ADVISOR INSIGHTS

November 2017
Part 3 of 3

Answering Your Clients' Questions about **Services and Fees**

In 2018, investors will receive, for the second year in a row, personalized reports outlining details of the fees that they paid and the performance of their investments over the previous year.

This issue of *Advisor Insights* provides some straightforward answers to questions that your clients might ask to better understand the fees that they pay.

An Opportunity to Strengthen Your Relationships with Clients

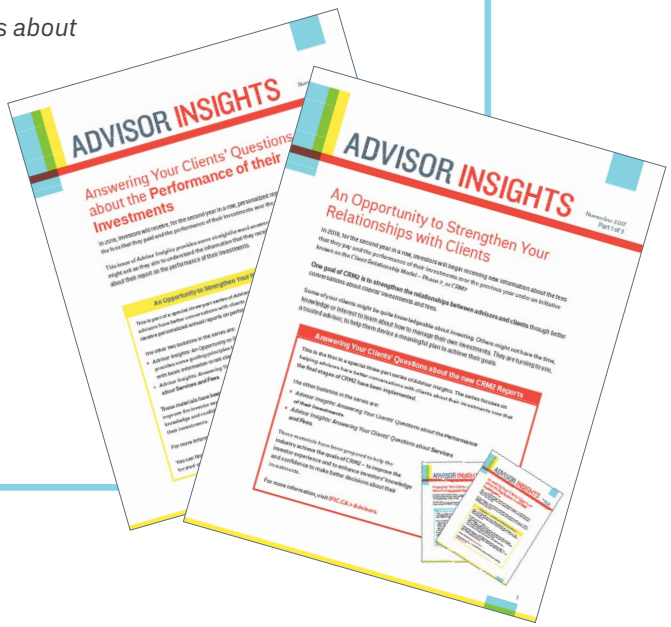
This is the final bulletin in a special three-part series of *Advisor Insights*. The series focuses on helping advisors have better conversations with clients about their investments as they receive their second annual personalized reports on performance and fees.

The other two documents in the series are:

- *Advisor Insights: An Opportunity to Strengthen Your Relationships with Clients*, which provides some guiding principles to help frame your conversations with clients, along with basic information to tell clients about their investments.
- *Advisor Insights: Answering Your Clients' Questions about the **Performance of their Investments***.

These materials have been prepared to help the industry achieve the goals of CRM2 – to improve the investor experience and to enhance investors' knowledge and confidence to make better decisions about their investments.

For more information, visit **IFIC.CA > Advisors**.



Answers to Clients' Questions

How much am I paying for the services I receive?

For the second year in a row, we are providing detailed information to you about the money our firm receives, in dollars and cents, to provide services to you. You will continue to receive this information every year.

[Direct your client to the section of their statement (CRM2 annual report), and indicate whether the report includes costs related to the client's investments in insurance or GICs.]

[For clients who paid a separate fee directly to the dealer:] This amount was paid directly to us by you. More details are provided on the following pages.

[For accounts with bundled fees:] This amount was paid by you through your purchase of investments or by direct withdrawal from your account. The rate of return that you earned on your account was calculated after these costs were deducted, so it is a true net rate of return. More details are provided on the following pages.

There are fees charged by others that are not listed in your report, such as investment fund management fees. *[More examples are provided on the last page of this Advisor Insights.]*

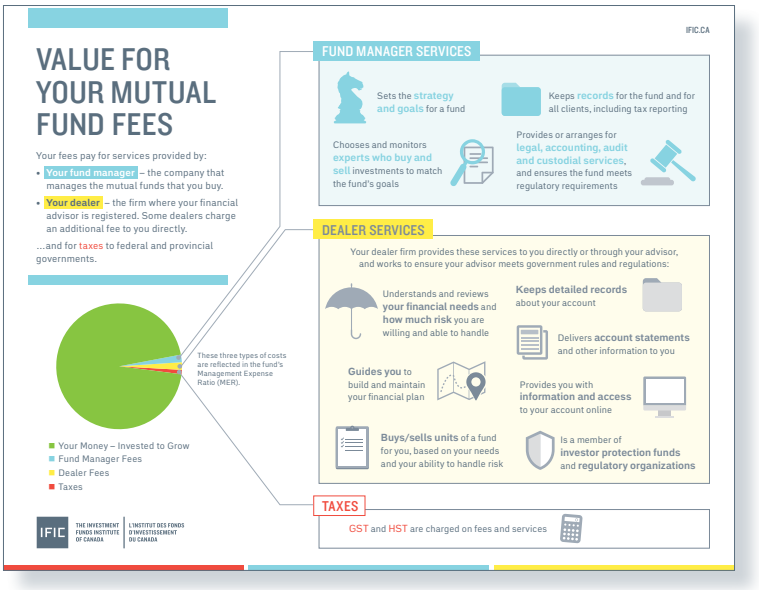
What services do you provide for the fees I am paying?

