



## CRM-2 COST DISCLOSURE & PERFORMANCE REPORTING

...in a nutshell

### What is CRM-2 and why is it being implemented?

CRM-2 is the second phase of the Canadian Securities Administrators' (CSA) client relationship model project. It was developed to enhance the relationship disclosure obligations set out by the CSA in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, which came into force in 2009. CRM-2 builds upon these initial obligations by imposing additional reporting requirements that will be implemented in four transitional periods between 2013 and 2016. The new requirements are designed to ensure that investors receive meaningful disclosure regarding (i) the costs and compensation associated with their investments and (ii) the performance of their investments.

### Who does CRM-2 apply to?

CRM-2 impacts registered advisers (portfolio managers) and dealers, and their communications with most investors. CRM-2 has limited application to investment fund managers. Registrants with "permitted clients" that are not individuals (i.e. institutional investors), will be exempt from the majority of the disclosure and reporting requirements. In addition, dealers that execute trades for clients on behalf of portfolio managers will have limited reporting obligations.

### When do CRM-2 obligations arise and what are the key dates?

The CRM-2 disclosure and reporting obligations arise at four stages of the adviser/client relationship: account opening, pre-trade disclosure, post-trade confirmation and ongoing quarterly/yearly reporting. Registrants are required to modify their relationship disclosure information and conform to the following obligations by the dates outlined below:

#### JULY 15, 2013

- Legislation now includes definitions for the following terms:
  - "Operating Charges" (e.g. management fees and administration fees)
  - "Transaction Charges" (e.g. performance fees, commissions and trading fees)
  - "Trailing Commissions"
- Provide at least 60 days written notice before increasing a client's management fees

#### JULY 15, 2014 - ACCOUNT OPENING

- Must provide an explanation of how benchmarks might be used to assess the performance of a client's investments and, if applicable, list any options for benchmark information that may be available

#### JULY 15, 2014 - PRE-TRADE DISCLOSURE

- For all non-discretionary managed accounts, disclose to the client – either verbally or in writing - before making the transaction, all of the charges the client will pay for the trade, including any deferred sales charges and commissions
- If disclosure is given verbally, the firm should document that the conversation occurred

#### JULY 15, 2014 - POST-TRADE CONFIRMATION

- If trading in a debt security, the trade confirmation must include additional information about its annual yield (if purchasing) and any additional charges applied to the trade

#### JULY 15, 2015 - ONGOING DISCLOSURE

- Implementation of "Additional Statements":
  - The additional statement is not necessarily a new statement, but rather a requirement to disclose in the account statement the name of the custodian for each security held in the client account
  - A registrant is required to disclose to their client where their securities are held, if the registrant either manages a discretionary managed account for the client or receives a continuing payment for the client's ownership of the securities, such as a trailing commission or referral fee
  - A firm will also have to disclose whether the securities are covered by an investor protection fund and if a deferred sales charge applies
  - Additional statements may either be combined with or accompany account statements

- An independent exempt market dealer does not need to provide custody information to its clients
- The method required to calculate the “market value” of securities is now crystalized in the legislation and is generally consistent with industry practice
  - A firm must disclose to a client if the market value for a security is estimated or not determinable
- The account statement must include “position cost information” as at the end of the period by listing the average cost per share/unit or the aggregate cost based on “book cost” or “original cost”
- If there is no adviser or dealer on record (i.e. an “orphaned account”), an investment fund manager must provide an account statement to a fund’s unitholder at least once every 12 months

## JULY 15, 2016 - FURTHER ONGOING DISCLOSURE

- Annual Reports on Charges and Performance must be sent out once a year after July 15, 2016, but registrants need to start tracking this information as of July 15, 2015
- The *Annual Report on Charges and Compensation* must list all operating charges, transaction charges and related fees paid by the client’s account over the previous 12 months
- The *Annual Report on Investment Performance* must provide the returns of the account on a **money-weighted rate of return** for the previous 12 months, 3 years, 5 years, 10 years and since inception
- A registrant will have the option of presenting both money- and time-weighted rates of return
- A registrant can also choose to use only the time-weighted rate of return in the quarterly account statements as long as the annual report contains money-weighted rate of return
- Any portion of the 3-year, 5-year or 10-year period falls before July 15, 2015, then that performance does not need to be included in the report
- If the firm reasonably believes it cannot determine the return of the account since inception, the firm can alternatively choose to report returns from July 15, 2015 onwards
- The annual reports on cost and performance must cover the same 12-month period, except for the very first reports for a client’s account, which can cover partial years
- The cost report and performance report may be either combined with, accompany account statements or be delivered within 10 days of the account statement

## Other Considerations

### Consolidation of Client Accounts

If a client has multiple accounts with a registrant, the registrant may provide a consolidated account statement, cost report, and performance report, provided the registrant obtains the client’s prior written consent. However, a firm cannot consolidate statements of different clients in lieu of sending each client their own statement. For example, a firm may send a consolidated account statement to a household, but each family member must also receive their own statement.

### Electronic Delivery of Documents

A registrant may provide to a client certain documents, including an account statement, post-trade confirmation, cost report or performance report via electronic means such as email, but the registrant is strongly encouraged to obtain the client’s prior written consent. Placing documents in an online portal for client retrieval may also be a viable method of delivery provided certain conditions are met.

If you have any questions or would like to discuss further, please contact any member of our Regulatory Compliance group:

#### TORONTO

##### Kevin Cohen

President & CEO  
416.966.2004 ext. 225  
kevin@aumlaw.com

##### Erez Blumberger

Chief Regulatory Counsel  
416.966.2004 ext. 235  
erez@aumlaw.com

##### Adam Braun

Legal Counsel  
416.966.2004 ext. 222  
adam@aumlaw.com

##### Jess Dichter

Legal Counsel  
416.966.2004 ext. 223  
jess@aumlaw.com

##### Jennifer Lee

Legal Counsel  
416.966.2004 ext. 237  
jennifer@aumlaw.com

##### Richard E. Austin

Senior Legal Counsel  
416.966.2004 ext. 244  
raustin@aumlaw.com

##### Richard Roskies

Legal Counsel  
416.966.2004 ext. 230  
richard@aumlaw.com

#### MONTREAL Pierre-Yves Châtillon

Senior Legal Counsel  
514.769.4454  
pierre@aumlaw.com