



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

Contact: Ken Woodard
Director, Communications & Membership Services
Phone: 416-943-4602
E-mail: kwoodard@mfd.ca

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MFDA Bulletin

Compliance

For Distribution to Relevant Parties within your Firm

CRM2 Report

Starting in 2017, MFDA began assessing compliance with CRM2 requirements in its examination process. Further, on February 22, 2017 MFDA issued Bulletin #0715-M advising Members of our intention to perform a “CRM2 Sweep” and review client reporting by Members who have operations that are integrated with affiliated fund managers.

Preliminary Findings

Based on the examinations performed in 2017 and the CRM2 Sweep, overall we have found that Members have made reasonable attempts to comply with the new CRM2 requirements. Specific findings from our reviews, that are described in further detail in the [attached CRM2 Report](#), were isolated to a few instances and have been addressed with the relevant Members.

Cost and Compensation Disclosure by Integrated Members

Integrated Members that earned commissions disclosed the amount of commissions received. The majority of integrated Members that did not receive commissions, but rather were financed by internal transfer payments from affiliates, estimated the amount that they would have received had they acted as a third party dealer. A few integrated Members disclosed the total costs paid by clients to invest and hold mutual funds including fund management fees and operating costs.

We were encouraged that some Members disclosed total costs as it provides clients with more accurate information and a better understanding of costs associated with their investments.

Next Steps

MFDA will continue to examine Member compliance with CRM2 as part of our examination process and issue guidance where appropriate. The reviews we have conducted so far, however, have identified areas for further policy consideration, including expanding cost disclosure. To further the discussion of expanding cost disclosure, MFDA intends on issuing a discussion document outlining current practices, issues identified and requesting feedback on potential alternatives.

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CRM2 Report

January 2018

DM #593662

Introduction

Amendments to National Instrument 31-103 (“NI 31-103”) came into force on July 15, 2013 and introduced new requirements relating to client account statements, charges and compensation disclosure and performance reporting, often collectively referred to as the “Client Relationship Model Phase 2” or “CRM2”. For Members operating on a calendar year-end basis, the first Report on Charges and Other Compensation and Performance Reporting (the “new CRM2 reports”) were issued for the 12-month period ending December 31, 2016.

Starting in 2017, MFDA began assessing compliance with the CRM2 requirements in its examination process. Further, as communicated in MFDA Bulletin #0715-M issued on February 22, 2017, MFDA also conducted a review of CRM2 reporting of certain Members with operations that are integrated with affiliated fund managers (the “CRM2 Sweep”). In some instances, integrated Members are financed through transfer payments from affiliated entities and do not earn commissions tied to sales activities. As outlined in MFDA Bulletin #0657-C – CRM2 Implementation Guide and Tips, MFDA staff expect these integrated Members to disclose a reasonable estimate of costs associated with dealer services provided to the client.

The Members selected for the CRM2 Sweep were asked to submit:

- a sample of client account statements and new CRM2 reports;
- details of fee-based programs, where applicable; and
- the methodology for determining compensation disclosure where the integrated Member is financed by transfer payments from affiliates.

CRM2: Preliminary Findings

1. Timely Issuance of Reports

Staff identified one instance where a Member did not issue the reports on a timely basis.

2. Review of Reports

One Member did not review of a sample of the reports for accuracy prior to issuing them to clients.



3. Account Statements

In general, the account statements reviewed complied with regulatory requirements. However, we did identify instances where an account statement did not contain:

- The definition of “book cost”;
- The market value of all cash and investments in the account at the beginning of the period;
- The cost of each investment position presented on an average cost per unit or share basis or on an aggregate basis at the end of the period;
- The total cost of all investment positions as at the end of the period;
- The name of the party that holds or controls each investment and a description of the way it is held;
- The definition of the term “DSC”; and
- Adequate disclosure of the market value of exempt securities where the market value was not determinable. Specifically, book cost was used rather than disclosing that the market value was “not determinable”.

4. Performance Reports

In general, the performance reports reviewed complied with regulatory requirements. However, in one instance the Member used a time-weighted methodology to calculate percentage return instead of a money-weighted methodology.

5. Report on Charges and Other Compensation

5.1 Disclosing a Reasonable Trailing Commission Amount for Integrated Members

Integrated Members that earned commissions disclosed the amount of commissions received. Most integrated Members that did not receive commissions estimated the amount that they would have received had they acted as a third party dealer. A few integrated Members, however, disclosed the total costs paid by the client to invest and hold mutual funds which included management fees and fund operating costs. In the view of MFDA staff, total cost provides the most accurate and meaningful disclosure to clients.

We identified one integrated Member where the firm disclosed an estimated trailing commission but then deducted a trailing commission rebate, a management fee rebate and also deducted payments of intermediary fees paid by the Member resulting in negative cost and compensation balances in some cases.



5.2 Fee-based Accounts

We reviewed a number of fee-based accounts to determine how fees were reflected on the Report on Charges and Other Compensation. Generally, Members disclosed the full amount that was deducted from the client's account. However, in one instance an integrated Member charged the client a combined fee for fund management and dealer services. Rather than disclose the combined amount that was deducted from the client's account, the Member estimated an amount attributed to dealer operations.

5.3 Disclosure on a per Client Account Basis

We identified a few instances where costs were reflected per fund held or per fund company rather than per client account.

5.4 Disclosure of Deferred Sales Charge ("DCS") Commissions

The majority of Members reviewed adequately disclosed DSC commissions on their Report on Charges and Other Compensation. However, we noted one instance where the Member earned DSC commissions and did not report the amount on the Charges and Compensation Report. We also noted a few instances where Members combined DSC commissions and trailing commissions into one amount rather than reporting them separately.

5.5 Disclosure of Operating Charges

We noted one instance where a Member did not disclose general administration fees such as NSF and transfer fees.

5.6 Trailing Commission Definition

We noted some instances where different terminology was used for trailing commissions throughout the Report on Charges and Other Compensation which could lead to client confusion. We also identified instances where the Member did not use the required definition for trailing commissions.

5.7 Other Disclosures

Some back office providers offer Members a standard client disclosure template for the Charges and Compensation Report. In a few instances, Members used the templated disclosures rather than customizing the disclosure to be consistent with the Member's business operations. In these cases, clients were provided with information inconsistent with the products or services offered by the Member.

