

# Performance Reporting / Measurement / Account Charge Disclosure

## Participants:

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# Agenda

- Position cost
- Percentage return information
- Account charge reporting

## Position Cost

- Summary of IIROC proposals
- Summary of pending CSA proposals
- Alternative disclosure options with historic information is unavailable
- Information calculation challenges

## Position Cost – Summary of IIROC proposals

- requirement to disclose position cost information
- position cost information must be provided for all positions held or controlled by the Dealer Member for the client including:
  - nominee name positions
  - client name positions held in physical form that are held or controlled by the dealer for the client
- position cost information to be reported is original cost **not** tax cost

## Position Cost – Summary of IIROC proposals

- position cost information can either be provided within the customer holdings section of the client account statement or within a separate report, provided that there is a side-by-side comparison to position market value
- position cost information can be provided on a per share basis as long as the side-by-side comparison to market value is provided on the same basis

## Position Cost – Summary of CSA proposals

- same as IIROC's except that the CSA is proposing that cost information must be provided within the client account statement

## Position Cost – Alternative disclosure options

- position market value as at:
  - implementation date; or
  - a date prior to implementation date, if the dealer chooses to use an earlier date provided that the date used is used “for all similar accounts” of the firm

# Position Cost – Information Calculation Challenges

## FAS Security Cost Tracking and Reporting Study

### Surveyed FAS Operations Committee Members

- 67% of respondents track a cost
- 90% track average cost with 42% also offering originating cost
- 75% report costs on Client Statements, 67% on Portfolio reports, 55% in tax reporting packages, 67% Online
- 92% allow clients to update costs with 50% restricting client updates on some accounts (i.e. Registered Accounts)
- Diverse responses on what they do when no cost is provided and how the missing costs are reported to their clients
- 67% don't differentiate the source of the cost information (i.e. Client vs. System originated vs. Transfer In)

# Position Cost – Information Calculation Challenges

- Development of a Standardized Industry Definition
- Provide One Cost
- Standards for Transfers of Information
- Corporate Actions Treatment
- Consistency in treatment of Startup Values / Missing Values
- Foreign Exchange – “Native Costs”
- Cost Source Info
- Return of Capital
- Importance of Data Integrity

## Percentage return information

- Summary of IIROC proposals
- Summary of pending CSA proposals
- Alternative disclosure options when historic information is unavailable
- Information collection challenges
- Information calculation challenges specific to implementation of requirements

## Percentage return information – Summary of IIROC proposals

- requirement to provide net account percentage return information to clients for the most recent 1, 3, 5 and 10 year periods and from account inception (if account has been in existence for more than one year)
- percentage return information must consider returns for all positions:
  - held or controlled by the Dealer Member for the client; and
  - all other positions on which the Dealer Member continues to any form of ongoing compensation

## Percentage return information – Summary of IIROC proposals

- percentage return information can either be provided within the client account statement or in a separate report
- percentage return information can be calculated using either a time weighted or dollar weighted methodology

## Percentage return information – Summary of CSA proposals

- same as IIROC's except the CSA proposal:
  - requires that a standard reporting format be used – the format requires the inclusion of specific explanatory language as well as the mandatory use of tables and charts
  - does not specify the investment product positions that must be covered by the report – the CSA has not yet decided which investment product positions would be considered to be “in the account” for the purposes of client statement and performance reporting

## Percentage return information – Alternate disclosure options

- account market value may be used when “account net amount” invested is not known as at implementation date

# Percentage return information – Information calculation challenges

## General

- agreeing upon a standardized definition of “net amount invested”
- assessing impact of foreign currencies on calculated amount invested
- determining most suitable methodology to use – pros and cons of dollar weighted and time weighted approaches to calculating percentage return information
  - dollar weighted factors in the performance of investments and the timing of additions and withdrawals
  - time weighted focuses on the performance of the underlying investments while minimizing the timing of additions and withdrawals

# Percentage return information – Information calculation challenges

## **Specific to implementation**

- what to use as a starting point for the percentage return calculation when:
  - account “net amount invested” information is unavailable ⇒ account market value
  - values are unavailable for certain account positions ⇒ assign zero value in determining account “net amount invested”
  - positions that are assigned zero value at date of implementation come back to life and now have value ⇒ adjust account “net amount invested”

# Percentage return information – Information calculation challenges

## **Specific to implementation**

- collection of data and calculation of percentage return information for positions held off-book
- ensuring consistency of values ⇔ cost amounts reported versus values used to calculate percentage return information
- quality assurance review to detect data (i.e., inaccurate pricing) and coding errors (i.e., inaccurate account deposit withdrawal coding)

# Account charge reporting

- Summary of pending CSA proposals
- Alternative disclosure options with historic information is unavailable
- Information collection challenges
- Information calculation challenges specific to implementation of requirements

## Account charge reporting— Summary of CSA proposals

- annual disclosure of the following:
  - operating charges which may be applicable to the client's account (text disclosure)
  - actual account operating charges incurred during the year (dollars and cents disclosure)
  - actual account transaction charges incurred during the year (dollars and cents disclosure)
  - standard text disclosure for accounts with fixed income transactions during the year that states that compensation has been taken on these trades

## Account charge reporting— Summary of CSA proposals

- annual disclosure of the following:
  - fees paid to the firm during the year by a third party (including referral fees, success fees and presumably underwriting fees although these fees are not specifically mentioned in the rule or companion policy) in relation to the client (dollars and cents disclosure)
  - identification of account positions that may be subject to deferred sales charges (positions to be flagged or otherwise identified in charge report)
  - actual fees received and standard text disclosure relating to trailing fees on investment funds held by the client (both dollars and cents and text disclosure)

## Account charge reporting– Alternate disclosure options

- the proposals will be applied prospectively so unavailability of historical information is not an issue

# Account charge reporting– Information calculation challenges

## **General**

- charge coding issues may make it challenging to differentiate between account operating charges and account transaction charges
- identification of accounts with fixed income transactions during the year may be difficult
- third party fees received may be difficult to allocate to individual accounts
- identification of individual mutual fund positions subject to potential deferred sales charges

# Percentage return information – Information calculation challenges

## **Specific to implementation**

- client education – explaining to client how to interpret information in net account performance report and information in gross account charge report

## Status of CRM

- Status of IIROC proposals
- Status of CSA proposals