

## APPENDIX D

### Proposed Amendments to Companion Policy 31-103 CP Registration Requirements, Exemptions and Ongoing Registrant Obligations

The Canadian Securities Administrators are publishing changes to the Companion Policy for comment. The changes would come into effect on the implementation of the corresponding changes to the Rule.

This Appendix shows the proposed amendments to the Companion Policy against the relevant portions of the unofficial consolidation of NI 31-103 published on February 28, 2012.

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#### **14.2 Relationship disclosure information**

##### **Content of relationship disclosure information**

There is no prescribed form for the relationship disclosure information required under section 14.2. A registered firm may provide this information in a single document, or in separate documents, which together give the client the prescribed information. If a client consents, delivery of documents can be made in electronic form by direct email to a client or through client access to information on a website, so long as reminders are sent at relevant times. For further guidance, see National Policy 11-201 Delivery of Documents by Electronic Means.

##### **Disclosure of costs**

~~Under subsection 14.2(2)(g), registered firms must provide clients with a description of the costs they will pay in making, holding and selling investments. We expect this description to include all costs a client may pay during the course of holding a particular investment. For example, for a mutual fund, the description should briefly explain each of the following and how they may affect the investment:~~

- ~~• the management expense ratio~~
- ~~• the sales charge options available to the client~~
- ~~• the trailing commission~~
- ~~• any short-term trading fees~~
- ~~• any switch or change fees~~

##### **Permitted clients**

~~Under subsection 14.2(6), registrants do not have to provide relationship disclosure information to permitted clients if:~~

- ~~• the permitted client has waived the requirements in writing, and Relationship disclosure information should be communicated in a manner consistent with the guidance on client communications under section 1.1 of this Companion Policy. To satisfy the delivery obligation in subsections 14.2(3) and (5), registered individuals must spend sufficient time with clients as part of an in-person or telephone meeting to adequately explain the information that is delivered under subsections 14.2 (1), (2) or (5). We expect a firm to have policies and procedures requiring its registered individuals to demonstrate they have done so. What is considered "sufficient" will depend on the circumstances, including a client's understanding of the delivered documents.~~
- ~~• the registrant does not act as an advisor for a managed account of the permitted client Evidence of compliance with client disclosure requirements at account opening, prior to trades and at other times, can include detailed notes of meetings or discussions with clients, signed client acknowledgements and tape-recorded phone conversations.~~

##### **Promoting client participation**

Registered firms should help their clients understand the registrant-client relationship. They should encourage clients to actively participate in the relationship and provide them with clear, relevant and timely information and communications.

In particular, registered firms should help and encourage clients to:

- Keep the firm up to date. Clients should be encouraged to
  - provide full and accurate information to the firm and the registered individuals acting for the firm

- ~~• Keep the firm up to date. Clients should provide full and accurate information to the firm and the registered individuals acting for the firm. Clients should promptly inform the firm of any change to their information that could reasonably result in a change to the types of investments appropriate for them, such as a change to their income, investment objectives, risk tolerance, time horizon or net worth.~~
- **Be informed. Clients should be**
  - helped to understand the potential risks and returns on investments
  - encouraged to carefully review sales literature provided by the firm
  - ~~• Be informed. Clients should understand the potential risks and returns on investments. They should carefully review sales literature provided by the firm. Where appropriate, clients should encouraged to consult professionals, such as a lawyer or an accountant, for legal or tax advice. where appropriate~~
- **Ask questions. Clients should be encouraged to**
  - ~~• Ask questions. Clients should ask questions and request information from the firm to resolve questions~~concerns about their account, transactions or investments, or their relationship with the firm or a registered individual acting for the firm.
- **Stay on top of their investments. Clients should be encouraged to**
  - ~~• Stay on top of their investments. Clients should pay for securities purchases by the settlement date. They should review all account documentation provided by the firm and regularly review portfolio holdings and performance.~~review all account documentation provided by the firm
  - regularly review portfolio holdings and performance

### **Disclosure of charges and other compensation**

Under paragraphs 14.2(2)(f), (g) and (h), registered firms must provide clients with a description of the operating and transaction charges they will pay in making, holding and selling investments, including a general description of any compensation paid to the firm by any other party. We expect this disclosure to include all charges a client may pay during the course of holding a particular investment.

