

Barbara J. Amsden
Managing Director
416.687.5488/bamsden@iiac.ca

December 20, 2014

Mr. Bill Rice
Chair, Canadian Securities Administrators (CSA)
and CSA Commission Chairs
Tour de la Bourse
800, Square Victoria, Suite 2510
Montreal, QC H4Z 1J2
Tel: (514) 864-9510 / E-mail: csa-acvm-secretariat@acvm-csa.ca

Dear Mr. Rice and Fellow CSA Chairs:

Re: CRM2 Timeline Alignment with Investor Reporting and Education Goals

On behalf of investment dealers and advisors serving retail clients, the Investment Industry Association of Canada (IIAC) would like to request the CSA to modify certain dates associated with the Client Relationship Model, Phase 2 (CRM2) initiative. We believe January 1, 2016 should be added as an optional inception date for CRM2 components due July 15, 2015 where rules are not approved and final decisions in two key areas are not known. As well, we believe the July 15, 2016 due date should align, at the registrant's option, to the closest calendar year-end and take effect on January 1, 2017¹ so the performance and fee reports could be provided for calendar years 2016 and 2017 in mid-January 2018.

CRM2 is simple in its purpose and more complex in its multiple implementations phases than a few formulas and a couple of new fields, statements and reports may suggest, as we await final 2015 book-cost and client-name rules. On the basis of what the CSA requested, we hope the information we provide here will help the CSA answer what we tried to capture in the one following question:

Is it in investors' interest and does it serve public policy goals – is it worth the risk to investors and confidence in Canada's capital markets – if investment dealers must hurry to cut six-and-a-half months from regulator-provided development-and-testing time to meet the more logical client preference for calendar-year performance and fee reports or are forced into reports for an off-calendar year ending June 30, or July 15, 2017?

Our members continue to devote a great deal of time and resources to implementing CRM2 and, more widely within the investment sector generally, to lead on issues that have arisen as CRM2 analysis has proceeded. After dealer implementation of the 2014 CRM2 requirements, we raised with CSA Staff last summer whether investors would consider mid-year performance and compensation reporting to be relevant or helpful. This had become more important as tax authorities wanted to mandate reporting of dealers' "book cost", which securities regulators expected to be used as a benchmark for individual security performance. The IIAC's request for calendar-year adjustments is due to our members' serious concern regarding risk to the achievement of CRM2's goals, not only due to the scope of systems changes in very tight timelines, but also to the diminishing period until the implementation dates without the rules yet being final in several material ways. We appreciate the opportunity to present our views, aspects of which we have discussed or are discussing with representatives of Revenu Québec, the Canada Revenue Agency and Chartered Professional Accountants (CPA) Canada, as well as representatives of FAIR Canada, the OSC Investment Advisory Panel and other investor advocates.

What is most important is that the implementation schedule adjustment to calendar year is in investor's best interests. As CSA Staff know, we have sought and welcome discussion of this. CRM2 is recognized as going beyond anything other countries have done to help clients make investment decisions through disclosure and education about key issues relevant to these investors. This takes the form of the expanded pre-trade, post-trade, statement, quarterly and annual report information focussing not just on delivery to, but also building understanding by, investors. It is clear to our member firms that their clients will not appreciably benefit from rushed calendar-year or mid-July-based reporting. Here is why:

- 1. *Client preference and usefulness:*** We believe calendar-year performance and fee reporting are what investors will expect and prefer. Calendar-year reporting will ensure investors have the relevant information at the time most useful to them, that is, information used for RRSP and tax decisions at tax season, as well as for general financial planning many do at the start of the year.
- 2. *Better comparability:*** The adjustment of 2015 and 2016 requirement dates to align with the nearest calendar year (effective start dates of January 1, 2016 and January 1, 2017, respectively) will line up the new market value definition with its use as a start point for the new performance report. A 2017 calendar year will then enable investors to compare two full years of performance based on comparable ("apples to apples") market values, providing better data for more meaningful discussion with investors. Under the rules currently, the comparison could be between returns for 17.5 months (since the July 15, 2015 market value inception date) and 12 months for calendar 2016.
- 3. *Better quality:*** The final calendar-year period available under CRM2 rules is January 1 – December 31, 2016, although the final possible due date for performance and cost reports is 10 calendar days after July 14, 2017. Changing to calendar year after the fact will be at best confusing and, at worst, clients may conclude incorrectly that they have been charged more than they have in fact paid. To avoid this, IIROC firms have been trying to accelerate their development and testing by 6.5 months to meet the 2016 calendar-year, but this is not possible in areas of ongoing uncertainty. In rushing, decisions will be made based on expediency rather than on an optimal approach, compromising rigour in favour of rejigging older systems to meet the deadline. This is not the intent of regulators nor our members, and certainly not in the best interest of investors.

4. **Less confusion:** Investors told researchers commissioned by the OSC/CSA that they want better, cleaner, plainer disclosure, and only the details about the few things that matter to them. We found client-specific tax election changes are not permitted in the CRM2 definition of ‘book cost’. Processed for a relatively low number of full-service broker clients in any given calendar year, these changes are important to those who have asked their dealers to make them or made them themselves (that is, discount broker clients looking after their own investments). The regulatory purpose of book cost is important to help provide a rough indication of a security’s value being up or down; but book cost, which can equal tax cost, also matters to clients receiving it already. Securities regulators and tax authorities both look to use IIROC dealer book cost for different purposes. Given a choice, we think clients would almost unanimously prefer a single book cost number – the one that many already receive and may on rare occasions reflect elections requested by investors, which can just as easily be compared by investors to their securities’ market values for an indication of performance.
5. **Better investor education:** Investor education is essential to ensuring CRM2 meets its objectives. Commission research shows many Canadians find percentages confusing. While some clients receive rate-of-return performance reports now, most are getting time-weighted or ‘modified Dietz’ returns. Once required money-weighted reporting begins, it may supplement the time-weighted reports clients receive today and take more than just one meeting for advisors to help investors understand the difference and that money-weighted returns cannot be compared to a benchmark or used to compare two advisors.
6. **Greater confidence:** Our members – like regulators – seek to identify and mitigate risk. For people working with numbers, ensuring the accuracy and quality of data is critical. Thorough testing across systems, products, etc., the reconciliation of old to new information for data integrity validation, and integration testing across platforms and firms are all fundamental requirements. And even the best of testing is not foolproof in the public or private sector. While problems may still occur even with additional verification time, the risk would be substantially lower. We think the public not only will understand, but will prefer a 5.5-month CRM2 rule harmonization shift – from July 15, 2015 and 2016 to January 1 of the following calendar years. The end product will be delivered with lower risk and be more user-friendly, more reliable and more logically timed for clients’ financial planning needs. This will yield better results for investors in the short and long run, better supporting confidence in capital markets.

