

January 8, 2025

Submitted via Email

Attention:

Membership Regulation Policy
Canadian Investment Regulatory Organization
40 Temperance Street, Suite 2600
Toronto, Ontario M5H 0B4
E-mail: memberpolicymailbox@ciro.ca

Dear CIRO:

Re: Enhanced Cost Reporting – Proposed Rule Amendments

We write in response to the Canadian Investment Regulatory Organization's request for comments on its proposed enhanced cost reporting amendments to the *Investment Dealer and Partially Consolidated Rules* and the *Mutual Fund Dealer Rules* (the "**Proposed Amendments**").

Summary of Position

The Proposed Amendments will have a material impact on Investment Dealers and Mutual Fund Dealers. However, we generally agree with CIRO's conclusion that the impact of the Proposed Amendments is derivative of the Canadian Securities Administrators' enhanced cost reporting amendments to National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

With that being said, we believe that there are areas of the Proposed Amendments that would benefit from clarification and revision. Our concerns relate to: (a) the impact on the Proposed Amendments on existing reporting exemptions for outside holdings; (b) reporting obligations for total fund expenses and fund expense ratios; (c) notifications related to funds with managers in foreign jurisdictions; and (d) the inclusion of precious metal bullion in the Proposed Amendments. Our position on each of these discrete issues is detailed below.

Exemptions for Outside Holdings

The Proposed Amendments will impact the exemptions that have already been granted to dealers for reporting on costs for outside holdings. Although we appreciate CIRO's proposal to provide senior staff with the authority to exempt dealers from the expanded cost reporting obligations included in the Proposed Amendments, we recommend that CIRO consider 'grandfathering' or expanding the existing exemptions that have been granted to Dealers in order to apply to the Proposed Amendments.

This approach will save time, costs and resources for both CIRO and its members, without investor harm. A system of grandfathering is particularly appropriate for those dealers who have been granted an exemption for reporting on outside holdings on the basis that there are no costs to report, and the Dealer does not provide services to the client in respect of the outside holdings.

Reporting on Fund Expenses and Fund Expense Ratios

In review of the Proposed Amendments, we understand that Dealers are required to report total fund expenses as an aggregate sum for all investment funds¹ and report separate expense ratios for each investment fund². This interpretation is consistent with the sample annual cost and compensation report [published](#) by the OSC in connection with the enhanced costs reporting amendments made to NI 31-103. As illustrated in this sample, a single figure is reported for “fund expenses” whereas separate fund ratios are reported for each investment fund under “fund expense ratio”.

In order to ensure clarity and avoid any confusion on this issue, we ask that the proposed rule 3811(2)(x)(a) and (e) be amended to specify that fund expenses should be reported as a total aggregate sum whereas fund expense ratios must be reported as separate ratios for each investment fund.

Investment Fund Manager Incorporated in Foreign Jurisdictions

The Proposed Amendments provide that, where the manager of an investment fund is incorporated, continued or organized under the laws of a foreign jurisdiction, and the information that is reported to a client for those securities is based on information disclosed under the laws of a foreign jurisdiction, the client’s cost report must include the following notification or a notification that is substantially similar:

“This report includes information about the fund expenses and fund expense ratio of foreign investment funds. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, that may include different types of fees.”

We recommend that the Proposed Amendments include an additional rule to address scenarios in which a fund manager that is incorporated in a foreign jurisdiction does not provide the information that a Dealer requires in order to meet its reporting obligations, and the Dealer is unable to approximate such information. We recommend that the Proposed Amendments to the *Investment Dealers and Partially Consolidated Rules* be revised to include the underlined text below:

3811(6) For the purposes of reporting the information under subclauses 3811(2)(x)(a), 3811(2)(x)(b) and 3811(2)(x)(e) and the disclosures under paragraphs 3811(2)(x)(f)(I), 3811(2)(x)(f)(II), 3811(2)(x)(f)(V) and 3811(2)(x)(f)(VI), the Dealer Member must:

- (i) rely on the information provided by the investment fund manager, pursuant to section 14.1.1 of National Instrument 31-103, unless the Dealer Member reasonably believes the information provided is incomplete or misleading, and
- (ii) where no reliable information can be obtained pursuant to clause 3811(6)(i), make reasonable efforts to obtain or determine by other means the required

¹ *Investment Dealer and Partially Consolidated Rules*, Rule 3811(2)(x)(a)); and *Mutual Fund Dealer Rules*, Rule 5.4.4(1)(h)(i).

² *Investment Dealer and Partially Consolidated Rules*, Rule 3811(2)(x)(e); and *Mutual Fund Dealer Rules*, Rule 5.4.4(1)(h)(v).

information, or a reasonable approximation of such information, and

(iii) where it reasonably believes it cannot obtain or determine under clause 3811(6)(ii) information that is not misleading, exclude such information and disclose in the relevant statement or report that the information is excluded from calculations or not reported, and

(iv) where the manager of the investment fund is incorporated, continued or organized under the laws of a foreign jurisdiction, and the Dealer Member reasonably believes that it cannot obtain or determine under clause 3811(6)(ii) information that is not misleading, the Dealer Member may exclude such information in the relevant statement or report and make the following notification or a notification that is substantially similar:

“The total amount of fund expenses reported does not include cost information for investment funds where the manager of the investment fund is incorporated, continued or organized under the laws of a foreign jurisdiction.”³

Precious Metals Bullion

“Precious metals bullion” is not a security and is not subject to CIRO’s jurisdiction. As such, CIRO’s consolidated Dealer Member Rules ought to exclude all references to “precious metals bullion” and “precious metals bullion position” included in the current version of the *Investment Dealer and Partially Consolidated Rules*.

We are happy to discuss the issues raised in this letter in further detail.

Respectfully submitted,

Investment Industry Association of Canada

cc.

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³ Our recommendation contemplates that the same revision would be made to rule 5.3.3(5) of the amended Mutual Fund Rules.