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701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2

Re: Canadian Investment Regulatory Organization (CIRO) Request for Comments 24-0288 – Proposed Amendments to Enhanced Cost Reporting Rule, published on October 10, 2024

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to CIRO and the CSA on the Proposed Amendments to the client reporting requirements in CIRO's Rules.

The Canadian Independent Finance and Innovation Counsel represents national Investment Dealers and their industry's position on securities regulation, public policy, and industry issues. We represent notable CIRO-regulated Investment Dealers in the Canadian securities industry.

CIRO's Position

CIRO's Regulatory Purpose as stated in the Proposal, is the following:

The Proposed Amendments seek to further investor protection by mandating enhanced transparency of investment fund costs and ensuring regulatory alignment on the matter. The Proposed Amendments have been determined to be in the public interest because they would:

- ensure compliance with securities laws,
- foster fair, equitable and ethical business standards and practices,
- promote the protection of investors.

The Proposed Amendments involve Rules that CIRO, its Dealer Members or Approved Persons must comply with in order to be exempted from a requirement of securities legislation and any applicable references to such requirement.

The Investment Dealers we represent support this regulatory purpose, recognizing CIRO's goals of enhancing investor protection through greater transparency of investment fund costs and ensuring regulatory alignment on this issue.

Benefit of Cost Transparency

We agree with investor advocates and support enhanced cost transparency in Canada. Added transparency should enable investors to make better-informed decisions. We believe clients deserve to and should know what they are paying for.

Since fund fees in Canada are some of the highest in the world, we believe additional transparency will promote competition within the fund management industry. In turn, we are hopeful that it may help decrease costs for investors as firms compete to deliver products and services more efficiently.

Total Cost Reporting Enhancements

CIRO's proposal states the following with respect to the background of the CSA's Total Cost Reporting Enhancements:

The CSA's TCR Enhancements follow on work securities regulators carried [out] after the completion of the Client Relationship Model (**CRM**) phases (CRM 1 and CRM 2). Within the scope of CRM, regulators sought to increase the transparency of cost reporting to clients, mainly fees and charges paid by investors to their dealer/advisor for their service. Such initiative did not go as far as to address the reporting of ongoing fees and charges investors pay, directly or indirectly, to investment funds with regards to their fund holdings. These fees can be easily overlooked, because they are embedded in the value of the investment fund (i.e. less visible to the investor) and either disclosed only at the point of sale or reported in a way that is not customized to specific investor holdings.

The CSA's TCR Enhancements (informally referred to as CRM 3) seek to address such a gap. Following these enhancements, the securities registrants (investment fund managers (**IFM**),

dealers and advisors) are required to produce and report ongoing investment fund cost information to clients, in a form that is specific to the individual's holdings and easy to understand.

The Investment Dealers we represent agree that the initial cost reporting rules under CRM1 and CRM2 were important steps toward greater transparency but did not go far enough in addressing the transparency of ongoing fees and charges investors pay to investment funds. These costs, often embedded in fund values and less visible to investors, have not been sufficiently disclosed in a manner that can fully inform decision-making.

The CSA's Total Cost Reporting (TCR) Enhancements, or CRM3, represent a significant and positive step forward by mandating that registrants provide clients with ongoing investment fund cost information that is specific to their holdings and easy to understand. This added transparency will empower investors and enhance their ability to make informed financial decisions.

The CSA's TCR Enhancements and CIRO's Proposed Rule Amendments

We support CIRO's proposal to amend its Rules by adopting total cost reporting enhancements comparable to the CSA's. By aligning CIRO's Rules with the CSA's, the Proposed Amendments will enable Dealers to continue to meet their obligations by complying exclusively with CIRO requirements relating to periodic reporting to clients, rather than by having to consult a separate and distinct set of (CSA) requirements.

We agree that the proposed Rules, if implemented, should indeed take effect on January 1, 2026, to align with the implementation date of the CSA's TCR Enhancements.

Key Pain Points – Large Scope and Lack of Control

Most investment funds are within the scope of the enhanced cost reporting requirements. These include mutual funds; Exchange-Traded Funds (ETFs); scholarship plans; and foreign funds made available to Canadian investors.

