BCSC Spring Registrant Outreach

June 26, 2015

Questions and Answers

Householding

If clients have requested that fees for all accounts held by household be paid from one account, should firms attribute fees back to originating accounts or should fees appear only in the report for the account that actually pays the fees? Will there be specific guidance on this?

Answer:

Section 14.17 requires a firm to deliver to a client a report on charges and other compensation that are paid by the client. Firms should report fees against whichever account paid the fees. Firms can provide additional disclosure of the clients' requested fee payment arrangement and its effect on each account's performance.

Are there restrictions on householding account statements and annual reports under CRM2?

Answer:

Consolidation of individual account statements is not permitted. Statements must be provided on a *per account basis.*

Firms must provide the minimum reporting mandated under NI 31-103; however, they can provide additional reporting if all of the following apply:

- the client consents to, or requests, the delivery of a consolidated statement
- it helps the client to better understand his or her investment portfolios
- the consolidated accounts are for an appropriate client relationship and have similar investment goals and objectives

For charges and other compensation reporting (subsection 14.17(4) of NI 31-103) and performance reporting (subsection 14.18(4) of NI 31-103), there are limited exceptions for consolidation of a client's accounts if the client consents. However, consolidation of different clients' accounts on a "household" basis is not permitted.

Charges and other compensation reporting

Does a firm have to report performance fees it receives from the fund manager on the annual report of charges and other compensation? For clarity, performance fees are not continuous payments and may be sporadic. They may not be paid for years if the fund does not earn a return over its high water mark, for example. They are special payments from the fund to the fund manager to reward them for good performance and the fund manager is opting to share a portion of that ***performance fee with the firm. The manager may only do this with certain sellers depending on the relationship that they have. For example, if a PM firm helps sell the fund manager's product when the fund is still young and needing distribution support, the***

fund manager may offer this arrangement to give a portion of performance fees to the PM firm.

Answer:

Yes. Paragraph 14.17(1)(g) of NI 31-103 requires a firm to report:

> "the total amount of each type of payment, other than a trailing commission, that is made to the registered firm or any of its registered individuals by a securities issuer or another registrant in relation to registrable services to the client during the period covered by the report, accompanied by an explanation of each type of payment"

Performance fees received by the firm from the fund manager are considered to be in relation to registrable services.

Does a firm have to report to clients custodial fees it pays to third parties?

Answer: No. The firm must disclose charges paid by the client to the firm and compensation in respect of the client's account that the firm has received from third parties.

Performance reporting

What is the difference between "book cost" and "original cost"?

Answer: Book cost: the total amount paid to purchase a security, including any transaction charges relating to the purchase, adjusted for reinvested dividends, returns of capital, and corporate reorganizations.

Original cost: the total amount paid to purchase the security, including any transaction charges related to the purchase

Is the issue of portfolio managers relying on IIROC custodians preparing statements following IIROC rules on the table for the CSA's further guidance re CRM2? Can a portfolio manager rely on statements the IIROC custodian generates to fulfill its reporting requirements?

Answer: CSA and IIROC staff are reviewing service arrangements between portfolio managers and their clients' custodians. We are most comfortable with portfolio managers sending out their own account statements to their clients, separate from statements also sent by the clients' custodians. Until we publish a position on these service arrangements, we will consider the following when assessing if a portfolio manager is meeting its statement delivery obligations when it relies on custodians' delivery of statements:

- Are all of the client's assets managed by the portfolio manager held at one custodian?
- Does the portfolio manager receive a copy of the statement or test the delivery practices of the custodian?
- Does the portfolio manager take reasonable steps to verify the content of the custodian's statements, such as by regularly reconciling the portfolio manager's records against the custodian's records.

Part 14 Division 5 of the Companion Policy to NI 31-103 provides that certain statements may be outsourced by a registered firm to a third party service provider that acts as its agent. Like all outsourcing arrangements, the registrant is ultimately responsible for the function and must supervise the service provider. See Part 11 of the Companion Policy to NI 31-103 for general business practices on outsourcing.

Other (CRM2)

What types of structured products are covered under CRM2?

Answer: CRM2 covers reporting of "securities". "Securities" is defined in the *Act*. In addition, section 1.2 of NI 31-103 provides that it includes "exchange contracts", unless the context otherwise requires.

Other (not CRM2 related)

Is it 10 business days or 10 calendar days for a firm to file a report of change (33-109F5)?

Answer: It is 10 calendar days to file the report of change, except for changes to business history and structure. Firms have 30 days to file these. Any significant changes should be discussed with the firm's relationship manager in advance, including if the firm plans to expand its business to offer services through a portal or online.