

Investment Industry Association of Canada

CRM3/Total Cost Reporting for Investment Funds

April 20, 2023

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On April 20, 2023, the Canadian Securities Administrators and the Canadian Council of Insurance Regulators jointly issued this Total Cost Reporting (TCR) publication: <https://www.osc.ca/en/news-events/news/canadian-financial-regulators-enhance-cost-reporting-requirements-investment-funds-and-individual>.

TCR will also apply to Segregated Funds. The summary that follows focuses solely on investment funds.

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A. Highlights

- An Annual Report on Charges and Other Compensation (Annual Report). A sample document is included at Schedule A.
- Applies to all investment funds: foreign and Canadian mutual funds, ETFs, and scholarship plans.
- There are no grandfathering provisions.
- The changes are described as not material and therefore were not published for further comment.
- No regulatory impact or cost benefit analysis.

Implementation

- Both securities registrants and insurers will have to deliver the first annual reports for the year ending December 31, 2026 (Jan. 2027).
- The CSA and CCIR will establish an implementation committee with the participation of New SRO.

B. Contents of Dealers' Annual Report: Fund Expenses: (s. 14.17 of NI 31-103)

Key points:

- The aggregate amount of fund expenses, in dollars, for all investment funds (s. 14.17(1)(i) of NI 31-103).
 - In addition to providing fund expenses after adjustments for performance fees, waivers, rebates, or absorptions, dealers may also include a separate line item showing these. **(Companion Policy)**
- The aggregate amount of any direct investment fund charges, in dollars, for all investment funds.
 - “Direct investment fund charge” means an amount charged to a client if the client buys, holds, sells, or switches securities of an investment fund, including any tax and excluding an amount included in the fund expenses. E.g., short term trading fees or redemption fees. (s. 1.1 of NI 31-103)
- The fund expense ratio (the **FER**), as a percentage, for each investment fund class or series.
 - In addition to providing the FER, dealers *may* include a separate line item showing the amount, as a percentage, of any performance fees, fee waivers, rebates or absorptions which are included in the FER. **(Companion Policy)**

C. The Investment Fund Manager (IFM) Duties (s. 14.1.1 and 14.1.2 of NI 31-103)

Key Points:

- i) IFM to provide dealer “*within a reasonable period of time*” fund expenses per security as follows:

For the applicable class or series of securities of the investment fund for each day that the client owned those securities, expressed in dollars, and calculated using the following formula, making any adjustments to A or B that are reasonably necessary to accurately determine C:

$A \times B = C$, where

A = the fund expense ratio for the day of the applicable class or series of securities of the investment fund.

B = the market value of a security for the day of the applicable class or series of securities of the investment fund.

C = the fund expenses per security for the day in dollars for the investment fund class or series of securities. **(s. 14.1.2 (1) of NI 31-103)**

- ii) **Approximations:** IFM may use approximations **(s.14.1.2 (2) of NI 31-103)** for:
- fund expenses per that security for the day.
 - inputs referenced in the formula for calculating the fund expenses per that security for the day.
 - the aggregate amount of fund expenses, the aggregate amount of direct investment fund charges and the fund expense ratio for each class or series of investment fund securities.

Reasonable Approximations: IFMs to exercise professional judgement in determining what approximations are reasonable. **(Companion Policy)**

Cumulative Approximations: The cumulative effect of multiple approximations and whether their combined use may cause misleading information to be reported to clients, notwithstanding that any one such approximation may be reasonable, to be considered. **(Companion Policy)**

Exact Information Encouraged: IFMs are encouraged to provide exact information wherever they can do so without unreasonable cost or delay. **(Companion Policy)**

Foreign investment funds: generally acceptable for registrants to report a reasonable approximation based on similar information which is required to be reported in the foreign fund’s jurisdiction, if more accurate information cannot be obtained by other means using reasonable efforts. For example:

- for a US mutual fund, its total expense ratio.
- for a fund to which the Undertakings for the Collective Investment in Transferable Securities (UCITS) framework applies, its ongoing charges.

- iii) **Common Industry Standards:** The use of common industry standards and arrangements for the delivery of information by investment fund managers is *encouraged but not mandated*. **(Companion Policy)**

D. Dealer Duties (s. 14.17 of NI 31-103)

Key Points

- i) For each day in the 12-month reporting period, registered dealers to:
 - o multiply the amount of fund expenses per security for that day by the number of securities owned by the client on that day, for each class or series of investment fund securities owned by a client.
 - o add together the resulting amounts for each class or series of investment fund securities owned by a client.
 - o obtain the aggregate amount of fund expenses for the year. **(S. 14.17(6) of NI 31-103)**
- ii) If IFM does not provide the required information or dealer reasonably believes that any part of the information provided is incomplete or that relying on it would cause information to a client to be misleading:
 - o A dealer must make reasonable efforts to obtain or determine the information or obtain or determine a reasonable approximation of that information, by other means **(s. 14.17.1(2) of NI 31-103)**
 - o If a dealer reasonably believes it cannot obtain the information that is not misleading, then dealer must exclude the information and disclose the exclusion on the statement **(s. 14.17(3) of NI 31-103)**
- iii) **Exclusions:** The information required for investment funds need not be provided for:
 - o A “newly established investment fund”: a fund that has not yet filed a management report of fund performance, or a fund established less than 12 months before the end of the period covered by the statement **(ss. 1.1 and 14. 17(7) NI 31-103)**
 - o Note: Existing exemptions for non-individual permitted clients continue to apply **(s. 14.17(5) of NI 31-103)**
- iv) **Expanded Mandated Notifications in Annual Report: (s. 14.17(1) of NI 31-103)**
 - o Select samples below:
- **Explanation to Clients Concerning Fund Expenses:**

