

Client Reporting



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Overview

Scope of CRM2 Obligations

Client Statements - Account Statements

Client Statements - Additional Statements

Client Statements - Position Cost Information

Annual Reports - Report on Charges and Other Compensation

Annual Reports - Investment Performance Report

Determining Market Value

IFM Reporting Requirements

Trade Confirmations

Electronic Delivery

- Client Relationship Model Phase 2 (CRM2) amendments to NI 31-103 and 31-103CP
- July 7, 2016 CSA Notice and Request for Comment regarding proposed amendments to NI 31-103 and 31-103CP
- ASC Blanket Order 31-531 and CSA Staff Notice 31-341 – Omnibus/Blanket order providing relief or exempting registrants from certain CRM2 requirements
- CSA Staff Notice 31-345 – FAQ and additional guidance
- National Policy 11-201

- CRM2 introduced new cost and performance reporting requirements, in addition to other requirements
- Requirements apply differently to dealers, advisers and investment fund managers (IFMs)
- Limited application to IFMs
- Application to exempt market dealers (EMDs) depends on relationship with client
- Limited application in relation to permitted clients that are not individuals

- Advisers must provide clients
 - Quarterly or monthly client statements with transactional information and account position information
 - Quarterly client statements with position cost information
 - Annual reports on charges and other compensation
 - Annual investment performance reports

- IFMs must provide investors
 - annual security holder statements if no dealer or adviser of record
 - must include transactional, account position and position cost information

- Scope depends on relationship with client

- Requirements generally apply if:
 - EMD holds client securities, or
 - EMD receives a trailing commission or similar ongoing compensation, or
 - EMD is the dealer of record for a security held by the client issued by a scholarship plan, mutual fund or labour sponsored fund

- If EMD only has a limited transactional relationship with clients, many requirements do not apply. See CSA Staff Notice 31-345

- Information Categories
 - Transactional Information - s.14.14(4)
 - Account Position Information - s.14.14(5), s.14.14.1
 - Position Cost Information - s.14.14.2

- Form of Statements
 - Information must be provided separately for each account
 - Different information categories for a single account may be combined in one statement
 - Consolidation for multiple accounts can be provided in addition
 - Subject to the above, no prescribed form

- Timing
 - At least quarterly – monthly if requested by client
 - After end of the month for a transaction related to securities held by the dealer

- Account statements have two principal elements
 - **Transactional Information** - transactions during period
 - **Account Position Information** - snapshot of account

Account Statements - Transactional Information – s. 14.14(4)

- Required information
 - date of transaction
 - type – purchase, sale, transfer, dividend, interest, etc.
 - name of security
 - number of securities
 - price per security
 - total value of transaction

- Applicable to all registered dealers and advisers

- Only required if transaction(s) occurred during period

Sample Transactional Account Statement

Transactions for the quarter ending March 31, 2017

Transaction Date	Type	Security	Quantity	Price Per Security	Total Value
Mar 20 2017	Purchase	Inglewood Fund	1000	\$10	\$10,000
Feb 8 2017	Dividend	Strathcona Holdings	N/A	N/A	\$125
Jan 20 2017	Redemption	Jasper Limited	5000	\$0.95	\$4,750

- Required if firm holds client securities
- “Holds” means physical possession of certificates or being registered nominee for client
- Required Information:
 - indicate that securities are held for the client by the firm
 - name and quantity of each security
 - market value of each security + estimated value notification if required
 - total market value of each security position
 - any cash balance
 - total market value of cash and securities
 - whether account is covered by investor protection fund (CIPF or IPC)
 - which securities might be subject to deferred sales charges

- Required when securities not held by firm, but
 - firm has trading authority, or
 - firm receives continuing payments relating to the securities (e.g. trailing commission), or
 - the security is issued by a scholarship plan, mutual fund or a labour sponsored fund and the firm is the dealer or adviser of record

- See definition of “mutual fund” in the *Securities Act* (Alberta)

- Additional statements provide account position information
- This account position information is the same as required for account statements except
 - Must include name of party that holds/controls the securities and a description of the way it is held (*instead of indicating the firm holds the securities*)
 - Investor protection fund information is not required if the party holding the securities (e.g. IIROC member) provides this information*

**Based on proposed amendments. To date, most firms have relied on ASC Blanket Order 31-531 and excluded this information.*

- Must send at least quarterly – monthly if requested by client

- If the firm also sends account statements, it must
 - combine it with, or deliver in a separate document accompanying, the account statement delivered for same period, or
 - deliver the additional statement separately within 10 days after delivery of the account statement for same period

- Not required for permitted clients that are not individuals

Position Cost Information – Basic Requirements (s.14.14.2)

- Required if firm provides account position information under s.14.14(5) (account statements) or s.14.14.1 (additional statements)
- Provides a comparison of cost to market value for security positions
- Must provide cost per position and total cost of all positions
- Must send at least quarterly by
 - combining it with, or in a separate document accompanying, account position information, or
 - separately within 10 days of delivery of account position information - must include market value information if sent this way
- Not required for permitted clients that are not individuals

