

DEALER CHECKLIST: CRM2

2015 Requirements

About CRM2

The purpose of CRM2 is to ensure all investors receive timely, easy-to-understand information about the cost and performance of their investments. The mutual funds industry supports CRM2 and believes the changes will allow investors to make better informed decisions about their investments. Informed investors are more committed to saving and creating a more secure financial future for themselves and their families.

CRM2 is being phased in over three years. In 2014, dealers were required to disclose pre-trade costs and provide a general description of benchmarks. As of December 2015, dealers will be required to report on all investments – client name and nominee-held positions – and several changes will be required to account statements. In 2017, investors will receive a report showing, in dollar amounts, the money paid to dealers on the investor's account during 2016. A separate report will tell investors how well their investments have performed in dollar terms and percentage terms over several time periods ending in 2016. Investors will receive these reports annually.

This checklist focuses on changes required as of December 31, 2015. The Investment Funds Institute of Canada (IFIC) will provide additional materials to assist dealers in preparing for the 2016 requirements.

This checklist outlines new information that **dealers must include on clients' account statements as of December 31, 2015**, as part of the initiative known as CRM2.

Account statements will be required for all investments – client name and nominee-held positions – except in the case of IIROC members who have received exemptive relief for client name positions.

Requirements

1. Provide book cost or original cost of each security, including a definition of that cost
2. Provide market value of each security based on IFRS principles
3. Provide an opening balance
4. Indicate that the security is subject to a DSC (if applicable)
5. Indicate whether the product is covered by an investor protection fund and if so, the name of the fund
6. Provide the name of party that holds/controls each investment and a description of how it is held

The following pages contain information that will help you meet these requirements, including:

Prescribed

Prescribed language that must appear on account statements.

Plain

Plain language that would meet or exceed the requirement to provide descriptions of certain items. We recommend that the industry adopt this language to ensure a clear and consistent experience for investors.

This checklist is based on information available as of March 15, 2015. Updates will be circulated to IFIC-member dealers and posted on our website.

CRM Requirements in 2015

Requirement 1: Provide book cost or original cost of each security, including a definition of that cost

Note: An industry preference for book cost is emerging. IFIC recommends widespread adoption of book cost to achieve consistency and facilitate investor understanding.

Before deciding which method to adopt, check whether your system vendor will be supporting both options. Discuss with your vendor the data reconciliation processes that will need to be put in place and the vendor's deadline and costs for statement layouts/customized work. Consider whether you will include additional data beyond that required under the new rules.

The box below contains prescribed language for defining "book cost" and "original cost" on your statements.

Prescribed

Prescribed Language definitions of "book cost" and "original cost"

"Book cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase, adjusted for reinvested distributions, return of capital and corporate reorganizations.

"Original cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase.

In limited circumstances, such as transferred-in positions before December 31, 2015 (date to be confirmed by the CSA), the book or original cost of your clients' investments might not be available. In these limited circumstances, use market value and provide an explanation. The wording in the box below may assist you with the explanation.

Plain

Plain Language explaining why book (or original) cost is not available

This statement uses market value from the time that you opened your account with us, rather than book (original) cost. This is because when your investments were transferred to us by your previous dealer, the book (original) cost was not available.

OR

This statement uses market value from the time that you opened your account with us, rather than book (original) cost. This is because at the time that you placed your investments with us, it was not common industry practice to retain records on book (original) cost.

IFIC recommends that dealers include a disclaimer on account statements indicating that book (or original) cost figures cannot be relied on for tax purposes, as shown in the following box.

Plain

Plain language disclaimer – information not suitable for tax purposes

The book (original) cost shown in this statement may not be suitable for income tax purposes, as it may not reflect all required adjustments. It is important for you to keep records of all of your investment transactions and consult your income tax advisor to properly determine your gains and losses for income tax purposes.

CRM Requirements in 2015

Requirement 2: Provide market value of each security based on IFRS principles

If there is no active market for a security, you must provide a reasonable estimate. If this is not possible, you must indicate that the market value is not determinable.

In the case of mutual funds, this is not a new requirement, and the market value (NAV) is generally available. However, dealers should ensure that this is addressed for other products.

As a best practice, you could include a definition of market value/NAV. Sample language is provided in the following box:

Plain

Plain Language *definition of market value*

“Market value” is the price at which an investment can be sold on the open market at a specific point in time. If there is no active market for an investment, then we have estimated its market value. If we cannot reasonably determine the market value then we have excluded that investment from the calculation of your return. The market value of an investment fund is its “Net Asset Value”. This is usually calculated by investment managers once per day.

Requirement 3: Provide an opening balance

The opening balance will be the total market value of all cash and investments in the account. It will change with each statement: the ending balance on a statement will become the opening balance on the next statement.

Requirement 4: Indicate that the security is subject to a DSC (if applicable)

You will need to consider whether DSC funds are readily identifiable from a systems perspective, or whether your product table needs to be updated.

Once the funds have been updated on your system, you can meet the new requirement by placing an asterisk beside the products with DSC and having a footnote at the bottom.

It is recommended that you include a simple definition of DSC. Plain language wording is provided in the box below.

Plain

Plain Language *description of Deferred Sales Charges*

If you choose a deferred sales charge (DSC) option when you purchase units of a mutual fund, a sales charge may be payable by you. The sales charge is usually based on the net asset value of your units/shares at the time that you sell, and is deducted from the amount you receive for the units/shares. Deferred sales charges usually decline to zero after a specific number of years.

CRM Requirements in 2015

Requirement 5: Indicate whether the product is covered by an investor protection fund and, if so, the name of the fund

You will need to identify which products are covered by which protection fund. Prescribed language, as shown in the box below, must be used to fulfill this requirement.

Prescribed

Prescribed Language – MFDA Dealers

Customers' accounts are protected by the MFDA Investor Protection Corporation ("IPC") within specific limits. Customers with accounts in Quebec are generally not covered by the IPC. Please refer to the IPC Coverage Policy on the website at www.mfda.ca/ipc for a description of the nature and limits of coverage, or contact the IPC at 1-888-466-6332.

Prescribed Language – IIROC Dealers

*Customers' accounts are protected by the Canadian Investor Protection Fund within specified limits. A brochure describing the nature and limits of coverage is available upon request [*or at www.cipf.ca*].*

Note: *Optional reference to CIPF website (shown in blue and in brackets above) is pending approval.*

Requirement 6: Provide the name of party that holds/controls each investment and a description of how it is held

Providing this information is important from an IPC disclosure perspective.

Plain

Plain Language description of *who controls each investment and how it is held*

For client name accounts:

"These investments are registered in your name at the fund company."

For nominee accounts:

*"These investments are registered in the name of **XXX Dealer** on your behalf."*



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For additional updates and tools to help you implement CRM2 effectively, visit our **Member Resources** page.