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Member Regulation Policy  
Canadian Investment Regulatory Organization  
Suite 2600, 40 Temperance Street  
Toronto, Ontario M5H 0B4

Dear Sirs and Mesdames:

**RE: CIRO Request for Comments – Enhanced Cost Reporting – Proposed Rule Amendments**

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to comment on the Canadian Investment Regulatory Organization (**CIRO**) [Request for Comment – Enhanced Cost Reporting - Proposed Rule Amendments \(Consultation\)](#).

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

### Summary

IFIC is pleased to provide comments and recommendations in response to the Consultation on proposed amendments (**Proposed Amendments**) to the Investment Dealer and Partially Consolidated (**IDPC**) Rules and the Mutual Fund Dealer (**MFD**) Rules (all together, referred to as **CIRO Rules**) to expand the responsibility of investment dealers and mutual fund dealers (**Dealers**) to expand the client cost reporting requirements to include ongoing investment fund costs and charges incurred by the client (**Total Cost Reporting** or **TCR**). Our feedback is focused on the following points:

- IFIC strongly supports CIRO's objectives to materially harmonize TCR reporting requirements in the CIRO Rules with the TCR enhancements recently finalized by the Canadian Securities Administrators (**CSA**) in amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**CSA's TCR Enhancements**).
- Despite CIRO's intention to materially harmonize with the CSA's TCR Enhancements, IFIC recommends that CIRO make more precise amendments to certain cost reporting provisions in the Proposed Amendments and publish confirmation, substantially before the publication of the final CIRO Rules for TCR, that despite the drafting of certain provisions in the Proposed Amendments related to the enhanced cost-reporting requirements, the Proposed Amendments do not add any new additional requirements than the reporting obligations required by the CSA's TCR Enhancements.
- IFIC supports the additional amendments to CIRO Rules to align the client reporting requirements and practices of investment dealers and mutual fund dealers and to improve the efficiency of CIRO's exemption process for routine reporting-related exemptions (**Additional Related Amendments**).

- To ensure Dealers have greater certainty, IFIC strongly recommends CIRO improve transparency by publishing, substantially before the publication of the final CIRO Rules for TCR, clarification on the following two areas referred to in the Consultation:
  - CIRO’s treatment of the existing reporting-related relief (i.e., client outside holdings (off-book) / client name holdings exemptions) granted to certain Dealers during the Client Relationship Model (**CRM**) reforms, more specifically, that they will not become void or need to be expanded as a result of the Proposed Amendments, and
  - the specific grounds and conditions CIRO will expect a Dealer to satisfy when issuing new exemptions from TCR reporting-related relief for outside holdings, more specifically, that the criteria a Dealer will need to meet will be the same grounds and conditions that were required for the client outside holdings exemptions that were granted during the CRM reforms.

### Support for the Proposed Amendments Related to TCR and the Additional Related Amendments

It is critical that the Proposed Amendments for TCR do not add any new additional requirements to ensure alignment with the effective date and transition period (**Effective Date**) of the CSA’s TCR Enhancements. Dealers, fund managers, and their service providers have already been well underway in the assessing and planning stages of the business development requirements that will be needed to build new system capabilities necessary to implement the CSA’s TCR Enhancements. Some Dealers and their service providers have commenced making those system changes. Therefore, IFIC strongly supports CIRO’s objectives and commitment to ensure that the Proposed Amendments are materially harmonized with the CSA’s TCR Enhancements, such that no new additional systems planning or implementation changes need to occur. Otherwise, Dealers and their service providers would be burdened by the need to draw on additional resources and costs and face increased implementation risk to comply, and would face challenges with being in compliance with the TCR reporting requirements by the Effective Date.

IFIC also supports the Additional Related Amendments. We agree that client reporting requirements and practices of investment dealers and mutual fund dealers should be aligned. We also commend CIRO for proposing new provisions that clarify who is responsible for sending the annual reports to clients in the situation of shared service arrangements by codifying current principles and practices, exemptions, and clarifications provided during the CRM reforms. In addition, we also commend CIRO for proposing new provisions in the CIRO Rules that enhance the procedural efficiency of CIRO’s exemption granting process for routine reporting-related exemptions.

Although IFIC provides its support on the points referred to above, we have the following recommendations regarding some concerns and detect the need for full transparency and clarification from CIRO in regard to certain aspects of the Proposed Amendments.

### Recommendations for Full Transparency and Clarification

#### No New Additional TCR Reporting Requirements

Despite CIRO’s intention to materially harmonize with the CSA’s TCR Enhancements, the drafting of certain cost reporting provisions in the Proposed Amendments leaves it open to interpretation that new, additional reporting obligations are required in the CIRO Rules.

The drafting of the CIRO Rules seems to require that Dealers will have to report the individual totals for each fund held in the year, plus the aggregate total for all funds held and the FER of each fund.

In the reporting of “total amount of fund expenses” (proposed IDPC Rule 3811(2)(x)(a) and the equivalent MFD Rule) and the “total amount of direct investment fund charges” (proposed IDPC Rule 3811(2)(x)(b) and the equivalent MFD Rule), the drafting implies that these numbers must be broken out by fund because there is a separate requirement to report the aggregate of fund expenses and aggregate of fund charges in proposed IDPC Rule 3811(2)(c) and the equivalent MFD Rule.