A registered firm's charges to a client and the compensation it may receive from third parties in respect of the client will vary depending on the type of relationship with the client and the nature of the services and investment products offered. At account opening, registered firms must provide clients with general information on the operating charges and transaction charges that the clients may be required to pay, as well as other compensation the firms may receive as a result of their business relationship. A firm is not expected to provide information on all the types of accounts that it offers and the fees related to these accounts if it is not relevant to the client's situation.

"Operating charge" is defined broadly in section 1.1 and examples include (but are not exclusive to) service charges, administration fees, safekeeping fees, management fees, transfer fees, account closing fees, annual registered plan fees and any other charges associated with maintaining and using an account that are paid to the registrant. For registered firms that charge an all-in fee for the operation of the account, such as a percentage of assets under management, that fee is the operating charge. We do not expect firms with an all-in operating charge to provide a breakdown of the items covered by the fee.

"Transaction charges" is also defined broadly in section 1.1 and examples include (but are not exclusive to) commissions, transaction fees, switch or change fees, performance fees, short-term trading fees, sales charges or redemption fees, and foreign exchange spreads that are paid to the registrant.

Operating and transaction charges include only charges paid to the registered firm. Third-party charges, such as custodian fees that are not paid to the registered firm, are not included in operating charges or transaction charges. Operating and transaction charges include any sales taxes that are paid on the amounts charged to the client. Registrants may wish to inform clients where a charge includes sales tax, or separately disclose the components of the charge. Withholding taxes would not be considered a charge.

Providing general information on charges is appropriate at the time of account opening. However, section 14.2.1 requires that, before a registered firm accepts an instruction from a client to purchase or sell a security, the firm must provide more specific information as to the nature and amount of the actual charges that will apply. Registrants are encouraged to explain charges to their clients as part of the process of deepening the relationship between the registered firm and the client.

For example, if a client will be investing in a mutual fund security, the description should briefly explain each of the following and how they may affect the investment:

- the management expense ratio
- the sales charge or deferred sales charge option available to the client and an explanation as to how such charges work. This means registered firms should advise clients that mutual funds sold on a deferred sales charge basis are subject to charges upon redemption that are applied on a declining rate scale over a specified period of years, until such time as the charges decrease to zero. Any other redemption fees or short-term trading fees that may apply should also be discussed
- any trailing commission, or other embedded fees
- any options regarding front end loads
- any fees related to the client changing or switching investments (“switch or change fees”)

Registrants may also wish to explain to clients that trailing commissions are included in the management fees that are charged to their investment funds and are not additional charges paid by the client to the registrant.

Registrants should advise clients with managed accounts whether the registrant will receive compensation from third parties, such as trailing commissions, on any securities purchased for the client and, if so, whether the fee paid by the client to the registrant will be affected by this. For example, the management fee paid by a client on the portion of a managed account related to mutual fund holdings may be lower than the overall fee on the rest of the portfolio.

### **Description of content and frequency of reporting**

Under paragraph 14.2(2)(i), a registered firm is required to provide a description of the content and frequency of reporting to the client. Reporting to clients includes:

- trade confirmations under section 14.12
- client statements under section 14.14
- annual report on charges and other compensation under section 14.15
- investment performance reports under section 14.16

Registered firms must deliver the annual report on charges and other compensation and investment performance reports with a client statement or incorporate them directly into the client statement so that the client receives one comprehensive reporting package on an annual basis. We encourage as a best practice the delivery of client statements that directly integrate the annual reports on charges and investment performance.

It is the responsibility of the registered firm to produce these client reports, not that of individual representatives. Registered firms should have policies and procedures in place to ensure that they are adequately supervising their registered representatives' communications with clients about the prescribed information.

We expect registered firms to ensure that clients know how their investments will be held (for example, by the firm in nominee name or at an issuing fund company in client name) and understand the different implications that this will have for them in such matters as client reporting, investor protection fund coverage and custody of their assets. If a registered firm trades in exempt products for a client, the firm should also explain the reasons why it is not always possible to determine a market value for products sold in the exempt market or whether the client still owns the security, and the implications that this may have for reporting on exempt-market securities.

### **KYC information**

Paragraph 14.2(2)(l) requires registrants to provide their clients with a copy of their KYC information at the time of account opening. We would expect registered firms to also provide a description to the client of the various terms which make up the KYC information, and explain how this information will be used in assessing the client's financial situation, investment objectives, investment knowledge and risk tolerance in determining investment suitability.

