

# CRM2 SPOTLIGHT: CONSIDERATIONS FOR DEALERS

## CRM2 Spotlight: Considerations for Dealers

focuses on three areas:

- The application of CRM2 to investments that are not securities, such as segregated fund contracts, annuities and GICs;
- Transfer payments from affiliates; and
- Referral fees.

This bulletin outlines direction provided by the Canadian Securities Administrators (CSA) and the Mutual Fund Dealers Association (MFDA) to assist dealers in meeting various requirements of CRM2. It notes where dealers might have questions about the approach that regulators would like them to adopt.

Successful implementation of the CRM2 disclosure requirements is one of the most important challenges the investment funds industry is facing, as the outcome will lay the groundwork for regulatory direction for years to come.

To be successful, the industry must embrace not only the rules of CRM2, but also the essence of what our regulators are aiming to achieve. Put simply, the regulators' objective is: to strengthen investors' understanding of their investments, and their confidence to make sound decisions that will help them achieve their financial goals.

Dealers are encouraged to adopt an approach that will assist with this underlying regulatory objective.

## Investments that are Not Securities

One important area is how to apply CRM2 principles to investments that fall outside the scope of securities legislation, such as segregated fund contracts, annuities and GICs.

The CSA's jurisdiction over "securities" means that CRM2 requirements apply only to securities (including exchange contracts in Alberta, British Columbia, New Brunswick and Saskatchewan). If an investment is not a security or an exchange contract as defined by securities legislation in the provinces, then dealers are not required to report on that investment.

However, since introducing CRM2, the securities commissions have been encouraging dealers to provide their clients with information that meets the objectives of CRM2 with respect to all of their investments. The reason for this is that it will enable investors to better understand the relative costs and performance of each of their investments.

The MFDA has drafted rules that are substantially similar to the CSA's rules for CRM2 (National Instrument 31-103). The MFDA's rules are outlined on the next page.

# MFDA Rules: Application of CRM to Investments that are Not Securities

The MFDA has provided the following direction about how dealers should disclose information under CRM2 with respect to investments other than securities.

## Account Statements

A client's account statement should include required information (outlined in IFIC's *Dealer Checklist*) for

all securities and other investments (including segregated fund contracts, annuities and GICs) that the dealer is handling for the client, including investments that have been transferred in.

For GICs, dealers may report market value as principal plus accrued interest. For market-linked GICs or similar

investments, dealers may report market value as principal plus an estimate of the accrued interest, along with an explanation that sets out the basis for the estimate.

If the market value of the investment is estimated using a "reasonable methodology", the account statement must disclose the method used. If the market value of an investment cannot be reasonably determined, the member should report it as "zero" on the account statement and disclose this.

## Performance Report

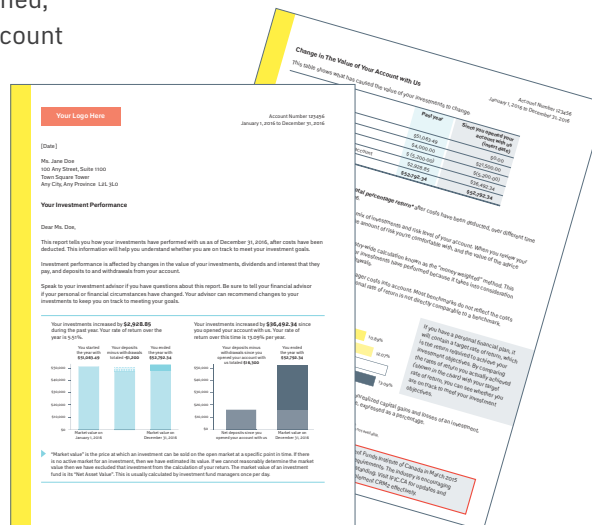
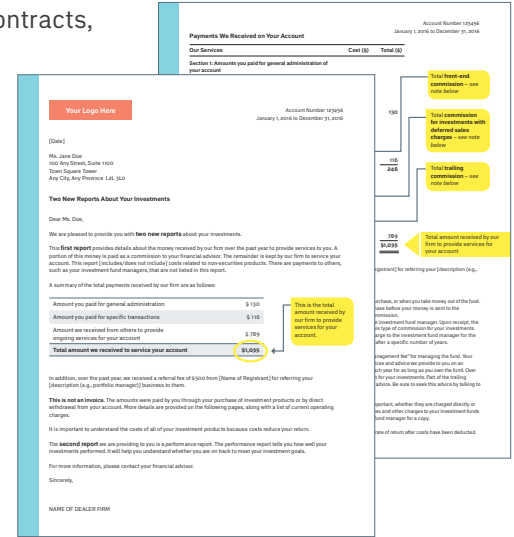
The performance report must include all assets in the client's account, including all investments required to be reported on the account statement, as well as cash.

## Charges and Compensation Report

The charges and compensation report is only required to include charges and compensation related to securities. However, the MFDA strongly encourages dealers to disclose charges and compensation for all investments, including

segregated fund contracts, annuities and GICs. The MFDA has stated that this disclosure will further assist investor decision-making and is consistent with the obligation of MFDA members to deal fairly, honestly and in good faith with their clients.

