

# Client Relationship Model Phase 2 (CRM2): 2014 Requirements

## CSA Staff Notice 31-337

### *Cost Disclosure, Performance Reporting and Client Statements: FAQ and Additional Guidance*



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### *CSA Staff Notice 31-337 Cost Disclosure, Performance Reporting and Client Statements: FAQ and Additional Guidance*

- Published February 27, 2014
  - Contains a compilation of frequently asked questions and answers
  - Contains guidance for the implementation of CRM2
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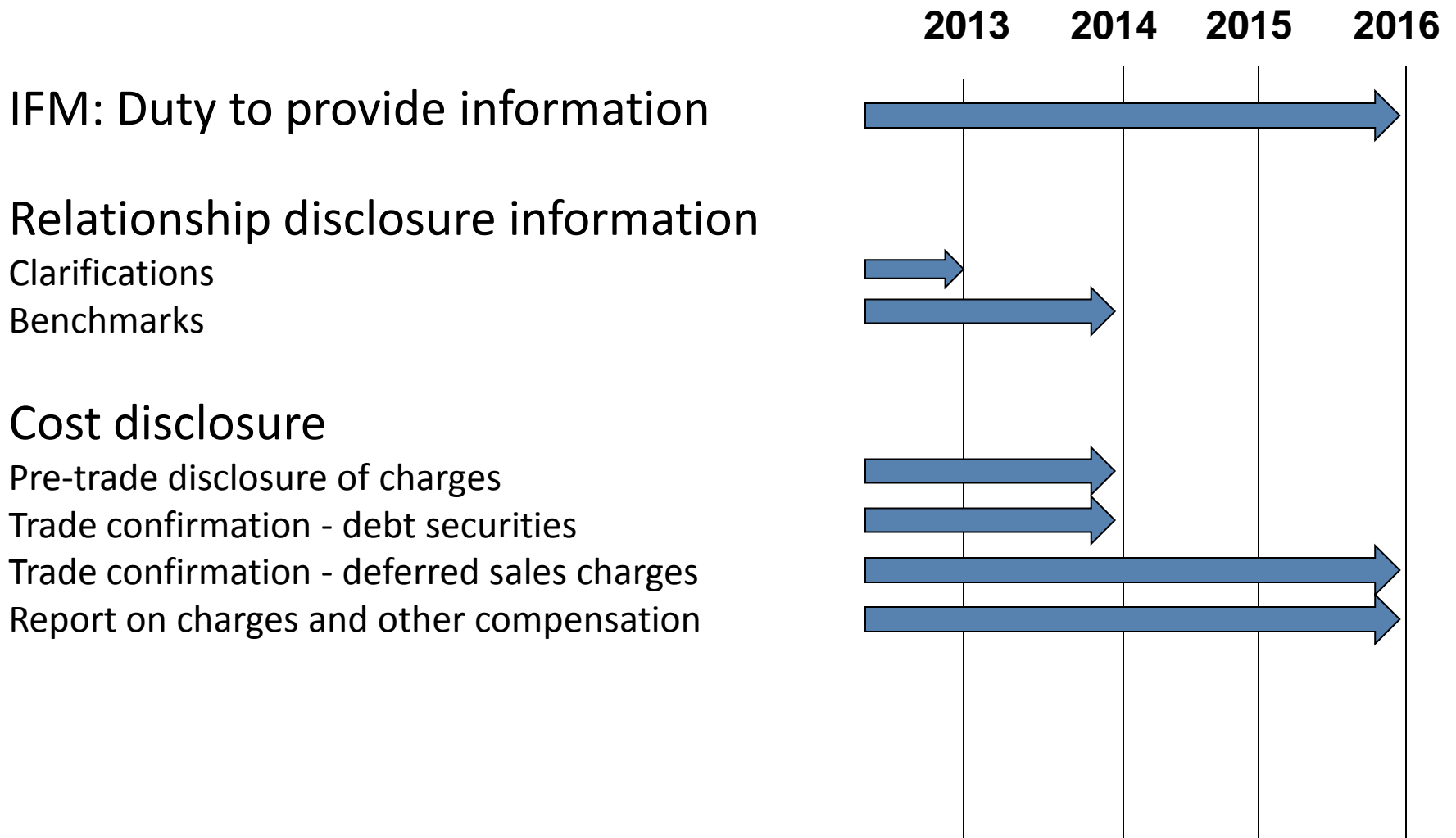
- Applicable to all dealers and advisers, with some application to investment fund managers
  
  - Limited application to many exempt market client relationships, where:
    - No securities are held by the dealer
    - Client relationship is not ongoing
    - Dealer may not be in a position to know whether the client still owns securities
    - No reliable market value for exempt market securities can be determined
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Some examples of ongoing relationships:

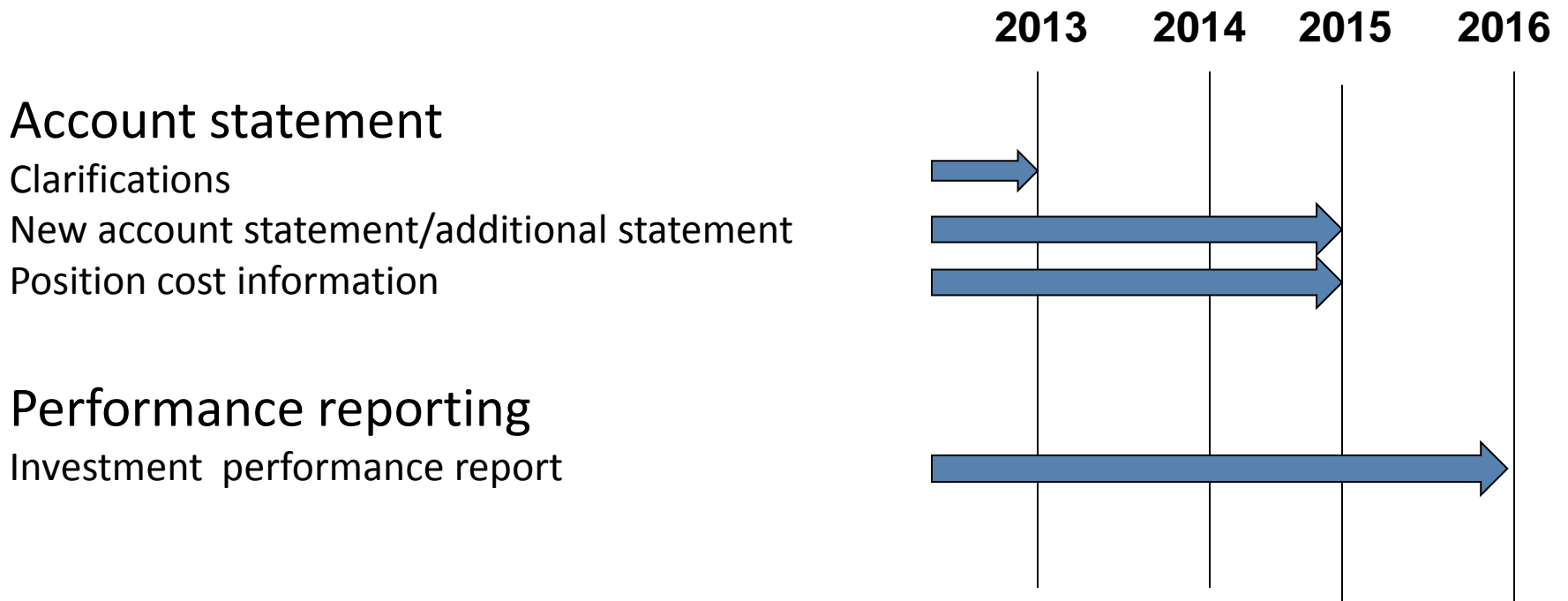
- EMD has a related issuer and is in the position to obtain information as to whether the client still holds the security
  - EMD receives any continuing payment related to the transaction
  - Continuing transactions with the client
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- Email to CCOs sent March 7, 2014
  - “Planning Tips for the Implementing the CRM2 Amendments”
  - Contains a summary of the changes that come into effect in each of the next 3 years
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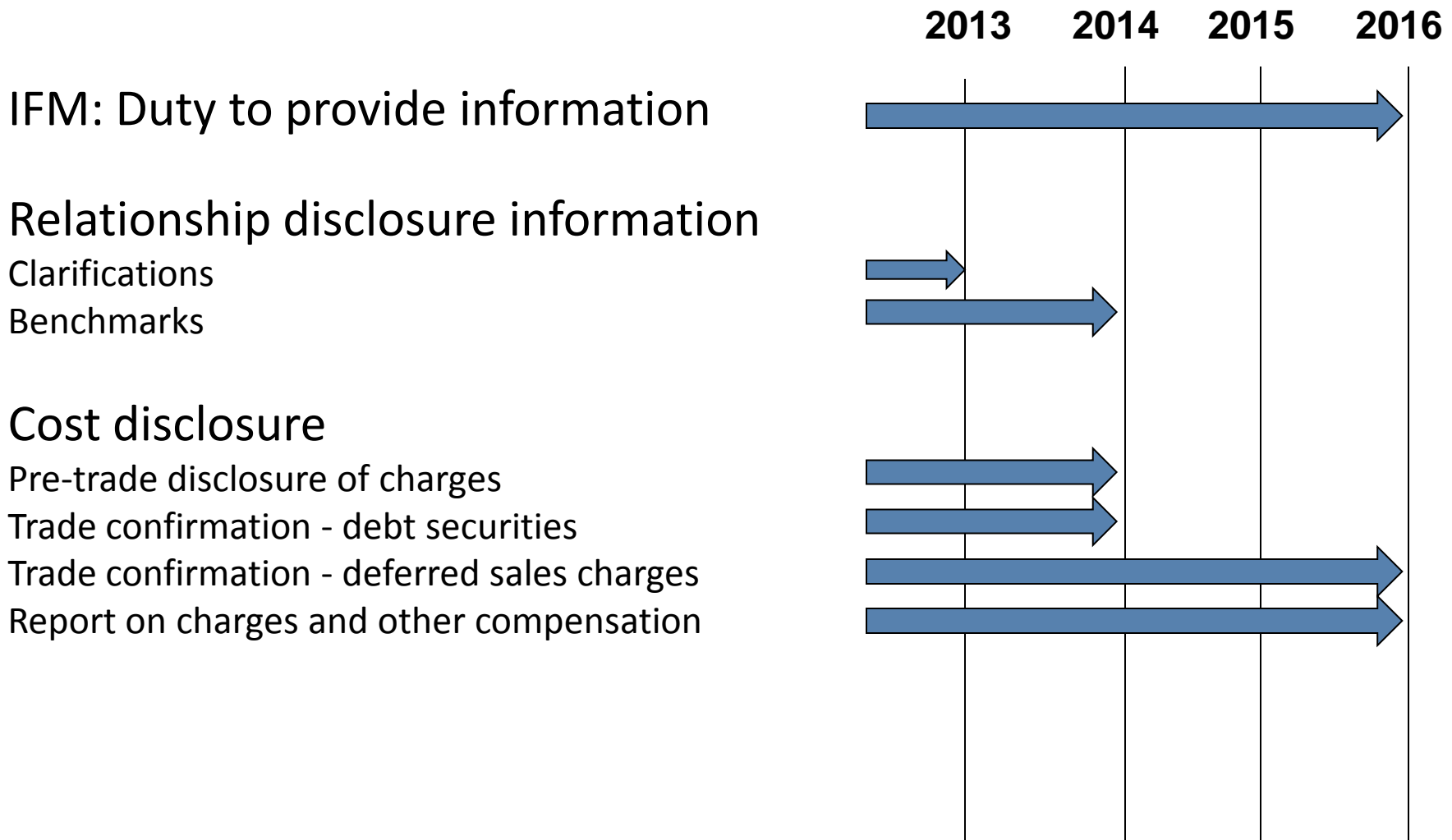
# CRM2 Transition Period