### **Benchmarks**

Paragraph 14.2(2)(m) requires registered firms to provide clients with a general description of investment performance benchmarks, the factors relevant to their use with reference to the client's own investments and any options the firm may offer for providing benchmark information to the client. Other than this general discussion, there is no requirement for registered firms to provide benchmark information to clients. Nonetheless, we encourage firms to do so as a best practice. In particular, we encourage firms to include an historical 5-year GIC rate in performance reports as an easily understood comparator that shows how a very low-risk investment alternative performed. In order to ensure that this is not misleading, we would expect firms to discuss how the low-risk alternative relates to the client's investment goals and risk tolerance. Guidance on the provision of

benchmarks is set out in this Companion Policy at the end of the discussion of the content of investment performance reports under section 14.17.

### **Scholarship plan dealers**

Paragraph 14.2(2)(n) requires specific disclosure of the important aspects of the scholarship plan that, if not fulfilled, would cause loss to the client. To be complete, this prescribed disclosure could include any options that would allow the investor to retain notional earnings in the event that they do not maintain prescribed payments under the plan.

### **Order execution trading**

Subsection 14.2(5) provides that only limited relationship disclosure information must be delivered by a dealer whose relationship with a client is limited to executing trades as directed by a registered adviser acting for the client. In a relationship of this kind, each registrant must explain to the client its role and responsibility to the client, and what services and reporting the client can expect of it.

#### **14.2.1 Pre-trade disclosure of charges**

For non-managed accounts, section 14.2.1 requires disclosure to a client of charges specific to a transaction prior to the acceptance of a client's instruction. This disclosure is not required to be in writing. Oral disclosure of charges is sufficient for the purposes of disclosing charges at the time of a transaction. Specific charges should be reported in writing on the trade confirmation as required in section 14.12.

For a purchase of a security on a deferred sales charge basis, disclosure that a deferred sales charge may be triggered upon the redemption of the security, and the schedule that would apply if it is sold within the time period that a deferred sales charge would be applicable, must be presented. The actual amount of the deferred sales charge, if any, would need to be disclosed once the security is redeemed. For the purposes of disclosing trailing commissions, the dealing representative may draw attention to the information in the prospectus or the Fund Facts document if that document is provided at the point of sale.

With respect to a transaction involving a fixed-income security, pre-trade disclosure should include a discussion of any commission the registrant will receive on the trade, which will be added to or embedded in the price of the security. This discussion should include both the number of basis points that the commission represents as well as the corresponding dollar amount.

### **Switch or change fees**

We consider that providing clients with adequate disclosure of the charges at the time of a transaction will also help clients to be aware of the implications of proposed transactions and deter registrants from transacting for the purpose of generating commissions. For example, changing a client's investment from a fund sold on a deferred sales charge basis when the charge period has lapsed to a similar fund sold on a sales charge basis might result in the client paying commissions that would otherwise have been avoided.

We are of the view that a registered firm should not switch the client's investment in the same fund from units sold on a deferred sales charge basis when the charge period has lapsed to those sold on a sales charge basis in order to generate a higher amount of trailing commissions with no corresponding financial benefit to the client. Also, a registered firm should not switch the client's investment in a fund sold on a deferred sales charge basis when the sales charge period has lapsed to a different fund sold on a deferred sales charge basis in order to generate commissions. In our view, these practices would be inconsistent with a registrant's duty to act fairly, honestly and in good faith. Requiring sufficient disclosure of the charges the client may pay and the firm's compensation will provide investors with important information about their investments.

We expect all changes or switches to a client's investments to be accurately reported on trade confirmations by reporting each of the purchase and sale transactions making up the change or switch, as required in section 14.12, with a description of the associated charges.

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*Division 5 Reporting to clients*

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#### **14.11.1 Determining market value**

Subsection 14.11.1(1)(b) requires the market value of an investment fund, not listed on an exchange, to be determined by reference to the net asset value provided by the investment fund manager of the fund on the relevant date or the last trading day prior to the relevant date. Subsection 14.11.1(1)(c) requires the market value of a commodity futures contract to be determined by reference to the settlement price on the relevant date or last trading day prior to the relevant date.