There is broad support and agreement on the intended benefits of CRM2 for investors, and there are extensive ongoing efforts by IIROC-regulated dealers to effectively implement CRM2 requirements. Appended, as requested, is the following additional background:

- **Attachment 1: More on why we are asking for the calendar-year alignment** – This provides additional context, beyond investor benefits, for our request.
- **Attachment 2: What has changed since the CRM2 requirements were originally published** –

- **CRM2 requirements are incomplete:** Despite considerable efforts by regulators and dealers, the IIROC rules are unexpectedly not final in material ways and the MFDA rules were just finalized.
- **Impact of book cost changes on taxes:** Investors and tax authorities may lose tax information.
- **More new rules:** The third phase of point-of-sale rules, expected mutual fund risk rating amendments, FATCA and other requirements will or will almost certainly be in implementation at the same time as CRM2, adding to systems and operations issues, investment advisor efforts and client understanding challenges.
- **Attachment 3: IIAC's role in promoting and facilitating CRM2 implementation** – This includes multiple committees and meetings, industry guidance, events, interactions with other industry segments that rely on IIROC-regulated dealers for trade execution and settlement, and more. These are on top of the many IIROC dealer internal meetings and meetings with shared service providers and vendors.
- **Attachment 4: Background on firms, by category, requiring/requesting the alignment of dates to coincide with calendar years** – The intermediary nature of the investment industry, which makes the Canadian securities industry so effective in terms of service delivery even during times of market stress, complicates major change in a way that does not apply to projects in other industries. High-tech buildings, aviation, telecommunications, and other very complex and sophisticated projects can be separated from ongoing business; project sponsors do not have to work with competitors with very different business models and systems, their systems are not intertwined with and dependent on the same service providers, and they are more rarely subject to broad ongoing regulatory oversight and review during and after implementation.

To put this into perspective, CRM2's three-year implementation schedule for the biggest changes Canadian dealers and investors will ever experience is the same as that provided for implementation of National Instrument 24-101 on Institutional Trade Matching and Settlement. The activity to deliver on NI 24-101 was limited to a relatively small number of systems, back-office personnel and only sophisticated institutional investors, whereas CRM2 affects a full gamut of applications, including core books and records systems; involves employees from almost every part of IIROC dealers; and most importantly affects every investment advisor and millions of retail investors.

In summary:

- We are convinced calendar-year reporting is in the best interests of investors as explained above.
- Amended IIROC 2015 and 2016 rules still await CSA sign-off: two parts of the July 15, 2015 implementation rules each mean materially different builds for 2015, with no confirmation yet of the direction to be taken.
- The different data sources and cross-dealer-interconnected systems mean firms, their service providers, vendors and often carrying brokers must move in lock-step even despite different rule interpretations and capacities, and many factors outside securities regulation to contend with.

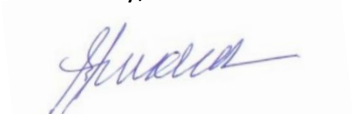
- We request the CSA to confirm acceptability of investor elections in a single book-cost number in the interests of investors, tax authorities and tax professionals serving investor clients.
- Aligning to January 1, 2016 and January 1, 2017 start dates will help considerably mitigate CRM2 project risk. It avoids the awkward mid-July 2016 to mid-July 2017 performance and fee reporting possibility with its associated downside that advisors frequently will be unable to discuss the reports' contents with clients in a reasonable period of time following the reports' release due to investors' summer holidays.

On a final point, as the CSA suggested, we contacted other financial industry associations. We had no feedback from exempt market associations whose members are little affected by CRM2; we understand the other associations or their members may contact CSA members directly or as a group. What is perhaps insufficiently well understood is that portfolio managers and fund managers, and their downstream (mutual fund dealer) clients to the end investors are, or may be, dependent on IIROC dealers for trade execution and information.

We believe that these other parties would agree that calendar-year reporting is in the best interests of investors and would best meet investors' informational/financial planning needs. When this is coupled with the continued delay in IIROC Rule finalization due to issues that only became evident in mid-2015, we think the timing adjustment from July 15 of 2015 and 2016 to, respectively, January 1, 2016 and 2017 are appropriate and necessary adjustments to mitigate development risk. We also hope that the CSA will take this time to play an important role in educating the public and non-registrants that work supporting investors regarding CRM2.

We will follow up shortly to answer questions you and your CSA counterparts and CSA Staff may have.

Yours truly,



Cc: Kim LaChapelle, for CSA-ACVM Member Commission Chairs
Chris Jepson, OSC for the CSA CRM2 Committee
Richard Corner, IIROC
Karen McGuinness, MFDA
Association Contacts

¹ While aspects of the July 15, 2015 and July 15, 2016 requirements could be ready on the current schedule as there have been no changes and none are expected (statement details, expanded trade confirmations), it may be simpler to provide:

- The additional January 1, 2016 option for new statement details as well as the new market value definition changes, client-name statements (rule not final), and position cost information (rule not final; reliant on updated market value definition)
- The additional start date of January 1, 2017 for expanded trade confirmations as well as performance reporting (reliant on market value) and fee reporting (linked to the performance report).

WHY A CALENDAR-YEAR ALIGNMENT MAKES SENSE

[Note: We recognize some discussion in this and the next appendix provides CRM2 details and points made in past IIAC submissions; we apologize for their length, however, provide it for the convenience of readers less familiar with the inner workings of investment (IIROC) dealers and with CRM2 generally].

We believe investor interest is the most compelling reason to harmonize the 2015 and 2016 CRM2 implementation component delivery dates with the calendar year. By changing July 15 of the respective years to January 1 of 2016 and 2017 respectively, investors will benefit from a smoother introduction to the new market value and book-cost definitions with client-name and other statement changes, and the 2017 calendar year will provide performance (and aligned fee reports and confirmations).

Below we provide:

1. additional details on why the July 15 date should be reconsidered (also see Attachment 2 – What has changed)
2. context for why the CRM2 rule changes for IIROC dealers are more complex than some commenters understand.

1. The Date Dilemma – Wednesday, July 15, 2015 and Friday, July 15, 2016

NOT using a calendar year would in many respects be easier to manage for IIROC dealers: they would avoid the already-busy period of year-end adjustments and printing/mailing at tax season. However, there is an essentially unanimous view that clients would prefer calendar year and to achieve this causes the challenges we seek to address or a mid-year report that has drawbacks referenced in our cover letter.

We understand that the July 15, 2015 date was an “administrative” choice and appreciate the regulators clarifying the possible timelines in February 27, 2014 FAQs. This means the following:

- The latest reporting period possible for the annual reports is July 15, 2016 to July 14, 2017. Some firms already have confirmed they will need the maximum time as they may have more to build, e.g., performance reporting for their regular clients (nominee) and any additions for what they may have in client name (the way mutual funds are often held in MFDA dealers), which currently is being reported to investors by mutual fund companies.
- To meet a calendar cycle, only calendar year 2016 is possible under the current rule. Also, it is hard if not impossible to move reasonably to a calendar year later.
- If a firm wants to provide calendar-year reporting using calendar year 2016, there are only 13 months to have data collection and calculation systems in place (it is possible to gather fees, contributions and withdrawals retroactively but much less desirable from an accuracy and cost-

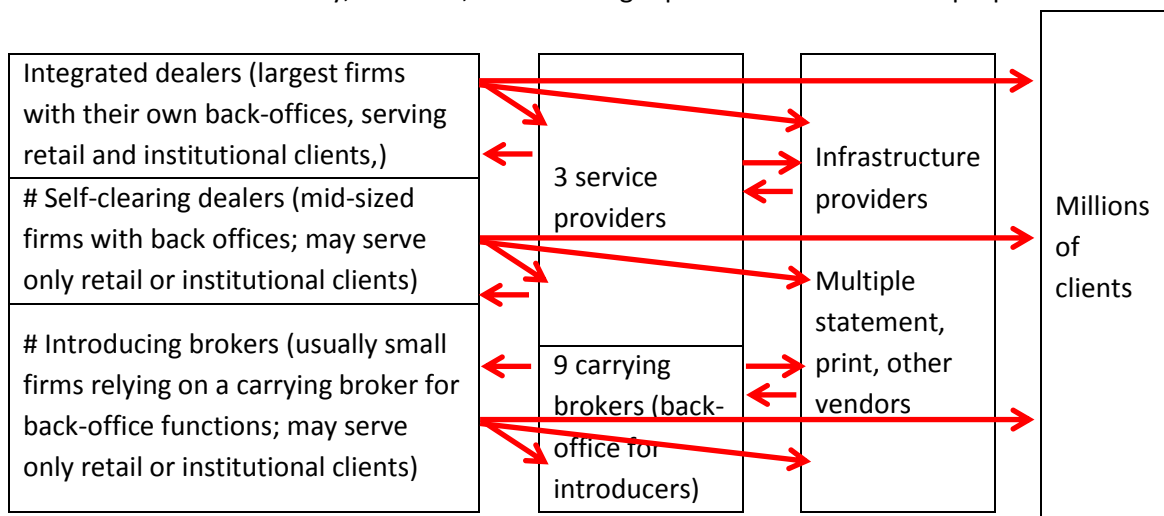
efficiency basis). Testing still could be done in January 2016 using 2015 data, but the market values could be calculated on two different bases and the new performance reporting formula means lots of testing will be needed.

