability of the investments in the client's account;
- (e) defining the various terms with respect to the know-your-client information collected by the Member and describing how this information will be used in assessing investments in the account;
- (f) describing the content and frequency of reporting for the account; ~~and~~
- (g) describing the nature of the compensation that may be paid to the Member and referring the client to other sources for more specific information.;
- (h) describing the type of transaction charges, as defined under Rule 5.3, that the client might be required to pay; and
- (i) including a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be available to clients by the Member.

DM#371052v2

SCHEDULE E

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

On June 5, 2014, the Board of Directors of the Mutual Fund Dealers Association of Canada made the following amendments to MFDA Rule 2.4.3 (Service Fees or Charges):

2.4.3 Operating Charges~~Service Fees or Charges~~.

(a) No Member shall impose on any client or deduct from the account of any client any operating charge, as defined under Rule 5.3, service fee or service charge relating to services provided by the Member in connection with the client's account unless written notice shall have been given to the client:

- i. written notice shall have been given to the client on the opening of the account; and
- ii. or not less than 60 days prior to the imposition or revision of the fee or charge. For the purposes of this Rule, service fees or charges shall not include any commissions charged for executing trades.

DM# 371353v2

SCHEDULE F

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

On June 5, 2014, the Board of Directors of the Mutual Fund Dealers Association of Canada made the following amendments to MFDA Rule 2.4.4 (Transaction Fees or Charges):

Rule 2.4.4 (Transaction Fees or Charges)

2.4.4 Transaction Fees or Charges. Prior to the acceptance of any order in respect of a transaction in a security~~client account~~, the Member shall disclose to the client:

- (a) ~~any sales charge, service charge or any other fees or charges~~ to be deducted in respect of the transaction, or a reasonable estimate if the actual amount of the charges is not known to the Member at the time of disclosure;
- (b) in the case of a purchase of a security to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply; and
- (c) whether the Member will receive trailing commissions in respect of the security.

DM# 312790v2