For other securities, a hierarchy of valuation methods that depend on the availability of relevant information is prescribed. Registrants are required to act reasonably in applying these methodologies and we understand that this process will often require a registrant to exercise professional judgement.

Where possible, market value should be determined by reference to a quoted value on a marketplace. The quoted value will be the last bid or ask price on the relevant date or last trading day prior to the relevant date. Registered firms should ensure that any quoted values used to determine market value do not represent stale or old prices that are not reflective of current values. If no current value for a security is quoted on a marketplace, market value should be determined by reference to published market reports or inter-dealer quotes.

We recognize that it is not always possible to obtain a market value by these methods. In such cases, we will accept a valuation policy that is consistently applied and includes procedures that assess the reliability of any valuation inputs and assumptions. If available, valuation inputs and assumptions should be based on observable market data or inputs, such as market prices or yield rates for comparable securities and quoted interest rates. If observable inputs are not available, valuation can be based on unobservable inputs and assumptions. In some cases, it may be reasonable and appropriate to value at cost, where there has been no material subsequent event affecting value (e.g. a market event or new capital raising by the issuer). "Observable" and "unobservable" inputs are concepts under International Financial Reporting Standards (IFRS), and we expect them to be applied consistent with IFRS.

Subsection 14.11.1(3) provides that where the registered firm reasonably believes that no reliable market value can be determined, the firm must report that no value can be determined and the security must not be included in the calculation of the total market value of cash and securities in the client's account or in calculations for the investment performance report (see also subsection 14.17(7)).

If the market value for a security subsequently becomes determinable, a registered firm must begin to report it in client statements and add that value to the opening market values or deposits included in the calculations in subsection 14.17(1). This would be expected if the firm had previously assigned the security a value of zero in the calculation of opening market values or deposits because it could not determine the security's market value, as required by subsection 14.17(7). This would reduce the risk of presenting a misleading improvement in the performance of the investment by only adding the value of the security to the other calculations required under section 14.17. If the deposits used to purchase the security were already included in the calculation of opening market values or deposits, the registered firm would not need to adjust these figures.

#### **14.12 Content and delivery of trade ~~confirmation~~ confirmations**

Section 14.12 requires registered dealers to deliver trade confirmations. A dealer may enter into an outsourcing arrangement for the ~~sending~~ delivery of trade confirmations to its clients. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the service provider. See Part 11 of this Companion Policy for more guidance on outsourcing.

#### **Trades in fixed income securities**

Under paragraph 14.12(1)(b.1), registered dealers must provide the yield of a fixed income security on trade confirmations. For non-callable fixed income securities, the yield to maturity would be appropriate. For callable securities, the yield to call may be more useful. Paragraphs 14.12(1)(c.1) and (c.2) require disclosure of the total amount of compensation paid to dealing representatives of the firm. There is no requirement for the specific disclosure of other compensation embedded in the price of a fixed income security, but a prescribed notification to clients must be included in the trade confirmation to make clients aware that there may in fact be additional dealer firm compensation embedded in the price of the security.

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#### **14.14 ~~Account~~ Client statements and security holder statements**

Section 14.14 requires registered dealers and advisers, other than scholarship plan dealers, to deliver statements to clients at least once every three months. A registered dealer, other than a mutual fund dealer or scholarship plan dealer, and a registered adviser may also be required to deliver a monthly client statement at the client's request, or for a registered dealer other than a mutual fund dealer or scholarship plan dealer, if a transaction is made during the month (unless it is under an automatic withdrawal or payment plan). The requirements set out for the frequency of delivering statements are minimum standards. Firms may choose to provide more frequent statements.

There is no prescribed form for these statements but they must contain the information 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. ~~client statements except that under subsection 14.14(7.1), the statement must have separate sections for the presentation of the information required under each of:~~

- subsection 14.14(5) relating to transactions in the reporting period
- subsection 14.14(6) relating to securities held in an account of the client

- subsection 14.14(6.1) relating to certain securities not held in an account of the client but which were transacted for an account of a client

Consistent with the guidance on clear and meaningful disclosure to clients in section 1.1 of this Companion Policy, we expect registrants to present client statements in an understandable manner and to explain, if applicable, what securities are included in each of the three sections of the client statement.

If there is nothing to report under one or more of these subsections, the client statement is not required to include a section for it. For example, if all of a client's securities are held in nominee name in an account with a registered firm and there are no transactions in the reporting period, the client statement only needs to have a section devoted to the information required under subsection 14.14(5). If there is nothing to report under any of the provisions of section 14.14, a firm is not required to send a client statement.