- In January 2017, firms trying to make the annual report for calendar 2016 must get the two new reports out 10 calendar days after the account statement, usually a week after month end (year-end). We appreciate that the CSA may permit a longer time for the first report. However, that still does not allow the time for advisors to become comfortable with the results and be prepared to serve clients during tax season, typically the most important time in the year for investors doing their financial and tax planning.

2. Why the CRM2 Rule Changes Are More Complex for IIROC Dealers

i. Nature of the industry

It is not possible to clearly show all the inter-relationships among different parts of the investment dealer industry, however, the following is provided for illustrative purposes.



- First, while any particular formula or field may not seem like rocket science, the interrelationships among IIROC dealers in terms of infrastructure (CDS and FundSERV), service providers, vendors, regulators and other stakeholders results in a complexity and dynamic that do not exist in as integrated a way in the case of, say, a stand-alone state-of-the-art plant build or super high-tech systems development as explained in the cover letter. If there is a failure to deliver where only one firm is involved, it affects the company in question – not a large part of an entire industry. If a dealer service provider or carrying broker is late, it affects all entities and clients further down the chain.
- Second, our members understand the frustrations of regulators and investor stakeholders with the length of time it has taken to make the CRM2 changes: there are no doubt some who question the “big bang” of inserting 10-part (and many subpart) CRM2 into three years, rather than through successive discrete new disclosures starting some time ago. A

large part of the implementation complexities now are due to the sequential nature of testing – for example, market value systems must be updated and the data scrubbed to the new definition before the data is entered into book-cost systems – but both CRM2’s market value and book-cost deliverables are due the same day. The same interconnectedness will affect go-live dates of the dozen new and changed statements and reports among multiple registrants, service providers and vendors – and the need for solutions to be workable not just for physical statements/reports but online, but also on smart phones and tablets, which were barely a consideration a few years ago.

- Third, service providers require clarity and finality on a number of affected areas in order to develop operating systems and deliver output that meets the desired regulatory requirements for their clients, the dealers, while at the same time providing services and upgrades with mandatory changes (2014 tax processing, FATCA reporting to the CRA, FundSERV upgrades, etc.) that occur annually and in periods leading up to CRM2 effective dates. Even if those not familiar with making systems changes may believe that enunciated principles and draft rules are enough, for a service provider to build there must be also be sufficient clarity for the clients to agree on details regarding what to build for shared systems. Systems cannot be built from a concept. They require specifications down to the most minute detail. Despite many intra-industry meetings described in Attachment 3, there are still considerably divergent views within the industry and among consultants advising the industry on a surprising number of details, with views ranging from “keep it simple and practical” to the “must meet the word of the law even if impractical”. Regulatory anxiety – fear of what examiners will judge with 20/20 hindsight – is at an all-time high because the CRM2 rules are a high priority and known to be ones that will be intensely scrutinized.
- Finally, there are examples where building before final rules has led to throwaway builds – for example, in the case of Large Open Position Reporting. In the case of CRM2 book cost, where it appeared to the portfolio managers and IIROC dealers that the issue was close to being resolved, there is now less certainty regarding final rules, possible impacts, range of solutions, and even vendor options. Given that all of the Commissions and IIROC are involved in decisions at this point, decisions take more time, and there is considerable protection of the confidentiality surrounding where regulatory thinking is.

ii. CRM2 more complex for IIROC dealers than other industry segments...

We appreciate that the CSA and self-regulatory organizations (SROs) have consistently taken the position that the respective CRM2 requirements are to be highly harmonized across categories of dealers and advisors in substance and implementation schedule, however, some industry segments do have considerably more work than others. IIROC dealers must make the most changes because they have the broadest range of products, widest range of accounts, and greatest level of client service customization.

- Some stakeholders believe that exempt market dealers are barely affected by CRM2, and essentially not at all after the 2014 CRM2 pre-trade disclosure implementation.
- The CRM2 rules are of more limited application to mutual fund managers, with main change requirements being bilateral (with FundSERV) to provide trailer and other fee information. It is not clear to what extent the position cost changes may affect fund managers.
- Portfolio managers and MFDA dealers are subject to the general statement and reporting requirements of NI 31-103, however, market value requirements only or mainly affect IIROC dealers. The most difficult securities to value are start-up and other venture firm financings at the pre-commercial stage. Canada has typically had an unusually high number of firms in the public markets, underwritten by IIROC dealers and providing opportunities for investors once the companies' dealers underwrite a move to the public markets. Moreover, there is a big difference in view as to how many securities' values will become 'non-determinable', with some investor advocates expecting most private placements of non-public companies to become non-determinable (the potential market impacts of this concern some small issuers), while IIROC FAQs expect valuations to follow a strict process much more typical of bank credit analysis. Also, book cost is a considerably more significant issue for IIROC dealers due to the breadth of securities types and way that accounts are transferred. Attachment 2 discusses this in further detail.

iii. ... And other segments reliant on IIROC dealers

The CSA has advised that the implementation deadline is a concern not just of IIROC member firms, and we agree.

- First, there may be more firms that have concerns that are hesitant to raise them for the same reasons that IIROC dealers would be – these businesses are built on confidence and for an individual firm to say they are not ready for CRM2 is, for most, unthinkable.
- Second, there may well be firms that are not aware of the challenges they face because many of the CRM2 details are not well known or understood: even firms that have been deeply involved from the start continue to unearth questions and much is also dependent on how the regulatory examiners will interpret the same provisions.
- Third, what some in the broader investment industry may have taken for granted is that portfolio managers and fund managers, and their downstream (mutual fund dealer) clients through the end investors are, or may be, dependent on IIROC dealers for trade execution and information for their statements and reports. So these other registrants perhaps unknowingly are also dependent to some extent on IIROC dealers' service providers and carrying brokers.

- Finally, financial planners and non-registrants helping Canadians with investments are not subject to and, if they work independently, may not be aware of CRM2 requirements and what they mean.

IIROC dealers continue to work on a number of projects to link the different parts of the industry, for example, on inter-registrant category account or security transfers and updates to the Adjusted Cost Basis Matrix, to bring consistency and standardization across the industry.

iv. Magnitude of CRM2 change among investment dealers

Most regulatory changes affect one or two areas of a dealer only and can be implemented with few clients being aware. Examples where investor protection improved with little outward visibility to clients include:

- CRM's enhanced suitability, which systematized reviews and took place within one year.
- Institutional trade matching on T+1, which the CSA agreed would happen over three years.

