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ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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April 10, 2014

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Dear Mr. Corner and Ms. Stern:

Re: *"Client Relationship Model – Phase 2 Performance Reporting and Fee/Charge Disclosure Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1"* – 2015 and 2016 Implementation Requirements

The Investment Industry Association of Canada (the "IIAC") and its members support the core principles of the Client Relationship Model ("CRM") and continue to be actively involved in recommending ways to enable the CRM Phase 2 ("CRM2") framework to achieve its goals effectively. Our members are fully engaged in responding to the requirements of CRM2 as demonstrated by the participation of numerous IIAC members in a series of committees that meet weekly, periodic industry information sessions, interactions with infrastructure organizations involved in the process, and discussions with regulators, other industry associations and investor groups. While many of the suitability and disclosure practices now mandated by CRM1 and CRM2 were in place at IIROC Dealer Members before the rules came or will come into effect, applying requirements to registrants more broadly should help ensure there are consistent standards across the broader industry to the benefit of retail Canadian investors.

Below are our comments on IIROC's *"Client Relationship Model – Phase 2 Performance Reporting and Fee/Charge Disclosure Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1"* (the "IIROC CRM2 Rules"; "proposed" sections) with respect to the proposed sections with July

15, 2015 and 2016 implementation dates. Where relevant, reference is made also to the Canadian Securities Administrators ("CSA") National Instrument ("NI") 31-103 CRM2 equivalent (the "CSA CRM2 Rules").

The issues we outline below focus on ensuring that we can meet our shared objectives to promote transparency and consistency throughout the industry to the advantage of the general public. Our comments here supplement those provided in our February 10, 2014 letter that focused on the July 15, 2014 implementation date. In that letter, we addressed the implementation challenges arising from, and significant changes investors will face due to, the multi-stage, multi-entity CRM2 implementation, which requires extensive planning, development and scheduling for the complex analysis, business requirements writing, systems development, testing, training, and coordinated roll-out phases.

High Priority Issues

1. IIROC Member Dealers Subject Only to One Set of Rules

Background: In our February 10, 2014 letter, we asked the CSA to confirm that it would exempt IIROC Dealer Members from the relevant sections of the CSA CRM2 Rules so Dealer Members, if exempted, could focus on the implementation of one set of rules.

Issue: The July 15, 2014 implementation of pre-trade disclosures, performance benchmark notification and debt trade confirmation changes under IIROC and CSA CRM2 Rules is now three months away. While we recognize the need to ensure a clear understanding of comments and the exigencies of the Joint Rule Review Protocol, delay in confirmation that the IIROC and CSA CRM2 Rules are materially consistent with respect to the 2015 and 2016 deliverables will impede Dealer Members' ability to meet investor needs of accessible, affordable and transparent access to information. We are concerned that there could be Rule approval delays with respect to the more challenging 2015 and 2016 deliverables, where early confirmation is all the more important due to the extensive development and technology enhancements required, and the increased number of industry stakeholders that must be involved, adding risk and cost to the implementation.

Recommendation: We request that the CSA and IIROC expedite the Rule approval process to finalize the IIROC CRM 2 Rules. In addition, we would like to meet with the CSA and IIROC in early May to discuss any issues of concern and confirm that IIROC Dealer Members will be exempt from CSA CRM2 Rules with respect to provisions with a 2015 and 2016 deadline, because these Rules are materially equivalent to the IIROC CRM2 Rules.

2. Market Value

We understand that the concern of stale-dated prices drove the changes in market value in the CSA CRM2 Rules and our members are moving ahead to identify the extent to which this issue exists and,

if so, how it can be addressed. We believe that investor knowledge of consistently applied valuation techniques would help strengthen confidence in the markets. However, we believe that investors would be concerned if there were a difference in the value of securities traded frequently on an exchange versus the valuation reported on clients' account statements. This concern would arise with the use of bid (for long positions) and ask (for short positions) because such a bid/ask market value may differ from the market price used:

(i) As 'fair market value' for Canada Revenue Agency (CRA) purposes – a matter of considerable interest to investors, because if not provided on their statements in the manner required by the CRA, it will be more difficult for those investors to obtain after the fact the last price as at date of death for estate valuations;

(ii) in many public sources of information, including Yahoo Finance and other sites investors use to compare prices; and

(iii) for TSX/S&P and other benchmark indices, to which the CSA CRM2 Rules require registrants to refer clients as ways to assess performance.