If a client has more than one account with a registered dealer or adviser, and the registered firm sends the client separate client statements for each of those accounts, the firm should include the information required under subsection 14.14(6.2) concerning any securities of the client which it does not hold in the statement for the account through which those securities were transacted.

We expect all dealers and advisers to provide client account statements. For example, an exempt market dealer should provide an account statement that contains the information prescribed for all transactions the exempt market dealer has entered into or arranged on a client's behalf.

There are similar requirements in subsections 14.14(8), (9), (10) and (11) tailored to the situation where a security holder on the records of a registered investment fund manager has no dealer or adviser of record.

The requirement to produce and deliver an account client statement may be outsourced. Portfolio managers frequently enter into outsourcing arrangements for the production and delivery of account statements. Third-party pricing providers may also be used to value securities for the purpose of account client statements. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the service provider. See Part 11 of this Companion Policy for more guidance on outsourcing.

### **Cost of securities in client statements**

Subsections 14.14 (6), (6.2) and (10) require the client statement to include the book cost of each security position. As defined in section 1.1, this is the total amount paid for a security, including any transaction charge related to purchasing the security, adjusted for reinvested distributions, returns of capital and corporate reorganizations. Other related charges include transaction charges directly applicable to the security but not operating charges. Registered firms may choose whether to disclose book cost on an aggregate basis for each security position or on an average per security basis. Book cost information will provide investors with a meaningful comparison to the market value of each security position and give them a more accurate view of the capital appreciation or depreciation of their investment in those securities.

Where the information required to calculate the book cost of a position is unavailable, registrants may elect to substitute market value information as at a certain point in time as the book cost going forward. For example, where the account was transferred in to the registrant firm, the market value assigned to the securities as at the date the account was received in by way of transfer may be used instead of book cost.

For an existing account where security cost records are incomplete or known to be inaccurate, the market value as at the [implementation] date or an earlier date may be used as the initial book cost, provided that the date and value selected for the security is applied consistently to all client accounts for which cost information is incomplete or inaccurate. If the market value cannot be reliably measured for a security position, the cost information should be reported as not determinable.

The requirement to disclose book cost information does not preclude registered firms from also disclosing the original cost of securities if they wish to do so. However, where a registered firm provides both book cost and original cost information, the information should be clearly separated and presented in a way that is designed to avoid client confusion.

Firms must include in client statements a definition of book cost where that term is first used. Firms can comply with that requirement by making reference to a definition in a footnote.

### **14.15 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. Please refer to the discussion of charges and other compensation in section 14.2 for the definition of operating and transaction charges.

Scholarship plans often have enrolment fees payable in instalments in the first few years of a client's investment in the plan. Paragraph 14.15(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.

Where amounts such as referral fees, success fees on the completion of a transaction or finder's fees are paid by a third party to a registered firm or any of its registered individuals in relation to a client of the firm, those amounts are reported under paragraph 14.15(1)(g).

Registered firms must disclose the amount of trailing commissions they received related to a client's holdings. "Trailing commission" is defined broadly in section 1.1 and is not limited to the payments relating to mutual fund investments that are commonly known by that name. The disclosure of trailing commissions received in respect of a client's investments must be included in a notification prescribed in paragraph 14.15(1)(h).

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 Companion Policy includes a sample Report on Charges and Other Compensation, which registered firms are encouraged to use as guidance.

#### **14.16 Investment performance report**

A performance report must be provided to clients every 12 months as part of, or together with, the client statement. We expect registered firms will give this information sufficient prominence among their client reporting materials so that a reasonable investor can readily locate it. For example, the prominence of this information may be enhanced by putting this information on the first page of the client statement or a bold text cross-reference to the performance reporting on the face of the client statement.

Where more than one registrant provides services pertaining to a client's account, the responsibility for performance reporting rests with the registered firm with the client-facing relationship. For example, if a registered adviser has discretionary authority over a client's account at a registered dealer, the adviser must provide the client with an annual investment performance report; this is not an obligation of the dealer that only executes adviser-directed trades or provides custodial services in respect of the client's account.