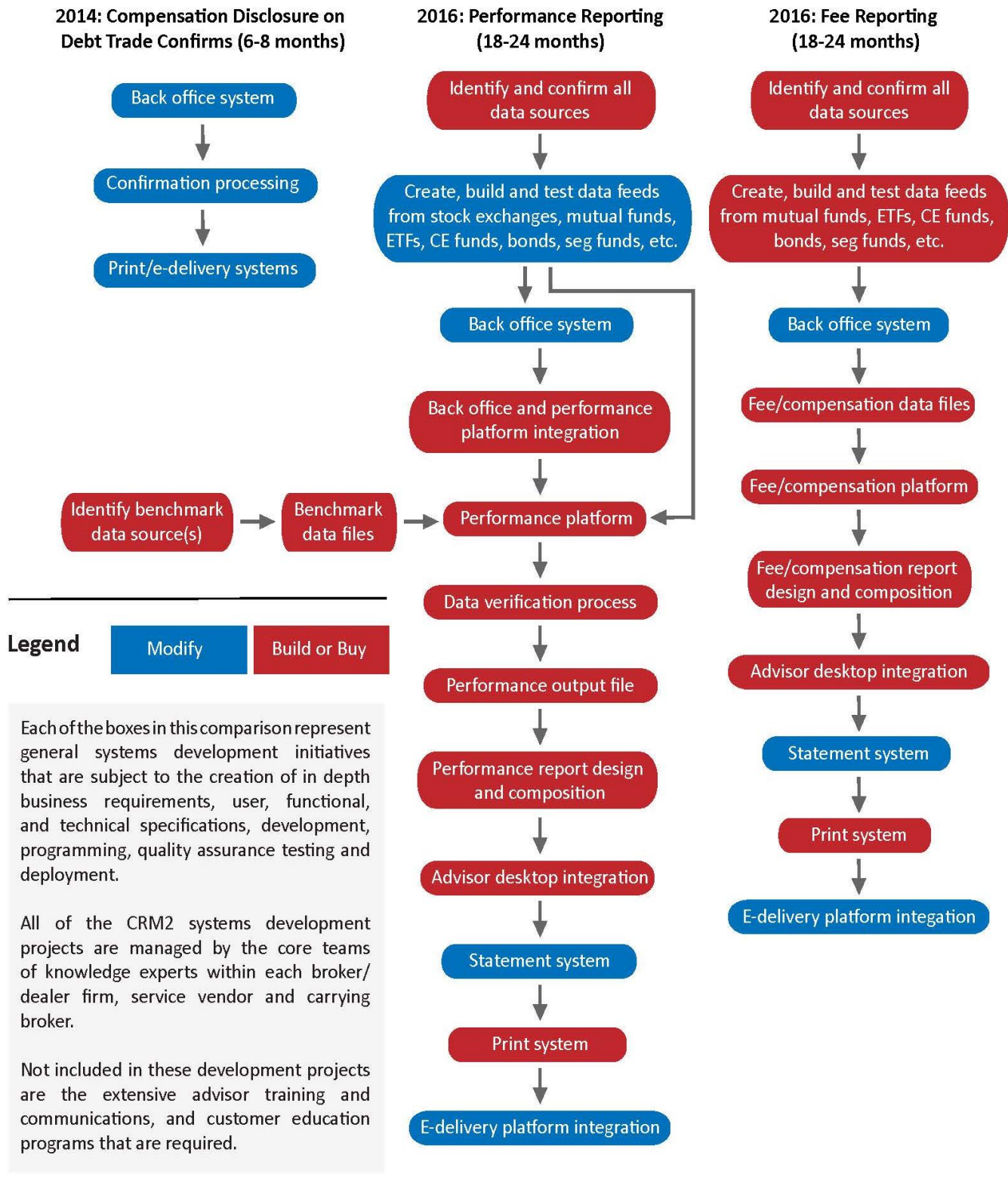
These changes involved systems changes, compliance upgrades and advisor training; CRM2 goes much beyond this. While the CRM2 rule changes may perhaps not individually be not rocket science, they are like changing the engine in a car as it is driving 100 km/hour down the highway with unexpected detours, bumps and potholes. Inter-relationship between components, multiple phases, use of common securities providers and vendors, and multiple regulators add to the complexity and there are further points related to the changes themselves that mean an inherently longer development chronology.

- **First, dealers do not control all the data required to price securities or process the performance and fee/charge reports.** Security prices must be obtained from multiple sources to enable account performance calculations. All the various data interfaces between the dealers' systems and third parties (stock exchanges, fund companies, etc.) must be examined, possibly adjusted and tested before the data can be used by the dealers. Likewise, over 100 fund companies must uniformly provide trailer commission data at the retail account level before it can be processed through the dealers' accounting systems. While most of these firms are IFIC members and most use FundSERV, there are firms that respectively are not and do not, which leaves dealers with more work to do.
- **Second, much of the systems development work is being done by accredited service providers, each of which must adhere to strict project management and development protocols that are required to ensure data is processed and reports are generated accurately.** Professional standards dictate that all phases of user, functional and system specifications, development, testing, error detection/correction and deployment must be met. In effect, while dealers have a hard-stop deadline to build interfaces to third-party systems and then implement their internal new systems and current-system modifications, these service providers will accept only so many "shortcuts" to meet a deadline as the risk to their reputations is also prohibitive. The following diagram compares the 2014 deliverables with those furthest out to help give a sense of the scope of work to be done.

The next diagram compares 2014 and 2016 deliverables showing the magnitude of change.

CRM2 Systems Development Project Comparison

This diagram, prepared by major service providers, illustrates the difference in the scale of the 2014 Compensation Disclosure on Debt Trade Confirms project compared to the 2016 Performance Report and Fee Report projects. The charts also exclude the 2015 deliverables — Client Name Statement and Market Value definition update — which also must be factored into the total CRM2 development timeline. Each dealer's solution set will be unique to its current technology platforms.



- **Fourth, even apparently simple changes can be more difficult than expected.** The amount of sequencing and interconnectivity among industry segments and players makes the project high risk. For comparative purposes, the transfer of three applications – SEDAR, SEDI and NRD – from one service provider to another – was delayed three times, leading to a tripling in the original implementation time. On August 29, 2013, CSA Staff announced a transfer date of October 12; on October 8, the date was changed to December 13; on November 21, the transition was changed to “upon on further notice”; and on January 3, 2014, the date finally met of January 13, 2014 date was announced as the cutover.

The triple postponement was, we understand, due both to a surprise relating to outdated technology and a challenging approval process. These same issues apply in the case of CRM2: the core books and records systems of the financial industry generally are highly stable and reliable, but often old, meaning changes are more challenging. The decision process is extremely difficult because each firm must assess in-house abilities or whether their service provider and carrying broker (if applicable) can deliver on time. And firms must also look at alternate vendors if some CRM2 components expected of a service provider or carrying broker do not materialize. In the worst-case scenario, they must prepare to move carrying brokers, which is time-consuming at the best of times.

- **Fifth, each CRM2 component is somewhat or very tricky in its own way, but it is putting all the pieces together that is especially complex.** If one thinks of house renovations, one does not know all of the issues until drywall is taken down. When thinking of cars, purchasers expect automakers would not risk putting a car on the road without testing it through not just summer, but also winter conditions. While CRM2 is not about physical safety, it is about financial wellbeing. We are certain investors expect complete due diligence and testing, and using live new-market-value-definition 2016 data in early 2017 is the best performance report test possible.
- **Sixth, there are key bottlenecks to address.** While able to hire or re-assign additional staff to the actual CRM2 development and operational changes in most cases, at critical junctures there is only a small group of internal resources with sufficient knowledge and experience to advance decision-making and a small pipeline for dealer-through-service provider/vendor testing. Both the resource group and pipeline must also be used for other regulatory requirement implementations.