- Position cost information may be book cost, original cost or market value depending on the circumstances
 - the position cost method used and its definition must be disclosed
 - if market value is used, this must be disclosed
 - if firm reasonably believes that it cannot determine the position cost in accordance with the prescribed methods, disclosure must be provided

- Reporting requirements differ depending on when the security position was opened

For positions opened on or after July 15, 2015 firms can use

- The cost of the security (either book cost or original cost), or
- If the security was transferred in from another firm, either
 - the cost of the security (if firm has this information), or
 - the market value of the security on the date of the transfer

For positions opened before July 15, 2015 firms can use:

- the cost of the security (either book cost or original cost),
- the market value of the security as at December 31, 2015, or
- the market value of the security as at an earlier date if the firm has reliable information and it is reasonable for the firm to choose that date

CSA Staff Notice 31-345 provides the following guidance

- Not Tax Cost – must use original cost or book cost, not tax cost. Tax cost information may be provided in addition

- Multiple Transactions – security positions comprised of multiple transactions can be presented using an average of (i) book cost or original cost, and (ii) market value
 - disclosure of the methodology is required
 - positions of the same security can be presented separately, by methodology – explanatory notes are required to avoid client confusion

Sample Account Position Information Statement

Account positions as at March 31, 2017

Security	Quantity	Market Value per Security	Total Market Value	Position Cost	Notes
Inglewood Fund	1000	\$10.00	\$10,000	\$10,000	
Strathcona Holdings	10250	\$0.90	\$9,225	\$10,250	#4
Jasper Limited	5000	\$1.00	\$5,000	\$5,000	#5
Renfrew Corporation	2000	\$13.60	\$27,200	\$24,000	#6
Elbow Fund	2000	Not determinable	Not determinable	\$2,000	
Cash	N/A	N/A	\$0	N/A	
Notes		TOTAL	\$51,425	\$51,250	

1a. "Grande Prairie Trust" is the custodian that holds these securities as a nominee for you. **OR**

1b. These securities are registered in your name at the company/fund/issuer that issued them.

2. These securities are not covered by an investor protection fund.

3. Unless otherwise noted, "Position Cost" is based on the security's book cost. "Book cost" means the total amount paid to purchase a security, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations.

4. There is no active market for this security so we have estimated its value.

5. This security may be subject to deferred sales charges upon redemption.

6. Because book cost information was unavailable, the position cost for this security is based on the market value as of its transfer date, December 31, 2015.

Sample Client Statement

Client Statement as of March 31, 2017

Section I : Transactions for the quarter ending March 31, 2017

Transaction Date	Type	Security	Quantity	Price Per Security	Total Value
Mar 20 2017	Purchase	Inglewood Fund	1000	\$10	\$10,000
Feb 8 2017	Dividend	Strathcona Holdings	N/A	N/A	\$125
Jan 20 2017	Redemption	Jasper Limited	5000	\$0.95	\$4,750

Section II : Account positions as at March 31, 2017

Security	Quantity	Market Value per Security	Total Market Value	Position Cost	Notes
Inglewood Fund	1000	\$10.00	\$10,000	\$10,000	
Strathcona Holdings	10250	\$0.90	\$9,225	\$10,250	#4
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		TOTAL	\$51,425	\$51,250	

Notes

- 1a. "Grande Prairie Trust" is the custodian that holds these securities as a nominee for you. **OR**
- 1b. These securities are registered in your name at the company/fund/issuer that issued them.
2. These securities are not covered by an investor protection fund.
3. Unless otherwise noted, "Position Cost" is based on the security's book cost. "Book cost" means the total amount paid to purchase a security, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations.
4. There is no active market for this security so we have estimated its value.
5. This security may be subject to deferred sales charges upon redemption.
6. Because book cost information was unavailable, the position cost for this security is based on the market value as of its transfer date, December 31, 2015.

Scope of CRM2 Obligations – EMDs

Relationship	Client Statements - Transactional Information (when transaction occurs)	Client Statements - Account Position Information	Client Statements - Position Cost Information	Report on Charges and Other Compensation	Investment Performance Report
EMD holds security, <u>or</u> criteria in 14.14.1(1) applies (e.g. receives ongoing payments)	Quarterly or Monthly	Quarterly or Monthly	Quarterly	Annually	Annually
Transactional	Quarterly or Monthly	No	No	No	No

- Dealers and advisers must deliver to clients annually
 - a report on charges and other compensation (ss.14.17 and 14.20)
 - an investment performance report (ss.14.18, 14.19 and 14.20)
- Annual reports are required for each account (unless client consents to consolidation) and must be sent together
 - by combining them with, or in a separate document accompanying, related client statements, or
 - separately within 10 days of delivery of related client statements