Bid and ask will typically be close to last price; while the argument has been made that bid on a statement will let a client know the price they can expect to sell a security at, the value on a statement may also be used as part of a decision to buy additional securities. In alignment with the investor-centric focus of CRM, we are further assessing this matter and may follow up in due course.

Other Issues

3. Account Statement Disclosure Requirements: "Book Cost" or "Original Cost" (Position Cost Information)

a. Subparagraph 200.1(a)(ii) – Treatment of Dividends in Short Positions

Background: Proposed subparagraph 200.1(a)(ii) states that "book cost" means, in the case of a short security position, the total amount received for the security, net of any transaction charges related to the sale, adjusted for any distributions, returns of capital and corporate reorganizations.

Issue: "Distributions" include dividends; however, the CRA rules require that dividends be treated as an expense, rather than capitalized. We are not aware of a strong investor protection benefit derived from requiring the reporting of dividends on short security positions in a manner different from what is done currently. Investors expect that the reporting they receive will be consistent with CRA requirements and would likely be confused by any change or inconsistency

with the costs they might be required to share if Dealer Members were required to track two different costs.

Recommendation: We request that IIROC amend the IIROC CRM2 Rules to exclude dividends from the cost of short positions.

b. Subparagraphs 200.1(b)(i), (ii) and (iii) – When Cost Not Available for Transfers in

Background: Where cost is not available on a security transferred into an account on or after July 15, 2015, proposed subparagraph 200.1(b)(i) requires the market value of the position to be used, with a notification added that is, or is substantially similar to, "Market value has been reported as the cost of this transferred-in security position". Proposed clause 200.1(b)(ii) requires use of book or original cost as at the end of the applicable period or, in the absence of cost information, market value as at July 15, 2015 or earlier, provided the earlier date is used for all positions and clients. Proposed subparagraph 200.1(b)(iii) regarding securities acquired on, after or before July 15, 2015, where the Dealer Member cannot determine the cost in accordance with subparagraphs 200.1(b)(i) and 200.1(b)(ii), allows the Member Dealer to add a notification that is, or is substantially similar, to "The cost of this security position cannot be determined."

Issue: Clients are required to track the cost of their investments for tax purposes. Dealer Members began providing book cost information as a courtesy for clients; however, with the increasing complexity of the tax system and investment products, reliance of Dealer Members on data from third parties over which they have no control, and risk of error due to late receipt of data and issuer corrections sometimes years after the fact, client statements include a note that the information is provided on an 'as-is' basis. When there is no book cost information available from a previous company, the Dealer Member often requests the client to bring in old records to update the Dealer Member records. When no data is provided, a notation may indicate that the information is not available.

Using market value as cost, even with a notation or footnote, and then having this market value become a hybrid market/cost number may contribute to clients incorrectly using the information as book or tax cost. Moreover, tax practitioners acting on a client's behalf or the CRA may be concerned by what they may consider to be a change in practice that is not consistent with accounting or tax practices. For many investors, it may be less transparent than current statements and reporting. The extra confusion when hybrid cost data are transferred through to another Member Dealer, as well as additional systems needed to keep track of separate streams of information are further considerations. As the cost data is not used in any securities-regulator-required calculation, we believe that clients will prefer no change in current practice where cost or book reporting is being provided, with the appropriate notification. Also, while both the CSA and IIROC have made significant efforts to have the CSA and IIROC CRM2

Rules cover every possible eventuality, we have heard both Commission and IIROC Staff agree, at different times, that accuracy and transparency for the investor should prevail, provided that the approach is broadly and consistently applied.

Recommendation: To best meet investor interests with respect to account statements and statements for holdings kept outside the dealer (and as the annual performance report will provide the information necessary to measure return on investment so that a cost-to-market-value comparison is not necessary in position statements), we request that IIROC, in addition to permitting the use of market value, also permit Dealer Members to report '0', 'N/A' or another similar notation as original or book cost with a notice or footnote that is accurate, such as in paragraph 200.1(b)(iii), that is, the following or substantially equivalent to the following: "The cost of this security position cannot be determined".

4. Report on Client Positions Held Outside of the Dealer Member (Additional Statements)

Background: Section 14.1.1 of the CSA CRM2 Rules requires that investment fund managers provide a registered Dealer Member with information regarding deferred sales charges, other charges deducted from the net asset value (NAV), and trailing commissions as required for the registrants to comply with paragraphs 14.12(1)(c) and 14.17.(1)(h). Neither the CSA nor the IIROC CRM2 Rules require investment fund managers or issuers or other parties to provide a Dealer Member or advisor with information required for the reporting of clients' security positions held outside the Dealer Member ("outside holdings"). Such information includes market value, as well as position cost information.