An issue arises with foreign funds that do not have to comply with Canadian rules and regulations: the Investment Dealers we represent do not have control over the cost reporting that may or may not be done by certain foreign issuers. For example, Investment Dealers will be expected to provide cost reporting on ETFs, and there are hundreds, even thousands of ETFs listed on foreign exchanges.

If the Proposed Amendments are implemented, appropriate data solutions must be made available to Canadian Investment Dealers to allow them to collect such information in an automated manner and properly communicate it to investors.

Reasonability

We understand that Investment Dealers are encouraged to report exact cost information to clients. We welcome the fact that CIRO recognizes that this may not always be feasible and efficient. Significant costs or delays could indeed be incurred if exact cost information were to be mandated.

...our proposed requirements are permissive of the use of reasonable approximations when determining and reporting the *total amount of fund expenses*, the total amount of *direct investment fund charges* and the *fund expense ratio*.

We note that Investment Fund Managers (IFMs) “are allowed to feed cost information based on reasonable approximations to the reporting Dealer; and the reporting Dealer is permitted to rely on such approximations, or use its own reasonable approximations as prescribed, for reporting purposes.” The Investment Dealers we represent appreciate this flexibility.

Primary Responsibility

CIRO’s proposal states the following with respect to the responsibilities of IFMs and Dealers:

Investment fund managers are primarily responsible for producing and feeding the required investment fund cost information to Dealers so that the latter can fulfill their regulatory obligation to report the applicable fund fees and charges to clients on an annual basis.

[...] we are proposing setting out in our rules the Dealer responsibility for when they can rely on the IFMs for the needed cost information or rather use alternative means for determining such information, [...] In discharging such responsibility, as with other areas of Dealer responsibility in our rules, we expect Dealers to exercise professional judgment [emphasis added].

Under the proposed provisions, Dealers must rely on the information provided by the IFMs, including any used approximations by the latter, when complying with the applicable cost reporting requirements under our rules. As an exception, a Dealer cannot rely on such information when they reasonably believe that the information provided by an IFM is not reliable, meaning it is incomplete or misleading. In such case, the Dealer must make reasonable efforts to obtain or determine the required information by other means. If, however, the Dealer reasonably believes that it cannot obtain or determine reliable information even via such alternative means, the Dealer must exclude such information from calculations, or the report altogether, and disclose such exclusion in the relevant report to the client.

For avoidance of any doubt, our proposed amendments specify that Dealers are permitted to report reasonable approximations of the required investment fund cost information, to the extent it does not result in misleading information being provided to the client.

As discussed earlier, in the context of foreign issuers, Investment Dealers operate within a framework where they lack sufficient control over critical aspects of cost data, such as calculations; ratios; and fees from investment funds. Despite Investment Dealers’ lack of control surrounding this essential information, they consistently exercise a high standard of professional judgment, ensuring that Canadian investors have access to reliable information regarding their holdings.

Exemptions – CIRO’s question

In its proposal, CIRO specifically requests comments on the following question: **Do you anticipate that there will be a justified need for CIRO to consider any exemptions from the cost reporting requirements as a result of the Proposed Amendments and for what reasons?**

As mentioned in CIRO's proposal, CRM exemptions were issued by the IIROC Board of Directors. Investment Dealers were exempt from several client reporting requirements. These exemptions are still active and may be impacted by the CSA's TCR Enhancements. We believe that the current exemptions from CRM obligations should be maintained. Off-book positions for example, should continue to be exempt from being reported on the annual CRM performance reports.

Since the main beneficiaries of the proposed amendments to the Enhanced Cost Reporting Rule obligations are intended to be retail investors, we believe it is important for Investment Dealers to continue to be exempt from reporting to institutional clients. Existing exemptions from the annual fee/charge reporting requirements and performance report with regards to permitted clients, including institutional clients, should also be maintained.

We believe CIRO may need to consider exemptions from the cost reporting requirements as a result of the Proposed Amendments. Since the changes have not yet been implemented and systems are still being worked on to accommodate them, issues outside of the Investment Dealer's control or unforeseen issues that would warrant an exemption could certainly arise. The complexity of obtaining cost information from foreign funds, as discussed, may be a good example, but it is too early to provide a more fulsome response. We believe CIRO should assess each unique exemption request on a case-by-case basis, with the exception of the current CRM exemptions, which should be maintained under CIRO's amended Enhanced Cost Reporting Rule.