We have been asked why a request for a timeline re-alignment is being made now: the answer is that it would be irresponsible not to given the importance of the project and the risks to the investor and to the regulators’ goals with respect to CRM2. We understand that both paths – that is, modifying and not modifying implementation dates – have consequences and we understand that some commenters are concerned that with any adjustment, work could slow or stop. To the contrary, it would “cost” dealers to temporarily mothball changes mid-stream while waiting for answers or redirect resources to other projects. Other than building to what is mandated by the final IROC rules in the two areas mentioned, what may seem like additional time will be used for:

- Additional testing to detect and fix any “bugs”, with more time for advisors to see client reports and feel comfortable they can answer any client questions. Analyse/build/test/review/adjust is the nature of programming; and user satisfaction is dependent on refining the functionality, which can only be done by testing, modifying and retesting until a high state of stability, functionality and user-friendliness is attained. Further, more robust advisor/investor communications and education must be developed and delivered to coincide with the new information investors will receive. Accurate statements and reports are paramount to the securities regulators’ mandates of confidence in the capital markets and critical to supporting the advisor-client relationship.
- Industry discussion and discussion with those concerned by the inadvertent impact of tax and securities regulation on small issuers and capital formation regarding what can be done to address the increasingly challenging area of hard-to-value-security valuation.
- Ongoing efforts to bring clients with off-book accounts into the nominee system.
- Improving industry consistency of reporting through the adjusted cost base matrix and efforts for this to be adopted more broadly.
- To better educate advisors and help clients.

In short, our request to harmonize CRM2 implementation dates with calendar years is to provide for a better, less risky implementation and clearer, more consistent communications for all – especially investors. The time needed to explain the changes to clients is not short. And it will be complicated in some cases by the need for some investors to first “unlearn” the meaning of time-weighted or modified Dietz returns.

Attachment 2 provides a summary of additional events that further add to complexity.

WHAT HAS CHANGED SINCE THE NI 31-103 REQUIREMENTS WERE ORIGINALLY PUBLISHED

With any large-scale change, when the systems and operational requirements of new rules are being executed, previously unknown or under-appreciated issues arise. Most have been taken in stride, meaning the first year of CRM2 requirements (as at July 15, 2014) have essentially been implemented and considerable preparatory work for 2015 and 2016 has been completed.

There are, however, explanations as to why what may have been considered a realistic timeline for the next two years should be adjusted¹ so the maximum benefit for investors can be achieved from the CRM2 rules with manageable risk while avoiding confusion for investors. The issues raised on the following pages contribute to what we believe is investors' preference for calendar-year reporting being very hard to accommodate without considerable risk.

Indeed, the IIAC thought long and hard before asking for the alignment in implementation deadlines to the nearest calendar year start. Going into the New Year with shrinking time to a fixed deadline and two big unknowns, we believe strongly that it would be imprudent if not foolhardy not to request this change when the additional 5.5-month timeline adjustment legitimately will mean much less project risk and some more time for investment advisors to assess changes to their clients' statements and reports to better explain them to clients, and for clients to be able to absorb the many changes.

¹ For convenience, below is the recent sequence of rule changes:

- **March 26, 2012:** IIROC issued final Client Relationship Model rules, holding account performance reporting amendments implementation in abeyance to comply with a Canadian Securities Administrators (CSA) approval condition that these requirements be suspended. IIROC expected that its reporting proposals would be implemented once comparable CSA performance reporting requirements, then under development, became final, at which point, IIROC would make any further changes needed to harmonize with the then final CSA rules.
- **March 28, 2013:** The CSA issued NI 31-103 CRM2 requirements pertaining to advice of benchmarks, new debt confirmations, pre-trade disclosure (in mid-2014); an updated market value approach, new requirement to report original or book cost, new client-name statements; and additional account statement notations (in mid-2015); and a new annual performance report (with a new way of performance calculation for those already receiving rates of return), first-time annual compensation report, and additional information on trade confirmations (mid-2016).
- **December 12, 2013:** IIROC issued updated CRM2 rules for comment by February 10, 2014 (2014 requirements) and April 10, 2014 (2015 and 2016 rules).
- **May 29, 2014:** IIROC released and confirmed approval of July 15, 2014 requirements with minor changes.
- **September 18, 2014:** IIROC re-issued the 2015 and 2016 CRM2 rules for comment due to a material change.
- **As at December 20, 2014:** No finality with respect to July 15, 2015 rules: there are two unresolved issues where the regulatory decisions taken could have effects of widely different magnitudes on systems and operational requirements of most or all investment dealers with now seven months until implementation.

1. Securities and tax regulatory expectations for book cost different but connected

The June 14, 2012 CSA re-release for comment of Cost Disclosure, Performance Reporting and Client Statements recognized that the use of book cost as a comparator to market value “will provide investors with a meaningful comparison, and give them a more accurate view of the capital appreciation or depreciation of each security position.”

The 2015 requirement to begin reporting book cost was originally expected to be one of the more straightforward aspects of CRM2 implementation and one welcomed by investors. A good proportion of clients were receiving some book-cost reporting and there would be additional value for the remainder of clients who would now get this information.

In late spring, Revenu Québec contacted the IIAC and IFIC regarding tax reporting changes. A first meeting was held in June 2014 and the Quebec tax authorities said they were mandating tax reporting entities such as dealers and fund managers to report in Box 20 – cost or book value – on RL-18s (equivalent to CRA’s T5008, which captures securities dispositions). Revenu Québec understood that the book value that the dealers and fund managers have on record is not clients’ “pure” tax cost, but considered the data to be of sufficient value to help advance tax compliance requirements. Revenu Québec postponed book-cost disclosure on tax slips due to expected CRM2 book-cost reporting in 2015, which was to allow discussion among securities regulators, tax authorities, the accounting profession and dealers regarding the possible implications of changes to the book values that IIROC dealers have on record. The IIAC has spoken and written to all groups, most recently on December 19, 2014.

We believe that the needs of securities and tax authorities can be met with the same book cost and had believed that this was the direction that CSA discussions had been taking in October and November 2014. Below is background on two key points:

1. The IIAC recommended in its September 14, 2012 letter on CSA draft CRM2 rules that the book-cost definition be implemented on a go-forward basis. After analysis, our members concluded that the final CRM2 rules as drafted – the specific implementation aspects – appear effectively to have retroactive effect, which created an unexpected problem. Only one cost calculation methodology, “book cost” or “original cost”, must be used for all positions. The cost numbers for every position a dealer has could be comprised of many different transactions over many years, some transferred in with market value and some with book value that a dealer will not be in a position to confirm meets the IIROC or CSA book value definition. A good number of firms believe that these data, familiar to investors, would have to be written over.
2. Some book costs will have been adjusted at the request of the client to reflect tax elections. Though with client consent, this would not meet the IIROC or CSA book cost definitions. In light of this, the IIAC asked member firms about the extent of the issue and learned the following:
 - Proportionally few clients adjust book cost in any one year so it would not appear to be a major issue going forward.

- Adjustments have been made for many years so the percentage of clients with some elections who may be disadvantaged to some extent is not immaterial.
- The timing and amount of changes were not tracked because accepting elections was done for client service reasons, and the book cost definition at the time was not subject to regulatory definitions.