Issue: Dealer Members must rely on information from external sources that are not obliged to provide the information. Market value (and cost information where available) is currently provided by those investment fund managers that use FundSERV through FundSERV files. Data from issuers or manufacturers that do not use FundSERV may not be available. While there are not likely to be timing issues with respect to FundSERV files of position information, there may be timing and co-ordination issues in the case of non-FundSERV participants.

Recommendation: We request that the OSC, as Principal Regulator, amend NI 31-103 to require Investment Fund Managers and other issuers or holders of securities held outside registered dealers to provide to registered dealers, as is necessary for their compliance with CRM2, the information necessary for the registered dealers to comply with the requirements on a timely basis.

5. Fee/Charge Report (Annual Charge and Compensation Report)

Recommendation: We believe that the appropriate cross-references in clause 200.2(g)(ii)(F) should be to clauses 200.2(g)(ii)(C) and (E), and not to clauses 200.2(h)(ii)(C) and E.

6. Performance Report (Investment Performance Report and Content of Investment Performance Report)

Exemption from Annual Performance Report Requirement

Background: Paragraph 14.18(5)(b) of the CSA CRM2 Rules provides an exemption from the requirement to provide a performance report for a registered dealer for client accounts where the dealer executes trades only as directed by a registered adviser acting for the client.

Issue: Clients using online/discount broker or order-execution only facilities of Dealer Members are conceptually the same, in many ways, as the situation of a registered dealer for client accounts where the dealer executes trades only as directed by a registered adviser acting for the client – in this case, the advisor acting for the client is the client. Part of these clients' decision to "do-it-yourself" is the attraction of a low-cost, no-frills, more direct or direct access to their investments and the markets. We believe that, for online and order-execution Dealer Members, Retail Clients access their own tools and have many other options for performance reporting.

Recommendation: We recommend that an exemption similar to that in paragraph 14.18(5)(b) of the CSA CRM2 Rules be made available to online and order-execution Dealer Members in the IIROC CRM2 Rules and that Commission Staff indicate their willingness to consider such an exemption under section 15.1 of NI 31-103.

7. 2016 Trade Confirmations

Background: The preamble of proposed paragraph 200.2(l) requires that the copies of confirmations of all trades in securities, commodity futures contracts and commodity futures contract options as well as other copies of notices disclose "the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction". Clause 200.2(l)(v)(C) adds the expected additional debt security disclosures.

Issue: Including the requirement to disclose "the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction" in the preamble of paragraph 200.2(l) may lead to a duplication of requirements under subparagraph 200.2(l)(v), which applies to debt security transactions, and subparagraph 200.2(l)(vi), which applies to over-the-counter ("OTC") traded securities other than debt securities, primary market transactions and customized OTC derivatives. It also extends the scope of the requirement to clients beyond Retail Customers, which we believe is not the intent.

Recommendation: Please make appropriate revisions to:

a. Provide that the proposed requirement to disclose transaction charges, deferred sales charges or other charge applies to transactions where the client is a Retail Customer only.

b. Address potential inconsistencies between the proposed requirement and subparagraphs 200.2(l)(v) and (vi).

c. Please correct what we believe are inadvertent but substantive revisions (which we understand IIROC already has identified for correction) to the marketplace disclosure requirements in the pre-amble to revert to the original language as follows:

… Such written confirmations are required to be sent promptly to clients and shall set forth at least the day and the marketplace or marketplaces ~~stock exchange or commodity futures exchange~~ upon which the trade took place, or marketplace disclosure language acceptable to the Corporation;

We hope that you will find our suggestions and recommendations helpful. We are making these recommendations to help in the implementation of an enhanced disclosure regime that will provide investors with important information, on a basis that is useful and relevant for them. Given the nature and scope of the changes, the implementation is exceptionally complex, and the issues identified in this letter are intended to seek clarity so that we can meet the implementation timelines and objectives.

In light of the urgency surrounding resolution of these matters and finalization of the IIROC CRM2 Rules, we would ask to meet with you as soon as convenient in order to discuss your questions, comments and feedback.

Yours sincerely,

Cc:

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