CIRO states in the Consultation (page 5, top) that the “*Proposed Amendments are materially harmonized with the CSA’s TCR Enhancements, which is why no net new regulatory burden has been introduced by virtue of such CIRO rule amendments*”. Therefore, it is apparent that CIRO does not intend to require the reporting of fund-by-fund dollar costs. If fund-by-fund dollar costs are to be reported, that would be inconsistent with the position that CIRO is aligned with the CSA’s TCR Enhancements and that CIRO’s Proposed Amendments present no net new regulatory burden.

However, despite the apparent intent of CIRO, the drafting is ambiguous and leaves it open to interpretation. It is important to restate these requirements in a clear, unambiguous way so that the industry has certainty for implementation and regulatory objectives are met.

Finally, we note that you refer to “no **net** [bolding and underlining added for emphasis] new regulatory burden”. We question whether some additional regulatory burden has been added which is counter-balanced by a regulatory burden reduction. If that’s the case, please disclose the details prior to finalization of the Proposed Amendments.

### Recommendation

For full transparency and to remove any confusion regarding the interpretation of these provisions of the CIRO Rules, IFIC recommends that CIRO amend the Proposed Amendments referred to above to be more precise and publish clarification, substantially before the publication of the final CIRO Rules for TCR, that they do not add any new additional requirements than the reporting obligations required by the CSA’s TCR Enhancements.

### **Exemptive Relief Related to Client Outside Holdings (Off-Book Positions) / Client Name Accounts**

The Consultation states that during the CRM reform, IIROC (CIRO’s predecessor) granted exemptions to Dealers from the requirements to send periodic reports (i.e., quarterly/monthly client statements) and a performance report where Dealers could demonstrate that the cost of building and administering reporting capability for client outside holdings (off-book positions) / client name accounts significantly outweighs the benefits to the client from such reporting (**Outside Holdings Exemptions**). In considering such exemption requests, IIROC communicated that it needed to be satisfied that the Dealer meets the following criteria<sup>1</sup>:

- had made a good faith effort to convert off-book client name positions into on-book nominee name positions;
- did not maintain a 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

(collectively, the **Grounds and Conditions**).

The Consultation also states the following at the bottom of page 11:

*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 into effect, is justified.* [bolding and underlining added for emphasis]

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<sup>1</sup> Page 11 of the Consultation.

### Concern - Existing Outside Holdings Exemptions

Firstly, IFIC is concerned about the existing, active Outside Holdings Exemptions which were granted to approximately 46 Dealers by IROC's Board of Directors.<sup>2</sup> In light of the paragraph in the Consultation cited above, the wording highlighted in bold and underlined leaves the interpretation that the existing Outside Holding Exemptions will become "*void or need to be expanded*" as a result of the Proposed Amendments. However, it is unclear why they would be impacted by the Proposed Amendments. The Proposed Amendments do not amend the CIRO Rules in respect of the sending of periodic reports and performance reporting. If an exemption is to become void or needs to be expanded, CIRO should provide Dealers with substantial prior notice so that there is adequate time to plan and implement any systems changes necessary to support granting of the exemption.

### Recommendation

IFIC strongly recommends that CIRO improve transparency by publishing, substantially before the publication of the final CIRO Rules for TCR, clarification about CIRO's treatment of the existing, active Outside Holdings Exemptions; more specifically, that they will not become void or need to be expanded. If CIRO's position is that some may become void or need to be expanded, IFIC requests that CIRO provide clarification by explaining the reasons why and the circumstances in which they would be impacted.

### Concern – Future Outside Holdings Exemptions

Secondly, IFIC is concerned that the Consultation does not state whether the Grounds and Conditions will remain the same for Dealers to be granted new exemptions for client annual cost-reporting obligations in the CIRO Rules for TCR. In light of the paragraph in the Consultation cited above, the wording highlighted in bold and underlined indicates that CIRO believes issuing new exemptions is justified, however, refers to it being "*on comparable grounds and conditions*". IFIC's view is that this is too vague and leaves Dealers with too much uncertainty, which in turn puts them at risk of being non-compliant at the Effective Date. If an exemption proposed to be sought is not going to be forthcoming, CIRO should provide Dealers with substantial prior notice so that there is adequate time to plan and implement any necessary controls and systems changes.

### Recommendation

IFIC strongly recommends that CIRO improve transparency by publishing, substantially before the publication of the final CIRO Rules for TCR, clarification for Dealers that will seek similar exemptions to the Outside Holdings Exemptions, but in respect of the client annual cost reporting obligations, that the criteria Dealers will need to meet will be the same as the Grounds and Conditions. This will provide Dealers with the advance clarity they need, otherwise they risk incurring the resources and costs to put in place necessary controls and undergo additional systems development to provide annual cost reporting for client outside holdings (off-book positions) / client name accounts. This would be an unnecessary burden which can be avoided if greater clarity and certainty is provided by CIRO.

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<sup>2</sup> Page 11 of the Consultation.

## Conclusion

IFIC is pleased to have had this opportunity to provide our comments on the Consultation. Please feel free to contact me by email at [amitchell@ific.ca](mailto:amitchell@ific.ca) and I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



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