ADVISOR INSIGHTS

Pre-Trade Disclosure

Effective July 15, 2014, clients must be advised of the costs (immediate or deferred) associated with the sale or purchase of a security, including mutual funds, investment funds and ETFs. This requirement is part of the new rules prescribed by the Canadian Securities Administrators (CSA). The rules are often referred to as CRM2, which stands for Client Relationship Model, Phase 2.

What CRM2 means for mutual funds is that investors will receive timely, easy-to-understand, detailed information about the cost and performance of their funds. In the first phase, effective July 15, 2014, the industry must provide a description of benchmarks, and pre-trade disclosure of costs. More information on benchmarks disclosure is provided in a separate issue of Advisor Insights.

Q: What costs must be disclosed?

The following costs must be disclosed:

- The charges your client will pay for the purchase, or a reasonable estimate if the actual amount is not known at the time of disclosure,
- Details of any deferred charges that the client might be required to pay, including the fee schedule that will apply,
- Any trailing commissions that will be received.

The CSA has recommended that advisors explain the following terms to their clients during pre-trade disclosure. This information can be found in the Fund Facts:

- Management fee
- Sales charge or deferred sales charge option available to the client
- Any other redemption fees or short-term trading fees that may apply
- Trailing commission, or other embedded fees
- Options regarding front end loads
- Fees related to the client changing or switching investments

The following items are not included as part of pre-trade disclosure:

- Account operating charges
- Foreign exchange spreads
- Margins that cannot be attributed to a specific transaction

Q: How is the disclosure to be made?

Disclosure can be provided in writing or through a discussion.

Reviewing the Fund Facts with your client is an acceptable way to meet the pre-trade disclosure requirement. In particular, focus on the section How much does it cost?, which describes sales charges, fund expenses (including trailing commission) and other fees. In addition, make reference to the section A word about tax.

Q: How should the disclosure be documented?

Your dealer will have a process for documenting client discussions. At a minimum, you should record in your client record the topics that you have discussed.

What's ahead?

CRM2 is being phased in over three years. By July 2016, investors will begin to receive statements showing, in dollar amounts, the costs associated with each of their products. A separate statement will tell investors how well their investments have performed in dollar terms and percentage terms over several time periods.

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.

Prepared by

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