Building systems to capture CRA/RQ “cost or book value” and CRM2 “book cost” separately would mean a considerably bigger build than had been contemplated at any time. It would require additional fields for different “book costs” and effective dates when market value is used instead, and, at worst, a build for the separate tracking of units where value is “true” book cost versus “market value” book cost. The lack of a final decision on book cost calls into question meeting currently required July 15 market value due date as there will still be considerable time to enter market-value data for those positions where there is no book cost at present.

In either case, we think it inappropriate to require a change that effectively would remove what was investor choice by essentially requiring the overwriting of investors’ own historical data; that market value for use going forward for positions without book value is acceptable with client statement notice; but that going forward it would be inconsistent and therefore wrong for CRM2’s investor-focused initiative to make it necessary to refuse or keep separate a more correct book cost of investor securities – a cost that in their view is more accurate and useful for themselves or, if applicable, their tax professionals.

Following a joint August 13, 2014 CSA CRM2 Forum, the IIAC asked Gabe Hayos, FCPA, FCA, ICD.D, who is Vice-President of Taxation at Chartered Professional Accountants (CPA) Canada, to assess at a high level any concerns with the book-cost aspect of the CRM2 Rules. Mr. Hayos agreed that material changes to what is currently reported as book cost – for example, elimination of data reflecting personal elections, or a change from no amount to market value as book cost – could be of serious concern to accountants of dealer clients even with a statement notation. Discussion among the CSA, IIROC, MFDA and affected industry associations at a CSA CRM2 Forum meeting on October 16 showed that concerns about book cost are shared by portfolio manager registrants, on whose behalf the Portfolio Managers Association of Canada submitted a discussion paper. Since then, we have learned that a number of fund managers are considering whether they may have reason for concern as well.

In conclusion, we recognize the value to investors of being able to easily assess the performance of individual security positions over time by comparing book cost to market value. The proposed definition the IIAC submitted on November 17, 2014, and with which we believed that CSA Staff agreed, supports the requirement that book cost be reported to give investors the benefit of being able to assess performance on a security-by-security basis against market value and still respects investor wishes on those rare occasions an investor chooses to request, and therefore knows there has been, a book cost adjustment. We think investors would see the dual-purpose use of a single book cost number as doing the right thing for investors.

2. Other IIROC CRM2 Requirements Are Not Final

Despite considerable efforts by regulators and dealers, the IIROC rules unexpectedly were not final in August when we began formally reaching out to investor advocates. The hazards of having to back out changes due to a later rule change, and implement other changes quickly to meet unchanged timelines, adds further implementation complexity and risk.

- **Market value:** While both market value and position cost requirements are due the same day, market value preparations must be ready (systems, value adjustments, testing) before position cost as market value must be used as book cost if there is no book cost or there is uncertainty as to whether book cost meets the definition. A key clarification on market value from the perspective of dealers serving about 50% of investors came in IIROC FAQs released October 16, 2014.
- **Client-name:** As the CSA knows, the nominee model is predominant in the IIROC dealer community and a good number of firms expect to request exemption from IIROC for client-name reporting. We appreciated IIROC's recognition of the extreme and unintended result of forcing dealers to build client-name reporting systems for a small number of client name accounts held that in many cases the IIROC dealer has tried without success to bring on-book. The IIA asked the CSA, fund managers and Federation of Mutual Fund Dealers to help devise solutions, including transfer, for such accounts, with no success as of yet. It is just over seven months away from this CRM2 component's implementation date, but the rules are not final. The numerous firms that intend to apply for the client-name exemption are unable to so until the rules are approved. If the exemption request of any were denied, this would seriously impact the firm's ability to be prepared for the 2015 and 2016 requirements.

3. More new rules a distraction

Continuing requirements from securities regulators, tax authorities and other lawmakers continue to be released for implementation at the same time as CRM2, further taxing systems and operations, investment advisor training and client understanding. IIROC dealers must comply with:

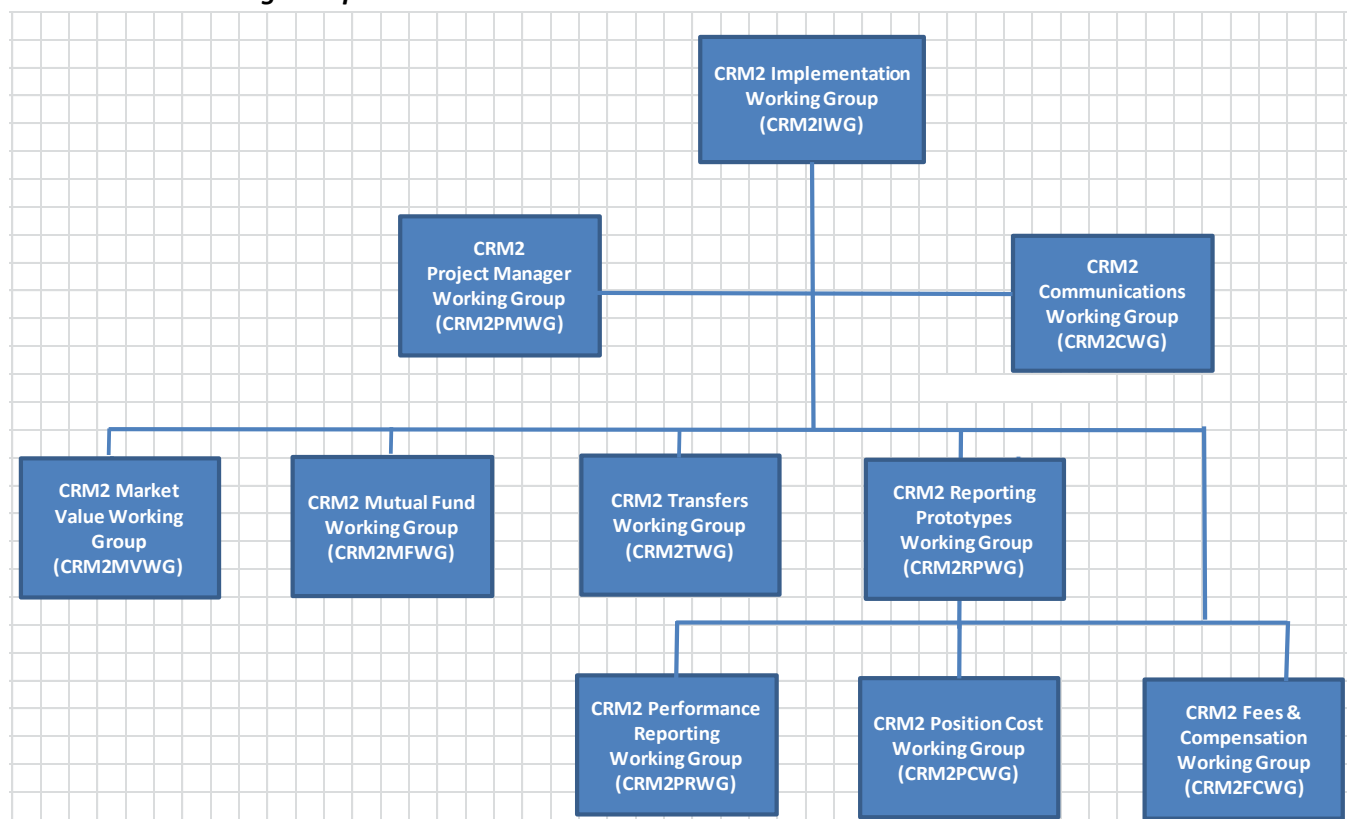
- New CSA Fund Facts delivery requirements in May 2016 and, likely, EFT summary document delivery; each firm needs the infrastructure to access and maintain a large number of these documents in paper and electronic form, and to deliver and track them to confirm compliance.
- A draft rule regarding amending the risk rating of mutual funds (which fund managers estimate will lead to a re-rating – and so suitability review – of over 50% of investor holdings)
- Requirements to shorten the securities settlement cycle by one day
- FATCA, T1135, CRS and other tax measures
- Other policy initiatives such as CASL (anti-spam legislation).

