

CRM2 – Update on rule implementation issues/complaints and their resolution

FAS Annual Conference
St. Andrews, New Brunswick
September 8 to 11, 2016

CRM2 Update

Agenda

- Rule implementation issues/complaints identified
- How have these issues/complaints been resolved?
- What issues/complaints remain unresolved and what are the plans to resolve them?
- What rule compliance allowances are being made by IIROC?

Rule implementation issues/complaints identified

- Scope of clients, client account service offerings and client investment product holdings covered by the new/revised client reporting requirements – IIROC requirements apply to:
 - all retail clients
 - all account service offerings, including custodial and futures, forex and contracts for difference service offerings
 - all client account holdings, including on-book segregated fund holdings included in the account statement provided to the client
 - certain off-book client holdings

Rule implementation issues/complaints identified

- Compensation disclosure scope consistency
 - Pre-trade disclosure –
 - not required for segregated fund purchases as segregated funds are not to be sold through the dealer
 - Annual fee/charge report disclosure
 - not required for deferred sales charges incurred by a client on the sale of a DSC fund
 - required where compensation embedded in price of new issues, including securities that are continuously distributed
 - required for third-party compensation amounts received from “a securities issuer or another registrant in relation to registerable services provided to the client during the period covered by the report”

Rule implementation issues/complaints identified

- Determining which amounts received by the firm are considered to be compensation that is reportable to the relevant clients on an account-level basis
- Calculation and categorization of reportable compensation amounts for account level reporting purposes
- Handling of account situations where calculated performance information is incomplete or inaccurate

How have these issues/complaints been resolved?

- Scope of clients, client account service offerings and client investment product holdings covered by the new/revised client reporting requirements – IIROC requirements apply to:
 - all retail clients
 - [Exemptions under consideration that, if approved would exempt retail clients that are mind and management of the firm from the new reporting obligations]*
 - all account service offerings, including custodial and futures, forex and contracts for difference service offerings
 - [Exemptions:*
 - *granted by the Board in June 2016 for custodial account service offerings of 9 dealers*
 - *being considered by the Board in September 2016 for futures, forex and contracts for difference account service offerings of 11 dealers]*

How have these issues/complaints been resolved?

- Scope of clients, client account service offerings and client investment product holdings ... *[continued]*
 - all client account holdings, including on-book segregated fund holdings included in the account statement provided to the client
[Since segregated funds are insurance products (and not investment products), IIROC has never required these positions to be reported on within the account statement. However, if a dealer chooses to include segregated fund positions within the account statement, these positions must be considered in the preparation of the new annual reports]
 - certain off-book client holdings
[Exemptions from the requirement to report on off-book holdings granted by the Board in June, September and November 2015 to 47 firms]

How have these issues/complaints been resolved?

- Scope consistency
 - Pre-trade disclosure –
 - not required for segregated fund purchases as segregated funds are not to be sold through the dealer
[\[IIROC RN 16-0113 - CRM FAQ #1\]](#)
 - Annual fee/charge report disclosure
 - not required for deferred sales charges incurred by a client on the sale of a DSC fund
[\[CSA Staff Notice 31-345 indicates that deferred sales charges need not be included in the annual fee/charge report as it is a payment to the fund manufacturer\]](#)

How have these issues/complaints been resolved?

- Scope consistency

- Annual fee/charge report disclosure ... *[continued]*

- required for third-party compensation amounts received from “a securities issuer or another registrant in relation to registerable services provided to the client during the period covered by the report”

[IIROC RN 16-0113 - CRM FAQs #23 through #27]

- required where compensation embedded in price of new issues, including securities that are continuously distributed

[Additional time given to disclose:

- *Commission portion of new issue fees - IIROC RN 16-0113 - CRM FAQ #28*
- *Forex and contracts for difference - being considered by the Board in September 2016]*

What issues/complaints remain unresolved and what are the plans to resolve them?

- Determining which amounts received by the firm are considered to be compensation that is reportable to the relevant clients on an account-level basis

*[Feedback is that FAQ guidance has been helpful but it is still a challenge to distinguish between reportable and non-reportable payments - **plan is to provide specific situation assistance rather than to issue more FAQs.**]*

- Calculation and categorization of reportable compensation amounts for account level reporting purposes

[Feedback is that:

- *There are level-playing field issues that are created when only the dealer compensation taken is disclosed (particularly when non-arms length investment products are distributed) – **the MFDA is currently studying whether greater annual fee/charge disclosure is required in instances where non-arms length investment products are distributed to clients. If necessary, IIROC and the MFDA will move to require greater disclosure in instances where the current disclosure is determined to be understated/misleading]***

What issues/complaints remain unresolved and what are the plans to resolve them?

- Calculation and categorization of reportable compensation amounts for account level reporting purposes... [continued]

[Feedback is that:

- *The expected degree of itemization of operating charges and transaction charges needs to be clarified – IIROC is monitoring this issue but would prefer that industry develop consistent level of itemization]*

- Handling of account situations where calculated performance information is incomplete or inaccurate

[IIROC would not permit the use of disclaimer language in these instances but agree that the issuance of assistive guidance may be necessary to ensure client is informed of the limited use of mandatory performance information in some cases.]

What rule compliance allowances are being made by IIROC?

- Allowances dependent on the determination that the Dealer Member has made a reasonable effort to comply with the CRM2 requirements
- IIROC recognizes that the rules as drafted do not specifically address every conceivable client reporting situation - where the rules:
 - appear to impose an obligation to disclose information that is misleading to the client, IIROC will continue to work with the firms to develop alternative disclosures that meet the policy objectives of CRM2 but that are not misleading (through the issuance of FAQ guidance and by other means)
 - do not specifically require the disclosure of certain information, but there are general requirements that apply (i.e., third-party compensation payments received) or there are street practices that generally apply (reporting on all investment products versus securities only), IIROC expects the Dealer Member to provide the information to the client in all cases where the client would reasonably expect to receive it