Performance reporting to clients is required to be provided on an account basis. However, subsection 14.16(3) provides that with client consent, a registrant may provide consolidated performance reporting for that client, instead of account-by-account reports. A registrant may also provide a consolidated performance report for multiple clients, such as a family group, but only as a supplemental report, in addition to reports required under section 14.16.

With respect to performance reporting on client name securities, for a client with more than one account, the registrant should attach the client name reporting to the account through which the securities were transacted.

#### **14.17 Content of investment performance report**

Subsection 14.17(5) requires the use of each of text, tables and charts in the presentation of investment performance reports. Explanatory notes and a plain language definition of "total percentage returns" must also be included. The purpose of these requirements is to make the information as understandable to investors as possible.

To help investors get the most out of their investment performance reports and encourage informed discussion with their registered dealing representative or advising representative, we encourage registered firms to consider including:

- additional definitions of the various performance measures used by the registrant
- additional disclosure that enhances the performance presentation
- a discussion with clients about what the information means to them

Registered representatives are also encouraged to meet with clients, as part of an in-person or telephone meeting, to help ensure they understand their investment performance reports and how the information relates to the client's investment objectives and risk tolerance.

Appendix E of this Companion Policy includes a sample Investment Performance Report which registered firms are encouraged to use as guidance.

#### **Opening market value, deposits and withdrawals**

As part of paragraph 14.17(1)(a), registered firms must disclose the opening market value of cash and securities in the client's account as at the beginning of the 12 month period preceding the date of the investment performance report, as well as the opening market value at account opening. The opening market value of cash and securities at account opening may be zero. For pre-existing accounts, if the market values for all deposits, withdrawals and transfers since account opening are not available, under paragraph 14.17(1)(b) registered firms should present the market value of all cash and securities in the account as of [implementation date] as a substitute for opening market value, and disclose this basis of presentation to clients. In these

cases and for purposes of calculating the change in value of the account since inception, the opening market value at the implementation date and the deposits and withdrawals since the implementation date will be used.

Under paragraphs 14.17(1)(d) and (e), registered firms must also disclose the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, for the 12 month period preceding the date of the performance report, as well as since account opening. Deposits and transfers into the account (which do not include reinvested distributions or interest income) should be shown separately from withdrawals and transfers out of the account. Where an account was opened before [implementation date] and market values are not available for all deposits, withdrawals and transfers since account opening, the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, since [implementation date] are required to be disclosed.

Subsection 14.17(7) requires a registered firm that cannot determine the market value for a security position to assign the security a value of zero for the performance reporting purposes. As described in section 14.14 of this Companion Policy, if a registered firm is subsequently able to value that security it may need to adjust the calculation of the opening market values or deposits to avoid presenting a misleading improvement in the performance of the account.

### **Change in value**

The opening market value, plus deposits and transfers in, less withdrawals and transfers out, should be compared to the market value of the account as at the end of the 12 month period for which the performance reporting is provided and also since inception in order to provide clients, in dollar terms, with the performance of their account.

The change in the value of the account since inception is the difference between the closing market value of the account and total of opening market value plus deposits less withdrawals since inception. The change in the value of the account for the 12 month period is the difference between the closing market value of the account and total of opening market value plus deposits less withdrawals during the period. Where market values since inception are not available, registered firms are required to disclose the change in value of a client's account since the implementation date.

Generally, the change in value is a reflection of the market performance of the account and includes components such as income (dividends, interest) and distributions, including reinvested income or distributions, realized and unrealized capital gains or losses in the account, and the effect of operating charges and transaction charges if these are deducted directly from the account. Rather than show the change in value as a single amount, registered firms may opt to break this out into its components to provide more detail to clients.

### **Percentage return calculation method**

The return on an investment means the return on capital and does not extend to returns of a client's capital.

Paragraph 14.17(1)(i) requires the use of the dollar weighted performance calculation method for percentage returns. A registered firm may, if it so chooses, also provide performance information calculated using a time weighted method in addition to the required information calculated on a dollar weighted basis. In such cases, the firm should take care to avoid client confusion over the two sets of performance information.

### **Performance reporting periods**

Subsection 14.17(2) outlines the minimum reporting periods of 1, 3, 5 and 10 years and the period since the inception of the account. Registered firms may opt to provide more frequent performance reporting. However performance returns for periods of less than one year can be misleading and therefore, must not be presented on an annualized basis, consistent with subsection 14.17(6).