If it is impractical to report on these investments, the report must identify them and indicate that compensation was received for these investments but that it is not included in the report.



## Transfer Payments from Affiliates

The CSA rule specifies that the charges and compensation report must include the total dollar amount that is paid to the dealer or any of its advisors by a securities issuer or another registrant regarding registerable services to the client, along with an explanation of each type of payment.

Dealers should determine and provide fair and reasonable disclosure of money received from affiliated entities that is associated with registerable services provided to the client, even if the dealer's revenue is not directly tied to account activity (e.g., when no commissions were paid and advisors received salaries). In such circumstances, the MFDA has recommended that dealers make a reasonable estimate of what they would have received if they had earned commission revenue in disclosing money received from affiliates. The explanations should be sufficiently clear to provide clients with an understanding of the services to which the compensation relates.

## Referral Fees

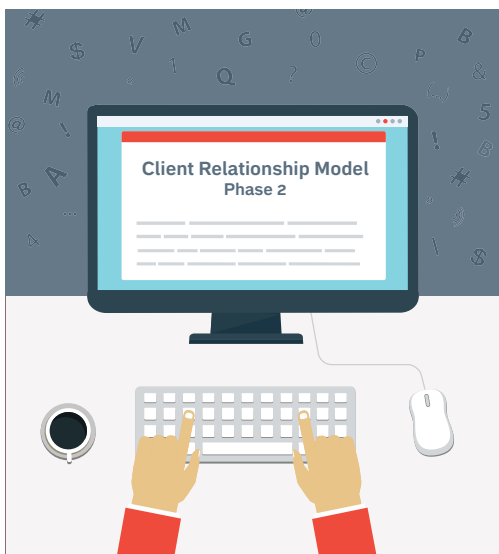
The disclosure of referral fees pertains only to referral fees received for securities-related activities in support of a client who has been referred to another registrant. This information can be provided either within the charges and compensation report or in a separate document.

Referral fees received from an entity for non-securities services provided to a client, such as fees paid by a mortgage broker, are not required to be reported.

If a client has an account with an introducing dealer that is carried by another dealer, the introducing dealer must either:

- Send a supplemental charges and compensation report to the client, disclosing the referral fees that the dealer earned, or
- Share with the carrying dealer information about any referral fees that the introducing dealer receives. This is necessary to enable the carrying dealer to inform the client (i.e., through a supplemental charges and compensation report) about the referral fees.

If a client has multiple accounts and some of these accounts have more than one beneficial owner, the reporting of referral fees must be done in a manner that protects the privacy of the individual owners. In these cases, the most appropriate manner of reporting referral fees would most likely be an addendum directed only to the client(s) whose business was the subject of the referral.



## Continuing Education Module on CRM2

IFIC and its education arm, IFSE Institute, have launched a new continuing education module designed to teach financial advisors about disclosure requirements and advisor obligations under regulatory changes known as CRM2.

The module includes a sample account statement, explanations of key elements of the account statement, and sample cost and performance reports. The course presents advisor-client conversations on key concepts, such as individual versus fund performance measurement, book cost, suitability, and cost disclosure.

For more information, visit [IFSE.CA](http://IFSE.CA).

## Are You Ready for CRM2?

The mutual funds industry is collaborating to develop materials that will help dealers achieve the goals of CRM2 – to help investors make more informed decisions by improving their understanding of the cost and performance of their investment products and advisory services.

- Our *Dealer Checklist* outlines new information that dealers must include on clients' account statements as of December 31, 2015
- *CRM2 Spotlight* outlines direction provided by the Canadian Securities Administrators (CSA) and self-regulatory organizations (SROs) to assist dealers in meeting various requirements and notes where dealers might have questions about the approach that regulators would like them to adopt.
- Our *Model Report on Charges and Compensation* and *Model Report on Investment Performance* conform to the CRM2 rules and sample documents created by the regulators, and are enhanced by plain language, easy-to-follow designs and clear explanations.
- *Advisor Insights* is a series of bulletins that provide advisors with key information about CRM2, including plain language explanations of various concepts to help them have effective conversations with their clients.
- Our e-newsletter, *IFIC Weekly Update*, provides IFIC members with updates, tips and tools on CRM2 and other regulatory initiatives.

Our materials illustrate what can be achieved when stakeholders work collaboratively in the interest of the investor. Dozens of people from IFIC member

companies are participating in various IFIC committees to share information and reach consensus on implementation issues related to CRM2 and other regulatory topics.

Widespread use of these materials – which feature plain language, simple designs, and clear explanations – will deliver a consistent experience to investors and demonstrate the industry's commitment to achieve positive outcomes for investors.

IFIC encourages the industry to take a uniform approach to CRM2 reporting in the interest of investors, by adopting the approach reflected in these materials.



For more information, visit [IFIC.CA](http://IFIC.CA) > Member Centre > **Member Resources**. IFIC members can login to access additional materials.



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