- Annual reports not required when
 - client is a non-individual permitted client
 - client relationship no longer exists (e.g. transfer out)
- Annual report on charges and other compensation not required if firm receives no compensation during the year
- Annual investment performance report not required when
 - firm does not have a client-facing relationship with the client
 - firm reasonably believes market value for none of client's securities can be determined

- Annual reports delivered together must include information for same 12-month period
- Firm may choose to send more frequent reports
- Firms reporting on a calendar year basis
 - reports must cover the period between January 1 and December 31, 2016
 - reports should have been sent by January 2017
- Firms reporting on non-calendar year basis
 - reports can cover period until July 14, 2017
 - reports should be sent by August 2017

Report on Charges and Other Compensation – Information Requirements (s. 14.17)

- Covers charges and other compensation received relating to client's investments

- Required information
 - current operating charges which may be applicable to client
 - operating charges paid
 - transaction charges paid
 - additional disclosure for debt transaction charges
 - payments received from issuers or other registrants relating to registerable services (other than trailing commissions)
 - trailing commissions – including notification and explanation

- Sample report in Appendix D of Companion Policy to NI 31-103

Investment Performance Report – Information Requirements

- Provides information relating to investment performance

- Required information
 - market value of cash/securities - beginning and end of period and as of account opening*
 - market value of deposits, withdrawals and transfers for the period and since account opening*
 - change in the market value of the account for period and since account opening*
 - annualized total percentage return for 1, 3, 5 and 10 years and since account opening* calculated net of charges and using a money-weighted rate of return
 - definition of “total percentage return”
 - additional disclosure: calculation method used, returns are net of charges, and explanation of report content

**Account opening will be a deemed date for accounts opened before July 15, 2015 – see next slide*

Investment Performance Report – Accounts Opened Before July 15, 2015

- Initial market values must be determined as at
 - January 1, 2016 – calendar year basis
 - July 15, 2015 – non-calendar year basis

- Annualized percentage returns must be provided since
 - January 1, 2016 – calendar year basis
 - July 15, 2015 – non-calendar year basis

- Earlier dates can be used
 - must have a reasonable basis
 - should be applied consistently for all similar accounts

- No return information required for periods prior to July 15, 2015

- No prescribed money-weighted rate of return calculation method
- May provide additional information such as the time-weighted return for each account – disclosure is required
- If cannot determine market value of a security, must assign a value of zero and disclose this
- No misleading information
 - return of capital not to be included in return on investment
 - returns for less than 1 year must not be annualized
 - must adjust value if firm is able to value a security it could not previously
- Sample report in Appendix E of Companion Policy to NI 31-103

Section 14.11.1 sets out a prescribed valuation methodology

- Non-listed Investment Fund Securities – For investment fund securities not listed on an exchange - market value is based on net asset value (NAV) calculated by IFM
- Other Securities – For other securities, firm must determine the amount it reasonably believes to be market value, using professional judgment and the hierarchy of valuation method

Hierarchy of Valuation Method

1. Published price quotations on a marketplace: bid (long security) or ask (short security)
 2. Published market reports or inter-dealer quotation sheets
 3. Observable data inputs
 4. Unobservable inputs and assumptions if observable inputs are not available
 5. If 1-4 cannot be used, then the security market value cannot be determined
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- Make necessary adjustments to accurately reflect market value

- If observable and unobservable inputs/assumptions are used
 - must disclose this in client statements
 - must have procedures governing use and to assess reliability
 - method must be applied consistently in accordance with IFRS
- Firms cannot solely rely on valuation data provided by issuers
- Disclosure for a fund's stale or inaccurate NAV
- If firm cannot determine a security's market value it must
 - client statements: exclude it from market value calculations and report it as not determinable – \$0 if cannot be valued for a prolonged time
 - investment performance report: assign a value of \$0 for performance calculations and disclose that market value cannot be determined

- Section 14.15 of NI 31-103 requires IFMs to deliver a security holder statement if there is no adviser or dealer of record for a security holder
- A security holder statement must be sent annually and must include same information as client statements
 - transactional information for transactions effected by IFM
 - account position information
 - position cost information

- Section 14.1.1 of NI 31-103 requires IFMs to provide dealers and advisers with information concerning the charges and commissions paid by investors holding securities of the fund
- Proposed amendments to NI 31-103 clarify that this requirement includes the provision of information required in client statements, trade confirmations, and the Report on Charges and Other Compensation (including NAV)
- Information must be provided within a reasonable period of time

- Section 14.12 sets out trade confirmation requirements
- Dealers, including EMDs, must deliver them promptly following a trade
- Not applicable to advisers
- IFMs must provide a redemption confirmation when they execute a security holder redemption order including
 - quantity and description of security redeemed
 - price per security
 - commission or other charges
 - settlement date

- Client statements, annual reports and other CRM2 reporting can be sent electronically
- Requirements are discussed in National Policy 11-201
 - recipient must receive notice of delivery
 - recipient must have easy access to the document
 - deliverer must retain records which evidence document delivery

Thank you.

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