### **Scholarship plans**

Under paragraph 14.17(4)(c), for scholarship plans, the information required to be delivered in the investment performance report includes a reasonable projection of future scholarship payments that the plan may pay to the client or the client's designated beneficiary upon the maturity of the client's investment in the plan.

A scholarship plan dealer is also required under paragraph 14.17(4)(d) to provide a summary of any terms of the plan, which if not met by the client or the client's designated beneficiary under the plan, may cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan. The disclosure here is not intended to be as detailed as the disclosure at account opening. It is intended to remind the client of the unique risks of the plan and the ways in which the client's scholarship plan may be seriously impaired. This disclosure must be consistent with other disclosures required to be delivered to clients under applicable securities legislation.

To the extent that a scholarship plan dealer and the plan itself are not the same legal entity but are affiliates of one another, the dealer may meet obligations to deliver annual investment performance reports by drawing attention to the plan's direct mailing of reports to a client by the plan's administrator.

## **Benchmarks and investment performance reporting**

The use of benchmarks for investment performance reporting is optional. There is no requirement to provide benchmarks to clients in any of the reports required under NI 31-103.

However, we encourage registrants to use benchmarks that are relevant to a client's investments as a useful way for a client to assess the performance of their portfolio. Benchmarks need to be explained to clients in terms they will understand, including factors that should be considered by the client when comparing their investment returns to benchmark returns. For example, a registrant could discuss the differences between the composition of a client's portfolio that reflects the investment strategy they have agreed upon and the composition of an index benchmark, so that a comparison between them is fair and not misleading. A discussion of the impact of operating charges and transaction charges as well as other expenses related to the client's investments would also be helpful to clients, since benchmarks generally do not factor in the costs of investing.

We also encourage providing in performance reports an historical five-year GIC rate as a benchmark that represents a very low-risk investment alternative. We expect firms to discuss how the low-risk alternative relates to the client's investment goals and risk tolerance.

If a registered firm chooses to present benchmark information, the firm should ensure that it is not misleading. We expect registrants to use benchmarks that are

- discussed with clients to ensure they understand the purpose of comparing the performance of their portfolio to the chosen benchmarks and determine if their information needs will be met
- reasonably reflective of the composition of the client's portfolio so as to ensure that a relevant comparison of performance is presented
- relevant in terms of the investing time horizon of the client
- based on widely recognized and available indices that are credible and not manufactured by the registrant or any of its affiliates using proprietary data
- broad-based securities market indices which can be linked to the major asset classes into which the client's portfolio is divided. The determination of a major asset class should be based on the firm's own policies and procedures and the client's portfolio composition. An asset class for benchmarking purposes may be based on the type of security and geographical region. We do not expect an asset class to be determined by industry sector
- presented for the same reporting periods as the client's annualized total percentage returns
- clearly named
- applied consistently from one reporting period to the next for comparability reasons, unless there has been a change to the pre-determined asset classes. In this case, the change in the benchmark(s) presented should be discussed with the client and included in the explanatory notes, along with the reasons for the change

Examples of acceptable benchmarks would include, but are not limited to, the S&P/TSX Composite index for Canadian equities, the S&P 500 index for U.S. equities, and the MSCI EAFE index as a measure of the equity markets outside of North America.

COMPANION POLICY APPENDIX D

[Name of Firm]  
Annual Charges and Compensation Report

Client name  
Address line 1  
Address line 2  
Address line 3

Your Account Number: 123456

This report summarizes the compensation that we received directly and indirectly in 20XX. Our compensation comes from two sources:

1. What we charge you directly. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales and other transactions you make in the account.
2. What we receive through third parties.

Charges are important because they reduce your profit or increase your loss from investing. If you need an explanation of the charges described in this report, your representative can help you.

**Charges you paid directly to us**

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RSP administration fee	\$100	
<b>Total charges associated with the operation of your account</b>		<b>\$100</b>
Commissions on purchases of mutual funds with a sales charge	\$101	
Switch fees	\$45	
<b>Total charges associated with transactions we executed for you</b>		<b>\$146</b>
<b>Total charges you paid directly to us</b>		<b>\$246</b>

**Compensation we received through third parties**

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Commissions from mutual fund managers on purchases of mutual funds (see note 1)	\$503
Trailing commissions from mutual fund managers (see note 2)	\$286
<b>Total compensation we received through third parties</b>	<b>\$789</b>

**Total charges and compensation we received in 20XX** **\$1,035**

**Notes:**

1. When you purchased units of mutual funds on a deferred sales charge basis, we received a commission from the investment fund manager. During the year, these commissions amounted to \$503.
2. During the year, we received \$286 in trailing commissions on mutual funds you held in your account.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions from that management fee for the service and advice we provide you. The amount of the trailing commissions depends on the sales charge option you chose when you purchased the fund. You are not charged the trailing commission or the management fee. But, as is the case with any investment fund expense, trailing commissions are likely to affect you because, in most cases, 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.