Off-book Positions and Certain Client Holdings

CIRO is proposing new provisions that give senior CIRO staff the authority to exempt Dealers from certain client reporting requirements with regards to client outside holdings and certain client name holdings under Dealer control. The Proposal states the following:

Staff will grant such exemptions only when doing so would not be prejudicial to the interest of the Dealer's clients, the public or the Dealer. The objective of this proposal is to enhance the procedural efficiency of renewing and granting routine exemptions on this matter, for the reasons discussed below.

During the CRM reform, IIROC (CIRO's predecessor) communicated that it would consider exemption requests from Dealers who could demonstrate that the costs of building and administering reporting capability for client outside holdings (off book positions) significantly outweigh the benefits to the client from such reporting. In considering such exemption requests, IIROC needed to be satisfied that the Dealer Member:

had made a good faith effort to convert off-book client name positions into on-book nominee name positions;
did not maintain material number or amount of off-book client named positions;
was not promoting, or otherwise actively making available, the option of holding off-book client named positions; and
did not receive any ongoing compensation on the off-book client named positions.

IIROC's Board of Directors at that time **granted exemptions from the requirements to send periodic reports and a performance report on outside holdings to approximately 46 Dealer Members (outside holding exemptions), on the basis of the above criteria** [emphasis added].

Most of these outside holding exemptions are still active, mainly due to Dealers being unable to convert residual off-book client named holdings into nominee name holdings. These exemptions are impacted by the Total Cost Reporting Enhancements, such as they may become void or need to be expanded as a result. We believe that renewing these exemptions, or issuing new exemptions on comparable grounds and conditions, once the Total Cost Reporting Enhancements enter in effect, is justified.

At present only CIRO's Board of Directors can grant exemptions from the client reporting requirements, and it can do so only on a case-by-case basis; in other words, the Board cannot issue group exemptions or blanket exemptions. We expect that there will be a considerable number of Dealer requests for exemption renewals or expansions once the Total Cost Reporting Enhancements come into effect.

Many dealers, as noted above, have received exemptions from reporting off-book positions on annual CRM performance reports. The Proposed Amendments indicate that Investment Dealers would have to re-apply for an additional exemption from reporting off-book positions under the amended Enhanced Cost Reporting Rule. We believe this would cause a significant and unnecessary burden for both Dealers and CIRO, and as such, submit that Investment Dealers' original exemptions should be maintained and applied to the amended Rule.

Third-Party Service Providers

It should be noted that Investment Dealers will not only be relying on the investment funds themselves to provide accurate data but will also be subject to the timelines of third-party service providers.

These providers, such as Broadridge and Fundserv, to name only two, have a major role to play in the ability or inability, as the case may be, of Investment Dealers to access cost information and distribute it in a timely fashion to their customers.

Expanded Cost Notifications

CIRO is proposing expanded requirements for Dealers to provide additional disclosures in the annual fee and charges report to clients. Investment Dealers and Advisors must help their clients understand what is being reported and what is not being reported.

We agree that clients should be notified if fund expenses, direct investment fund charges, or fund expense ratio(s) is/are based on an approximation or any other assumption.

We also support a notification which refers clients to fund issuers' documents for more information about reported fund expenses and fund performance, and to their account statements for information about their current holdings.

We support an explanation of reported deferred sales charges (DSC), and a notification, if foreign investment funds are owned by a client, that information about those funds may not be directly comparable to equivalent information for Canadian investment funds, and that it may include different types of fees.

Structured Products, Prospectus Exempt Funds and Labour Sponsored Investment Funds (LSIF)

CIRO's proposal states the following with respect to the scope of the expanded cost notification requirements:

Products that are outside of the cost reporting scope but still subject to the expanded cost notification requirements, include structured products, prospectus exempt funds and labour sponsored investment funds (LSIF).

We support a notification that such products have embedded fees which may not be required to be reported in the annual fee and charges report.

Custodial Fees, Intermediary Fees or Interest Charges to Third Parties

We agree that if the Dealer knows or has reason to believe that the client paid custodial fees, intermediary fees, or interest charges to third parties related to securities owned by the client (including precious metal bullion and derivatives), the Dealer should notify the client that such charges or fees may not be reported in the annual fee and charges report.