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- Investment performance benchmarks
  - Must provide explanation of benchmarks and options available to clients in RDI
  - Firms using benchmarks are also required to disclose specific information about the benchmarks that they use
  - Guidance on the use of benchmarks has been added to the Companion Policy to NI 31-103

14.2(2)(m) Relationship Disclosure Information

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- Cost disclosure: Pre-trade disclosure of charges
  - Prior to the transaction, must provide disclosure of the charges a client will have to pay or a reasonable estimate
- Carve-outs: for permitted clients that are not individuals, for dealers trading as directed by an adviser, and for managed accounts

14.2.1 Pre-trade disclosure of charges

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- Cost disclosure: Pre-trade disclosure of charges
    - Example: For mutual fund transactions, the following information should be explained to the client:
      - The management fee
      - The sales charges or deferred sales charges and other redemption fees or short term trading fees
      - Trailing commission or other embedded fees
      - Any options regarding front end loads
      - Switch or change fees
-

- Cost disclosure: Debt securities
  - Two new requirements:
    - (1) Security's annual yield (purchases only)
    - (2) Compensation from debt securities:
      - Total \$ amount of compensation; and
      - Total \$ amount of any commission paid to the firm, plus a general notification (mark- up/mark-down, service charge)

14.12 Content and delivery of trade confirmation

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- Consider the following when planning the implementation of the CRM2 requirements:
    - Developing and implementing system changes
    - Updating policies and procedures
    - Training Staff
    - Communications with clients about the new information
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### Question:

- If a firm does not use benchmarks, do they need to include this information in RDI?

### Answer:

- Regardless of whether a firm uses benchmarks, all firms are required to provide a general explanation of benchmarks in their RDI
  - For example, a firm should disclose general information about benchmarks and, if the firm uses specific benchmarks, it should explain the relationship to individual investment performance
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### Question:

- Do EMDs have the same statement and annual report obligations under CRM2 amendments as advisers and other dealers?

### Answer:

- CRM2 Amendments do not distinguish between categories of registered advisers and dealers
  - Firms must review all of the requirements
  - EMDs must consider the totality of their dealings with clients and the client's expectations of the firm
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### **Answer-** continued

Items to consider:

- Are there expected to be continuing transactions with the client?
- Is the client expecting ongoing services from the firm?
- Is the firm engaged in a different capacity, for example, as a registered adviser managing the client's other investments?

These factors are not exhaustive and must be considered in relation to the firm's business model

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# Questions