**Our current schedule of operating charges**

*[As part of the annual report of charges and compensation, registrants are required to provide their current operating charges that may be applicable to their clients' accounts. For the purposes of this sample document, we are not providing such a list.]*

## Your investment performance report

For the period ending December 31, 2030

Investment account 123456789

Client name  
Address line 1  
Address line 2  
Address line 3

This report tells you how your account has performed to December 31, 2030. It can help you assess your progress toward meeting your investment goals.

Speak to your representative if you have questions about this report, It is important that you tell your representative if your personal or financial circumstances have changed. Your representative can recommend adjustments to your investments to keep you on track to meeting your goals.

Amount invested means opening market value plus deposits including:

- the market value of all deposits and transfers of securities and cash into your account, not including interest or dividends reinvested.

Less withdrawals including:

- the market value of all withdrawals and transfers out of your account.

### Total value summary

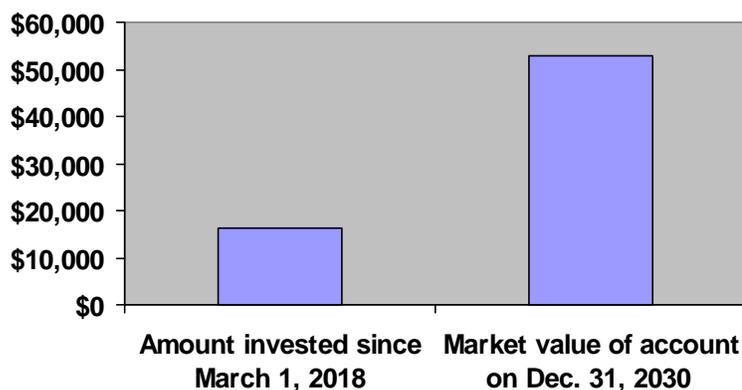
**Your investments have earned \$36,492.34 since you opened the account**  
**Your investments have earned \$2,928.85 during the past year**

Amount invested since you opened your account on March 1, 2018

\$16,300.00

Market value of your account on December 31, 2030

**\$52,792.34**



### Change in the value of your account

This table is a summary of the activity in your account. It shows how the value of your account has changed based on the type of activity.

	Past year	Since you opened your account
Opening market value	\$51,063.49	\$0.00
Deposits	\$4,000.00	\$21,500.00
Withdrawals	\$(5,200.00)	\$(5,200.00)
Change in the market value of your account	\$2,928.85	\$36,492.34
<b>Closing market value</b>	<b>\$52,792.34</b>	<b>\$52,792.34</b>

## Your personal rates of return

### What is a total percentage return?

This represents gains and losses of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage.

For example, an annual total percentage return of 5% for the past three years means that the investment effectively grew by 5% a year in each of the three years.

The table below shows the total percentage return of your account for periods ending December 31, 2030. Returns are calculated after charges have been deducted. These include charges you pay for advice, transaction charges and account-related charges, but not income tax.

Keep in mind your returns reflect the mix of investments and risk level of your account. When assessing your returns, consider your investment goals, the amount of risk you're comfortable with, and the value of the advice and services you receive.

	Past year	Past 3 years	Past 5 years	Past 10 years	Since you opened your account
<b>Your account</b>	5.80%	-1.83%	2.76%	8.07%	11.07%

### Calculation method

We use a dollar-weighted method to calculate rates of return. Contact your representative if you want more information about this calculation.

The returns in this table are your personal rates of return. If you have a personal financial plan, it will contain a target rate of return, which is the return required to achieve your investment objectives. By comparing the rates of return you actually achieved (shown in the table) with your target rate of return, you can get see whether you are on track to meet your investment objectives. Contact your representative to discuss your rate of return and investment objectives.