Notification – Investment Fees

We agree with a notification drawing the client's attention to investment fee reporting.

Notification – Burden Reduction

To reduce the burden on Investment Dealers, we would appreciate it if CIRO could, in the future, draft sample notifications in accordance with its new proposed requirements. These templates could be used or amended by firms as needed, based on their individual business models.

No Reporting Required

We support the proposal that, for "newly established investment funds," the "total amount of fund expenses," the "fund expense ratio," or any approximations of such information, do not have to be reported. We also agree that in such cases, a notification of such exclusions must be provided in the report.

We also support that with regards to LSIFs and prospectus exempt investments funds, the "total amount of fund expenses," the "direct investment fund charges," and the "fund expense ratio" do not have to be reported, but a related notification should be required.

Client Reporting Responsibility – Shared Service Arrangements

We welcome the added clarity provided in the CIRO proposal regarding who is responsible for sending the annual reports to clients in shared service arrangements, such as in introducing broker/carrying broker arrangements and service arrangements between portfolio managers and Investment Dealers.

We agree with the following statements made by CIRO:

...the client-facing securities registrant (e.g. the introducing broker, the Dealer outsourcing custody or the portfolio manager) is primarily responsible for sending the annual performance and fee/charge reports to the client. The servicing Dealer (e.g. the carrying broker, the Dealer providing custodial services or the Dealer providing services to the portfolio manager) is responsible together with the client-facing registrant only in those situations where they prepare the annual reports as part of their service offering. The servicing Dealer is also primarily responsible for reporting its own fees and charges to the client, where these fees and charges have been passed directly to the client.

Significant Implementation Cost for Investment Dealers

The additional reporting requirements under CIRO's proposed amendments to the Enhanced Cost Reporting Rule will have a significant cost impact on Investment Dealers and others, for example, on investment funds and third-party service providers.

The implementation costs will impact Investment Dealers' technological infrastructure and systems; it will monopolize their resources (operational and compliance) and require significant changes to their data management capabilities.

At this time, the Investment Dealers we represent cannot properly estimate the related costs, and it must be noted that the impacts will differ from one Dealer to another as technologies and related challenges differ. As discussed above, appropriate data solutions must be made available to Investment Dealers to allow them to collect information in an automated manner and properly communicate it to investors.

We agree that, as CIRO acknowledges in its proposal, unfortunately, some of these additional industry costs may ultimately be passed on to the client.

Benefits Outweigh the Costs

CIRO's proposal states the following with respect to the anticipated benefits of the proposed amendments:

Regulators believe that overall, the benefits from addressing the current information gap regarding investment fund cost outweigh the anticipated implementation costs.

CIFIC and the Investment Dealers we represent would like to agree with CIRO on this point. However, we wonder whether Canadian investors will look at the new reporting and additional disclosures, and, if so, whether they will understand the different ratios and the meanings behind them.

CIFIC believes that Canadian investors do need to know which fees are associated with the products they hold, and providing this information in a simpler way – rather than in the way the regulators have proposed – may be of considerably more benefit to both the industry and investors. We would welcome a discussion on that topic in the upcoming weeks.

Conclusion

We appreciate CIRO's commitment to protecting investors through enhanced transparency measures and by adopting into its own Rules total cost reporting enhancements that are comparable to the CSA's.

We would like to reiterate that the Investment Dealers we represent do not have control over the cost reporting that may or may not be done, for example, by certain foreign issuers. As such, appropriate data solutions must be made available to Investment Dealers to allow them to collect such information in an automated manner and properly communicate it to investors.

We would like to reiterate that Investment Dealers' current CRM exemptions should be maintained and applied to CIRO's amended Enhanced Cost Reporting requirements.

Thank you for considering our comments on this important proposal.

As always, we are available to discuss the content of this submission further, address any concerns you may have, or provide additional information as needed. Your feedback is invaluable to us, and we are committed to ensuring that we all achieve our objectives effectively and efficiently.

Please feel free to contact me at annie@cific.co with any questions, comments, or to schedule a call to discuss any aspects of the letter or explore potential next steps. We look forward to our continued collaboration on this matter.

Sincerely,

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