The services that we provide for these fees include:

- Understanding and reviewing your financial situation and needs, including how much risk you are willing and able to handle,
- Guiding you to build and maintain your financial plan,
- Buying and selling units of a fund for you, based on your needs and your ability to handle risk,
- Keeping detailed records about your account,
- Providing you with account statements and other information, and
- Providing you with information and access to your account online.

In addition, our firm belongs to an investor protection fund and to regulatory organizations that ensure the industry operates to meet a high regulatory standard.

[IFIC has developed an infographic: Value for Your Mutual Fund Fees (shown below and available on our website) to illustrate this information but details of the services being provided could vary from firm to firm or from client to client. Be as specific as possible with each client.]



The costs in this new report do not match the MER for the fund. Why is this?

The **Management Expense Ratio (MER)**, which you can find in *Fund Facts*, reflects the costs of operating and distributing a mutual fund. It includes costs for services provided by your **fund manager(s)** and your **dealer**. The MER is expressed as a percentage of the fund's average total assets, e.g. 2.1%. It does not indicate what you paid as an individual investor, based on the amount and timing of your investments. Industry discussions have begun about disclosure of the full MER, and IFIC has proposed full disclosure.

[For a detailed list of services provided by managers and dealers, refer to "Understanding Mutual Fund Fees" on the next page.]

The new report indicates what you paid over the previous year to your dealer, both directly and indirectly. It **does not include** amounts paid to your **fund manager(s)**.

What makes the personalized report valuable is that it tells how much **you** paid for dealer services over the past year, based on when you bought or sold all or part of your investment.

The report includes referral fees received by the dealer from any firm registered under securities laws. If the dealer refers the client to another firm, then under certain circumstances, the dealer can assign responsibility for issuing the report, including details of any referral fees, to the other firm.

	Management Expense Ratio (MER)	New Cost Report
Overall description	Approximates the total cost of the fees charged by your fund manager(s) (**except for any additional fees charged to you directly by your dealer**), expressed as a percentage of your total average investment. Not a personalized dollar figure and not included in the new statement of your costs.	Indicates how much your dealer was paid to look after your account.
Includes dealer costs?	In most cases, a portion of the MER is paid to dealers. Some dealers charge an additional fee to you directly.	Yes
Includes fund manager costs?	Yes	No
Includes sales taxes (GST/HST)?	When dealer fees are included in the MER, then GST/HST on these fees is also included in the MER. When dealer fees are charged separately, GST/HST on these fees is not included in the MER.	When dealer fees are included in the MER, GST/HST on these fees is not included in the new cost report. When dealer fees are charged separately, GST/HST on these fees is included in the new cost report.

What types of fees are not included in the cost report?

Examples include fees paid to the fund manager (for services described in the box below), trading expense ratios, foreign exchange spreads and short-term trading fees.

Understanding Mutual Fund Fees

Your fees pay for services provided by your fund manager(s), services provided by your dealer, and sales taxes to federal and provincial governments.

Fund manager services include items such as:

- Setting the strategy and goals for the fund,
- Buying and selling investments for the fund that match the fund's goals,
- Calculating the daily net asset value of the fund's investments (which sets the price to buy/sell units of the fund),
- Keeping records for the fund and its investors, including tax reporting,
- Ensuring the fund meets regulatory requirements,
- Running an Independent Review Committee (which oversees certain fund manager's policies), and
- Retaining outside experts, such as external auditors, and a custodian for safekeeping of the cash and securities.

Dealer services include items such as:

- Understanding and reviewing your financial needs and how much risk you are willing and able to handle,
- Guiding you to build and maintain your financial plan,
- Buying and selling units of a fund for you, based on your needs and your ability to handle risk,
- Providing you with account statements and other information,
- Keeping detailed records about your account,
- Reviewing your account transactions regularly to make sure that they meet all regulatory standards, and
- Providing you with information and access to your account online.

Prepared by

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