These are leading/would lead to changes affecting the same systems and staff resources, making testing not just a case of CRM2 modules, but of these modules integrated with other regulatory requirement changes.

THE IIAC'S ROLE IN PROMOTING AND FACILITATING CRM2 IMPLEMENTATION

Below is an overview of the IIAC's involvement in promoting and facilitating CRM2 implementation among IIROC dealers and in the broader investment sector.

Active CRM2 Working Groups:



IIAC CRM2 Committee Meetings		
CRM2-Related Committee or Working Group	Meeting Occurrence	#
CRM2 Implementation Working Group (CRM2IWG)	November 27; December 4, 2013; January 8, 15, 22, 29, 31; February 5, 12, 26; March 12, 19, 26, 27; April 9, 14, 16, 23, 30; May 14, 28; June 4, 25; July 9, 16, 23, 30; August 27; September 3, 10; October 8, 22; November 5, 19; Dec. 3, 17	36
CRM2 Market Valuation Working Group (CRM2MVWG)	July 10, 2013; September 16, 2013; October 8, 2013; October 17, 2103 (IIROC); February 10, 24; March 3, 10, 17; April 2, 7, 14; May 5, 12, 26; June 2, 12, 26; July 10, 17, 24, 31; August 7, 28; September 3; October 9, 30; November 17, 27	29
CRM2 Communications Working Group (CRM2CWG)	March 5, 12, 19, 26; April 2, 9, 16, 23, 30; May 7, 14, 21, 28; June 4, 18, 25; July 2, 9, 16, 23, 30; August 13, 27; September 2, September 24; October 8, 22; November 19; Dec. 3, 17	30
CRM2 Mutual Funds Working Group (CRM2MFWG)	February 3, 25; March 4, 18; April 1, 15, 22, 30; May 6, 28; June 24; July 8, 25; August 5, 11; September 2; October 28	17
CRM2 Transfers Working Group (CRM2TWG)	March 25; November 28	2
CRM2 Position Cost Working Group (CRM2PCWG)	September 8; November 25	2
CRM Reporting Prototypes Working Group (CRM2RPWG)	September 23, 30; October 7, 14, 2013; July 24	5
CRM2 Performance & Reporting Working Group (CRM2PRWG)	August 27; November 27	2
CRM2 Fees and Compensation Working Group (CRM2FCWG)	December 12	1
Miscellaneous Meeting Segments	Direct Brokerage Committee, Derivatives Committee, Small Dealers Committee	

IIAC Prepared Tools for Advisors:

The IIAC has released eight CRM2 advisor tools for member use and a ninth is in preparation:

- What you Should Know about the Client Relationship Model
- DOs and DON'Ts for Investment Advisors
- Explaining New Debt Trade Confirmations
- Explaining Benchmarks
- Pre-Trade Disclosure Script for Mutual Funds
- Pre-Trade Disclosure Checklist
- Explaining the Difference between Time-and Money-Weighted Rates of Return
- Bringing Client-Name Accounts On-Book
- What Documentation to Keep for Tax Purposes (draft also provided to CRA and Revenu Québec)

IIAC Prepared and In-Progress Toolkits, Templates and Surveys for Dealer Members:

- The IIAC and its members have developed/are developing the following toolkits and templates to assist in the development of best practices and increased consistency for clients:
 - **ACB Matrix** – This matrix will help improve book cost accuracy related to corporate actions.
 - **Account Transfer Disclosure** – The IIAC reached out to other financial industry segments to add new wording to transfer forms that highlights fees. There is an expectation additional work must be done for book or original cost information transfers; while IIROC clients have built an automatic account transfer system that can be adapted for this purpose, it seems certain that the IIAC will again have to lead on this second transfer initiative.
 - **Market Value Policy** – Members are currently working to develop a standard market value pricing policy around hard-to-value securities.
 - **Stale-Dated Price Matrix** – Dealers are fleshing out when security prices become out of date.
 - **CRM2 Standard Glossary of Terms** – To provide better consistency for clients, and to assist in financial literacy, the IIAC and members are developing a Standard Glossary of CRM2 Terms.
 - **Periodic Surveys** – 2014 readiness; 2015-2016 readiness; etc.

CRM2 Informational Events and Presentations in 2014:

- The IIAC has co-ordinated, hosted, sponsored and/or participated in many industry CRM2 events, including:
 - IIAC CRM2 2015 and 2016 Hotspots and How to Address Them (3 hours; December 16, 2014)
 - SS&C CRM2 Event in Toronto (December 11, 2014 – Toronto)
 - SS&C CRM2 Event in Montreal (December 9, 2014 – Montreal)
 - CRM2 Statements Roundtable (November 24, 2014)
 - IIAC CRM2 Mid-Term Review (3 hours; November 19, 2014)
 - IIAC CRM2 Mid-Terms for Introducing and Self-Clearing Brokers (3 hours; Nov. 13 + 14, 2014)
 - IIAC Informational Meeting on CRM2 Hotspots for Large Dealers (3 hours; November 6, 2014)
 - CETFA and IIAC ACB Webinar (October 15, 2014)
 - Investment Executive Navigating CRM2 Event (October 8, 2014)
 - Small Dealers Symposium on Book Cost (September 10, 2014)
 - Enhanced Suitability Roundtable (July 21, 2014)

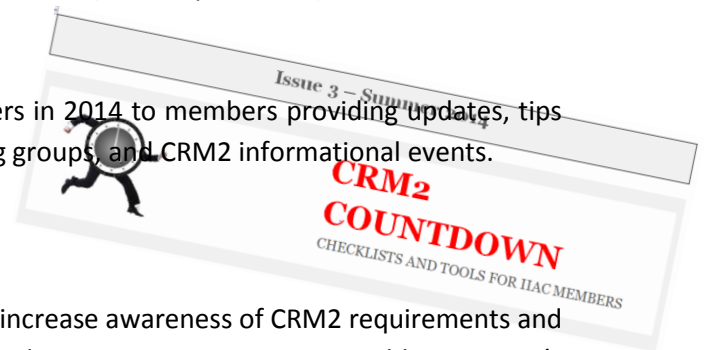
- CRM2 Webinar– What Advisors Need to Know (June 19, 2014)
- 7th Annual Focus Event on Registrant Regulation Conduct & Compliance Conference (3 hours; April 30, 2014)
- OCRCVM-IIAC CRM2 Breakfast Session (April 24, 2014)
- Broadridge-hosted Annual Performance Report Drafting Session (March 27, 2014)
- CRM2 2014 Requirements – Pre-Trade Disclosure Roundtable (March 27, 2014)
- Broadridge-hosted CRM2 Annual Fee & Charge Report Drafting Session (March 26, 2014)
- IIAC Compliance Symposium CRM2 Session (February 27, 2014)

Meetings with Regulators, Tax Authorities and Investor Advocates:

- The IIAC had multiple meetings and conversations with IIROC staff, frequent interaction with IFIC, PMAC and FMFD (as well as other associations less affected by CRM2), as well as a number of calls/meetings with CRA and Revenue Quebec, and with CPA Canada. In addition:
 - CSA CRM2 Committee teleconferences (November 21, 28, December 1, December 5, 2014)
 - Meeting with FAIR Canada (December 4, 2014)
 - Meeting with OSC Investment Advisory Panel (December 4, 2014) (*requested September 10, 2014; agenda full*)
 - CRM2 Forum with the CSA, IIROC, MFDA, IIAC, IFIC, PMAC, Federation (October 16, 2014)
 - Ombudsman for Banking Services and Investments (October 10, 2014)
 - CRM2 Forum with the CSA, IIROC, MFDA, IIAC, IFIC, PMAC, Federation (May 29, Aug. 13, 2014)
 - B.C. Securities Commission and InvestRight (May 6, 2014)
 - Investor Education Fund and Office of the Investor (April 14, 2014)
 - Preparatory Meeting with OSC re Possible CRM2 Forum (February 20, 2014)

CRM2 Countdown Newsletters:

- The IIAC has released three informational newsletters in 2014 to members providing updates, tips for compliance, information about the IIAC's working groups, and CRM2 informational events.
- A fourth quarter issue will be released next week.



Media Interviews:

The IIAC has participated in over 30 media interviews to increase awareness of CRM2 requirements and provide education to both IIAC members and other industry segments. Most notable was IIAC's participation and coverage in Investment Executive's *CRM2 Guide* and *Guide de MRCC2*.

IIAC Submissions and Meetings regarding CRM2 Rules:

- Dec. 20, 2014 – IIAC Explanation of CRM2 Timeline Adjustment Request in Clients' Interest
- Dec. 19, 2014 – IIAC Letter to Revenu Québec on Book Cost and Other Matters
- Nov. 17, 2014 – IIAC Letter to IIROC and CSA on Revised CRM2 2015/2016 Disclosure Requirements
- Nov. 17, 2014 – IIAC Letter to IIROC on Book Cost Definition
- Oct. 16, 2014 – IIAC Note to CSA/IIROC CRM2 Forum re Extension and Position Cost Concerns
- Aug. 13, 2014 – IIAC Notes to CRM2 Forum re Client-Name Report, Communications and Schedule
- April 10, 2014 – IIAC Letter to IIROC and CSA on CRM2 2015/2016 Disclosure Requirements
- February 10, 2014 – IIAC Letter to IIROC and CSA on CRM2 July 15, 2014 Disclosure Requirements

STATUS OF IIROC FIRM PREPAREDNESS FOR CRM2

In December, the IIAC conducted a survey of its member firms serving retail clients on their need for an alignment of CRM2 requirements due July 15, 2015 and July 15, 2016 to coincide with, respectively, the 2016 and 2017 calendar years and, if there was no alignment, on the level of their confidence they would be able to produce quality, accurate, compliant statements and reports for calendar-year 2015 and 2016.

Survey Methodology:

- The survey was conducted using the online survey application Survey Monkey. The IIAC promised to keep individual firm identities confidential to encourage firms to be honest about their CRM2 readiness and in recognition of the risks of self-identification on confidence in capital markets.
- =
- The IIAC received 49 responses from among 106 IIAC retail member firms – a response rate of 46.2%. Responses from two further firms were received by e-mail following the survey's close – one advising it has no known reason to believe it will not be ready and the other believing an adjustment is needed. This split is consistent with survey results, highlights of which are shown below.
- However much effort is directed at survey wording neutrality, individual respondent biases may skew results. While some may overstate problems, others may fear disclosing they are not ready.

Survey Responses by Category of Firm	
IIROC Firm Category	Responses Received
Large Integrated Firms (largest firms with retail and institutional clients and their own back office)	10 (20% of responses)
Introducing Brokers (small firms with retail clients that rely on a carrying broker for back-office functions)	22 (45% of responses)
Other Self-Clearing Firm (medium-sized firm with retail clients that have their own back-office)	17 (35% of responses)
Total (46% of IIAC members serving retail clients)	49/106 surveyed

Survey Question: Do you believe you require a 5.5 month shift in the delivery date for all or part of the CRM2 requirements? (please select as many as apply ¹) (Note: % responses below are of YES, the firm believes an extension is needed in one or more CRM2 requirements):			
	Large Integrated Firms	Introducing Brokers	Other Self-Clearing Firms
2015 Market Value and Position Cost	35.0% ²	50.0% ²	76.5% ²
2016 Performance and Fee Reporting	40.0%	70.5%	76.5%

¹ Choices were No; for 2015: Yes for new market value, Yes for new position cost requirements, Yes for new client-name statements, Yes for expanded account statement; for 2016: Yes for new performance report; Yes for new fees and charges report; Yes for expanded trade confirmations.

² Many firms are counting on an IIROC client-name exemption for certain 2015 reporting, and if that exemption is no longer offered, the percentage of firms prepared for the 2015 will likely decrease.

Survey Question: How do you assess your firm’s overall readiness to meet CRM2 July 15, 2015 and 2016 requirements? (with 1 = low confidence/low quality and 10 = will complete on time to required level of quality; N/A = not applicable and DK = don’t know):				
IIROC Dealer Category	Confidence Levels 2015		Confidence Levels 2016	
	Will complete on time to required quality			
	Confidence 1-6 on 10	7-10 on 10	Confidence 1-6 on 10	7-10 on 10
Large Integrated Firms	70.0%	30.0%	90.0%	10.0%
Introducing Brokers	68.2%	27.3%	86.6%	9.1%
Other Self-Clearing Firms	82.4%	17.6%	76.5%	23.5%

*Note: Not all responses will add to 100% as some firms did not respond or said N/A

Selection of Representative Open-Ended Survey Comments

Dealer comments – general

- “All CRM2 regulations are not final; of particular concern are Position Cost and Client Name so cannot assess readiness with confidence.”
- “We are anticipating challenges implementing the 2015 CRM requirements by the July 15, 2015 deadline. We have spent more time on these requirements than was originally anticipated due to position cost and market value concerns, which has resulted in less time focusing on the 2016 deliverables.”
- “Traditionally a 2-5 year development cycle required for performance and fees systems. Other large regulatory programs such as FATCA, Fund Facts, etc. are in flight during the same time period as this program and consuming many of the same subject matter experts.”

Dealer comments – dependencies

- “We are extremely dependant on our system provider and vendors. We are still working through and negotiating the requirements. All new functionality still needs to be delivered and tested.
- We have high confidence that [service provider] will deliver on their commitments but [x] for pre-production and [y] for full release leaves us very little time.”
- “Reliance on carrying broker and not had confirmation; rely on client-name exemption.”
- “We cannot test and provide comfort of [service provider] preparedness until [its system] is in a position to test.”
- “Service providers have not confirmed their state of readiness for CRM2.”
- “We are highly dependent on [service provider] to complete work required. We are confident in our data and internal procedures and are ready to test our systems when [service provider] makes required changes.”

- “Our system provider is unwilling to track and calculate cost separately for tax and CRM. This puts clients at a disadvantage as dealers will be forced to overwrite tax cost information which has been stored and calculated over many years, in order to provide the CRM definition of cost on statements.”
- “We had thought we could rely on our service provider, however they have informed us that they are not currently offering a solution for CRM2. This may force us to seek an IBCB [introducing broker/carrying broker] relationship ... or seek other more terminal options.”

Service provider comments

- “Specific client requirements for content and approach are not yet finalized due to rule ambiguities and other issues.”
- “[As a service provider, we are] dependent on ability of third party pricing vendors in order to meet the desired requirements.”