

**PRE-TRADE DISCLOSURE CHECKLIST – EFFECTIVE JULY 15, 2014**

When a client wants to buy or sell a security, you must provide actual **direct** and **indirect transaction-related** charges¹ in dollars or – if actual charges are not available – estimates (e.g., \$10 per \$1,000 invested) of the charges a client will be required to pay (including applicable taxes).



- ▶▶ **Direct** charges are paid from the client’s account.
- ▶▶ **Indirect** charges are paid by a third party other than the client and generally reduce the value of client holdings.

Remember: Commission includes amounts charged to clients that are shared by dealers and advisors.

Equities/Stocks, Warrants, Rights, Options (in the secondary market)

- Commission paid by client in dollars **OR**
- If actual commission is not available, a reasonable estimate (e.g., \$10 per \$1,000)

Tip: As a rule, account operating charges, such as all-in fee wrap/fee-based account fees, are not part of pre-trade disclosure (*unless a security acquired has, unusually, a trailer or DSC*).

Debt/Bonds (in the secondary market)

- Commission paid by client in dollars (preferred) or basis points
- OR**, if actual commission is not available, a reasonable estimate (e.g., \$10 per \$1,000)

Best Practice: Refer to short-term trading fees that may arise.

Mutual and Other Investment Funds (e.g., ETFs, closed-end funds)

AT PURCHASE:

- Sales charge:** Front-end and front-end low-load commission paid by client in dollars **OR**, if actual commission is not available, a reasonable estimate (e.g., \$10 per \$1,000)

Note: For DSC and back-end low-load sales charges, speak to your firm about what to disclose and how.

- DSC, if any:** Only that there is a DSC (if the fund is a no-load or back-end-load) and give or draw attention to the DSC schedule
- Trailer:** While trailers aren’t transaction fees paid to buy or sell (they’re similar to account operating charges), say that a trailer is paid, e.g., “the fund company pays us a fee that is part of the MER charged by the fund company to help pay for advice and other services we provide you while you own the fund”

Note: Clients will never pay the upfront DSC commission fund managers pay advisors *and* the redemption charge for a DSC or back-end-load fund on top of the MER.

Best Practice: Draw the client’s attention to information in the Fund Facts or ETF Summary to meet both CRM2 and point-of-sale (POS) requirements.

- AT SWITCH:** Charge, or if actual charge is not available, a reasonable dollar estimate

Best Practice: Refer to tax or other implications that may arise at the time of switches.

ON REDEMPTION:

- DSC, if any:** Actual amount of the charge or an estimate (e.g., \$10 per \$1,000)

Tip: Point out returns in Fund Facts are after fund management, trailer and admin/operating fees.

OTHER:

- Actual amount or dollar estimate, with applicable taxes

New Issues (e.g., equity initial offerings, primary offerings of fixed-income securities, including CSBs, provincial savings bonds, and structured products)

- Disclose any conflict of interest (e.g., related party underwriting)

Note: For more specifics regarding new issue fees, speak to your firm.

Tip: Say ‘relevant taxes and regulatory charges apply’.

Referral Fees (with applicable sales taxes)

Other (see over)

Don’t forget: Document, document, document.

OTHER USEFUL INFORMATION – CHECK WITH YOUR FIRM FOR MORE DETAIL

Excluded from pre-trade disclosure are:

- foreign exchange spreads
- margins that cannot be attributed to a particular transaction
- account operating charges, for example:
 - An all-in fee for the operation of an account, such as a percentage of assets under management
 - Account closing fees
 - Account transfer fees
 - Pre-authorized contributions.

Check with your firm for direction regarding:

- Any other products and services you and your firm provide to your clients that do not fall into one of the categories in the Pre-Trade Disclosure Checklist, for example:
 - GICs and high-interest/other deposits
 - Principal protected notes (PPNs)
 - Segregated funds.
- Other third-party charges that may apply, such as Securities and Exchange Commission (SEC) and other regulatory fees, electronic communications network (ECN) charges, etc.

Account Transfers – check with your firm for direction

Most account transfers are made “in kind”, particularly if the client might otherwise pay a large DSC to a fund manager or fee to the dealer the client is leaving. Because of the way account transfers work in Canada, the client may never again deal directly with his or her former dealer, but the CRM2 rules require the party initiating the trade at the client’s direction (the dealer losing the account) to provide pre-trade disclosure.

Tip: Transfers in and out require pre-trade disclosure only when a buy or sell transaction triggers a charge to the client.

Industry best practice is for the dealer *receiving* the new account to tell the incoming client to obtain any estimates of charges he or she may pay on transfers *before* asking the client to sign accepting to pay these charges and sending the request for transfer to the dealer the client is leaving. **Check with your firm for direction, whether you are gaining a new client or losing an existing one.**

Note: This document is not guidance. Readers/users must refer to their own counsel and professionals for advice. Periodically check the IIAC’s CRM2 Countdown newsletter for updates as new information comes available.

ⁱ **Transaction charges** are amounts charged to a client with respect to the purchase or sale of a security, including commissions, transaction fees, switch or change fees, performance fees, short-term trading fees, and sales charges or redemption fees.

Account operating charges include amounts charged to a client with respect to the operation, transfer or termination of a client’s account, and includes taxes, service charges, administration fees, safekeeping fees, management fees, transfer fees, account closing fees, annual registered plan fees and any other charges associated with maintaining and using an account; it includes an all-in fee for the operation of the account, such as a percentage of assets under management.