“Fund expenses are made up of the management fee (which includes trailing commissions paid to us), operating expenses and trading costs. You don’t pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund’s returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund’s management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the estimated total dollar amount you paid in fund expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund."

- **Referral to Issuer Documents and Resources:**

"Please refer to the prospectus or fund facts document of each investment fund for more detailed information about fund expenses and fund performance.

Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own."

What can you do with this information? Take action by contacting your advisor to discuss the fees you pay; the impact those fees have on the long-term performance of your portfolio and the value you receive in return. If you are a self-directed investor, consider how fees impact the long-term performance of your portfolio, and possible ways to reduce those costs."

- **If Foreign Funds:**

"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, which may include different types of fees."

- **If DSC owned:**

"You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund made available at the time of purchase. The redemption fee was deducted from the redemption amount you received."

- **If any prospectus-exempt structured product, labour sponsored investment fund or investment fund:**

"Please note that other products you may own or may have owned during the reporting period, such as exempt-market investment funds, labour-sponsored investment funds or structured products, may have embedded fees that are not reported here. You can contact us for more information."

- **If custodial fees, intermediary fees, or interest charges to third parties:**

"The costs in this report may not include any fees you pay directly to third parties, including custodial fees, intermediary fees or interest charges that may be deducted from your account. You can contact those service providers for more information."

Sample Annual Cost and Compensation Report

Dealer ABC Inc.

Your Account Number: 123-4567

Your Cost of Investing and Our Compensation

This report shows for 2023:

- your cost of investing, including what you paid to us and to investment fund companies
- our compensation

Your Cost of Investing

Costs reduce your profits and increase your losses

Your total cost of investing was \$815 last year

What you paid	
Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.	
Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell some investments	\$20.00
<i>Total you paid to us</i>	\$120.00
Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account, and in investment fund related fees.	
Fund Expenses¹ - See the fund expenses % shown in the table below	\$645.00
Redemption fees on deferred sales charge (DSC) investments ²	\$50.00
<i>Total you paid to investment fund companies</i>	\$695.00
Your total cost of investing³	\$815.00

Our Compensation

What we received	
Total you paid us, as indicated above	\$120.00
Trailing commissions ⁴ paid to us by investment fund companies, included in the fund expenses above	\$342.00
<i>Total we received for advice and services we provided to you</i>	\$462.00

1. Fund expenses: Fund expenses are made up of the management fee (which includes trailing commissions paid to us), operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown in the table above is the estimated total dollar amount you paid in fund expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund.

The total fund expenses reported may not include cost information for newly established investment funds.

Please refer to the table below for additional details about the fund expenses for each fund you own.

- 2. Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund made available at the time of purchase. The redemption fee was deducted from the redemption amount you received.
- 3. Third-party costs:** The costs in this report do not include any fees you pay directly to third parties, including custodial fees, intermediary fees or interest charges that may be deducted from your account. You can contact those service providers for more information.
- 4. Trailing commissions:** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.

What can you do with this information?

Take action by contacting your advisor to discuss the fees you pay, the impact they have on the long-term performance of your portfolio and the value you receive in return.

If you are a self-directed investor, consider how fees impact the long-term performance of your portfolio, and possible ways to reduce those costs.

Fund Expense Ratio for Investment Funds You Owned During the Year¹

On December 31, 2023

Portfolio Assets

<u>Description</u>	Fund Expense Ratio²
<u>Canadian Investment Funds</u>	
ABC Management Monthly Income Fund, Series A FE	1.00%
ABC Management Canadian Equity, Series A FE	2.00%
ABC Management Global Equity, Series A	N/A ³
<u>Foreign Investment Funds</u>	
XYZ Management S&P 500 ETF (U.S. fund)	0.03% ⁴
Weighted Average	1.64%

1. This table presents information about the fund expenses of the investment funds you owned during the year, including exchange traded funds, expressed as a yearly ratio. Please refer to note 1 - *Fund Expenses* above for more information about fund expenses.

Please note that other products you may own or may have owned during the reporting period, such as exempt-market investment funds, labour-sponsored investment funds or structured products may have embedded fees that are not reported here. You can contact us for more information.

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.

2. Please refer to the prospectus or fund facts document for each investment fund for more detailed information about fund expenses and fund performance. Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own.
3. The fund expense ratio of this fund is not available, as it is a newly established investment fund.
4. This is the fund's expense ratio, calculated according to applicable U.S. securities regulations. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, which may include different types of fees.