ADVISOR INSIGHTS

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CRM2 Myths and Facts

This fact sheet focuses on frequent factual errors observed in media coverage about the timing and content of CRM2 reporting requirements. It has been prepared to provide advisors with accurate information about key aspects of CRM2. The same information has been provided to journalists in an effort to improve the accuracy of media coverage.

Myth #1:

CRM2 applies mainly to mutual funds.

Fact:

CRM2 applies to more than mutual funds. It applies to all securities and applies to all dealers and portfolio managers registered with any Canadian securities commission.
The securities commissions are encouraging firms to include non-securities products in client reporting, to the extent possible.

Myth #2:

The 2015 statement changes take effect in July 2015.

Fact:

These statement changes come into effect as of **December 31, 2015**.

Myth #3:

Investors will begin receiving the two new annual reports as of July 15, 2016.

Fact:

The rule comes into effect on July 15, 2016, at which point dealers have one year in which to begin sending these reports to their clients. In the majority of cases, **investors will begin receiving these reports early in 2017**. This is because most firms are choosing to provide the information on a calendar-year basis (January to December).

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Myth #4:

The report on charges and compensation will tell investors how much their advisor is being paid.

Fact:

The report on charges and compensation provides details about the money received by **the dealer firm** over the previous year to provide services to the investor. A portion of this money is paid as compensation to the investor's financial advisor.
The report on charges and compensation **does not provide a breakdown of how much is paid to the advisor** and how much is kept by the dealer firm. Each firm determines this amount differently, based on its business model and split in responsibilities between the firm and the advisor.

Services provided by the dealer firm may include (1) administration, which includes processing transactions, preparing quarterly account statements and other reports, product review, and more, (2) advice, i.e., the expertise an advisor provides to investors, such as helping them determine their financial needs, investment objectives and risk tolerance, providing suitable product recommendations and portfolio construction, and ongoing review, meetings, account monitoring and portfolio rebalancing, and (3) investor protection, which includes supervising accounts, conducting trade suitability reviews, and ongoing account reviews.

Myth #5:

The report on charges and compensation will tell investors the total cost of their investments.

Fact:

CRM2 focuses only on the amount paid either directly or indirectly by an investor to the dealer firm. For mutual funds, it does not include the amount paid to the investment manager. For an understanding of the total cost of a mutual fund, investors can review the fund's management expense ratio (MER), which can be found in the Fund Facts document for individual mutual funds, as well as in the financial statements.

CRM2 Myths and Facts

Myth #6:

The new report on investment performance will provide benchmarks so that investors can evaluate their personal returns based on a benchmark.

Fact:

The report on investment performance will not provide benchmarks. The report focuses on the individual investor's Personal Rate of Return and this cannot be compared to a benchmark.

The Personal Rate of Return is based on the **individual investor's specific deposits into and withdrawals out of his/her account**, as well as dividends and interest earned within the account and changes in the value of the securities held within the account. Since each investor has a different combination of deposits and withdrawals, each investor could have a different Personal Rate of Return.

Under CRM requirements that came into effect in 2014, dealers are required to provide clients with a general explanation of benchmarks. Benchmarks may be a helpful measure to understand how a fund has performed over a time period (e.g., one year); however, **benchmarks are not relevant comparisons** to an individual investor's Personal Rate of Return. This is because the benchmark evaluates the performance of a fund over a time period, and does not take into account the timing of an individual investor's day-to-day deposits or withdrawals.

Investors should compare their personalized rates of return to their **target rates of return** to evaluate whether they are on track to meet their investment goals.

Myth #7:

When investors receive their first reports on charges and compensation, they will be surprised to learn how much their dealers are being paid.

Fact:

Investors already receive information about dealer compensation, through information presented in percentage terms in the Fund Facts document and in the simplified prospectus. The only change under CRM2 is that these amounts will be provided in dollars and cents and at the account level, rather than just in percentage terms.

The average MFDA account in 2014 was $44,000 while the average IIROC account was $71,000. For accounts consisting of funds with embedded commissions, the average dealer compensation is between 50 to 100 basis points, which is approximately in the range of $225 to $700 annually.

About CRM2

CRM2 ("Client Relationship Model – Phase 2") is the name of a new set of rules developed by Canada's securities regulators to make it easier for Canadians to understand how their investments are performing and how much they cost.

Some of the changes are already in place. For example, since July 15, 2014, dealers have been providing a description of benchmarks, and fees are being disclosed in advance of trades.

Additional information is being added to account statements as of December 31, 2015. For a complete list of account statement changes, refer to IFIC's Dealer Checklist, located at https://www.ific.ca/en/articles/member-centre-member-resources/.

In the final stage of CRM2, investors will begin receiving two new annual reports – one on dealer charges associated with their investments and the other on investment performance. Companies have the option of incorporating this information into their clients' account statements, or providing it in the form of separate reports. IFC has developed model reports that fully conform to the CRM2 rule requirements and sample documents created by the regulators, and are enhanced by plain language, easy-to-follow designs, and clear explanations.

The model reports are the result of several months of work and demonstrate what can be achieved when stakeholders work collaboratively in the interest of the investor. They are designed to help the industry achieve the goals of CRM2, which are to improve investors' understanding of the cost and performance of their securities products and advisory services.

IFIC's model reports and other useful tools are available for the use of all dealers (whether or not they are members of IFIC) at www.ific.ca/en/articles/member-centre-member-resources.

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