CSA PERFORMANCE REPORTING WORKING GROUP
DIRECTION DOCUMENT

Working Group Membership

Ross Sherwood (Chair)	Odlum Brown Limited
Stacey Barker	Ontario Securities Commission
Douglas Bennett	Edward Jones
Dave Cheop	Investors Group Financial Services
Richard Corner	Investment Dealers Association
Julia Dublin	Consultant
Gordon Garmaise	Logix Asset Management
Sophie Jean	Autorité des marchés financiers
Scott Mackenzie	Morningstar Canada
Tom McCahon	RBC Dominion Securities Inc.
Randee Pavalow	Ontario Securities Commission
Randall Powley	Ontario Securities Commission
John Smeeton	Mutual Fund Dealers Association
Laurel Turchin	Ontario Securities Commission

Working Group Mandate

The Working Group did not establish its own mandate but rather adopted relevant aspects of the mandate that was to apply collectively to the Core Principles Working Groups[1] as indicated below:

- the three core principles
  - clear allocation of responsibilities among the client, the services provider and the firm
  - transparency (i.e. disclosure that is understandable and meaningful to the client communicated at the time and in the form most likely to be useful) ✓
  - conflicts managed to avoid self-serving outcomes
- existing regulatory and SRO requirements that successfully address the core principles ✓
- the gaps that exist between current regulatory requirements and the core principles ✓
- possible solutions to fill the gaps (e.g. revised or new rules … or less prescriptive enunciation of guidelines) ✓
- existing regulatory requirements that may no longer be necessary ✓
- specific methods for the measurement of the success of the new regulatory and SRO requirements and benchmarks, if applicable ✓
- recommendations for the Drafting Group ✓

The primary focus of the Working Group was therefore the development of recommendations for understandable and meaningful disclosure of performance, performance benchmarks, service costs and risks.

[1] As set out in the November 10, 2004 memo sent to all Core Principles Working Group participants.

Work Plan

The Working Group approached its task by first performing a review of the regulatory requirements. A summary of the current requirements mandated by the OSC, the IDA and the MFDA is included as part of the document entitled "Matrix of Performance Reporting Working Group Issues, Current Requirements and Working Group Recommendations" (enclosed as Attachment #1). As the title indicates, this document lists the issues reviewed, the current regulatory requirements and summary recommendations of the Working Group on each issue. The remainder of this direction document discusses the recommendations of the Working Group in greater detail.

Working Group discussions and recommendations

Account statements

The Working Group discussed both the content of the current client account statement and the operational implications to the dealers of making changes to the content of the client account statement. It was agreed that disclosures that would provide meaningful information, in addition to those contained in the current client account statement, in the areas of performance, services costs and risk, could be provided to the customer.

In order to make practical recommendations as to how these additional disclosures should be provided to the client, the current approach used by IDA Member firms in providing performance information to their clients was reviewed. This review determined that performance information was being provided to clients through the use of a system that was separate from the books and records system that is used to prepare the client's statement of account. Based on this review, the Working Group concluded that any requirement to mandate that additional disclosures be incorporated into the client account statement would be too costly in relation to the minimal benefit of incorporating all client account related disclosures into one document. On this basis, the Working Group did not believe it was appropriate to mandate that any additional disclosures[2] be incorporated into the client account statement.

The Working Group did identify that the collection and maintenance of security / account cost information was a critical ingredient to the calculation of performance information. Since market value information is already being reported in the client account statement on both a security specific and total for account basis, the Working Group recommended that the same disclosures of cost information be required to be provided in the client account statement.

The Working Group did not make recommendations on client account statement frequency as a result of recommending that the additional disclosures being recommended need not be incorporated into the client account statement.

[2] The Working Group was informed that there are vendors that offer "all in one" solutions that could incorporate additional performance, service cost and risk disclosures into the current client account statement format. If a dealer were to adopt one of these solutions, costs would be incurred in abandoning existing performance systems that might be in excess of the costs of modifying their existing performance reporting system. The Working Group concluded that the dealer should have the flexibility to adopt the most cost effective approach to providing these additional disclosures.

Account statement recommendations

- Recommended that any additional performance, service cost and risk disclosures that are mandated need not be incorporated into account statements and that the frequency of these disclosures need not be tied to minimum account statement requirements
- Recommended that the disclosure of cost information (both security specific and total for account) be required in account statements
- No recommendations were developed for statement frequency as the Working Group did not recommend that the incorporation of additional disclosures into the client account statements be mandated

Performance reporting

(i) Target client audience

The Working Group discussed the client audience to which performance reporting should be targeted. The Working Group concluded that the greatest concern is with retail clients with limited investment knowledge that are highly reliant on an advisor for investment advice. The performance disclosure provided would therefore need to take into consideration what matters most to these clients.

(ii) Form of disclosure and calculation method

The Working Group looked at various forms of performance reporting that would address the specific needs of retail clients. Most retail clients want to know first and foremost whether they are making money or losing money. To address this, the Working Group has recommended that a summary of account activity report be provided.

The Working Group has also recommended disclosure of percentage return performance information to the retail client. AIMR standards would be followed to calculate portfolio performance information. Where multiple AIMR standards are permissible, the SROs will need to determine whether to prescribe the use of certain standards to ensure there is comparable disclosure.

(iii) Aggregation approach

The Working Group discussed a number of questions relating to the client account positions upon which performance information should be provided as follows:

Should performance be reported on an account or a portfolio level?

Should non-advised positions be excluded?

Should positions not in the custody of the dealer be excluded?

Account versus portfolio

The books and records system at most dealers has been set up to report on an account by account basis and not on an individual portfolio or household portfolio basis. The Working Group therefore expects that the default form of performance reporting will be account reporting, but considers either account or multiple account (either individual portfolio or household portfolio) performance reporting to be acceptable. Further, if the dealer makes multiple account reporting available, the retail client should be allowed to choose between receiving account or multiple account reporting.

Inclusion or exclusion of non-advised positions

For similar systems limitations reasons, the Working Group did not feel it would be appropriate to mandate that performance reporting also detail the performance of advised versus non-advised securities positions. However, if the dealer makes it available, the retail client should be allowed to receive performance reporting with advised/non-advised detail.

Inclusion or exclusion of positions held in custody outside of the dealer

The Working Group discussed in great detail the various means by which securities positions are held for a customer. Security positions may be:

- In nominee name
- In client name in physical form and held by the dealer in custody for the client
- In client name in physical form and held by an outside custodian
- In client name in book based form and held by the security's issuer or the issuer's custodian

The Working Group was quick to agree that performance reporting should be provided for client account security positions held in nominee and client name that are held in custody by the dealer for the client.

The Working Group had lengthy discussions about whether or not to extend the performance reporting requirement to include client name security positions that are either held in physical form by an outside custodian or in book based form. The factors considered by the Working Group were impact on operations and accountability. Dealers that exclusively execute trades in security positions held in client name in book based form have no current means of providing detailed performance information, since their existing books and records systems do not track client named book based security positions at a client account level. In the case of client named security positions held in physical form by an outside custodian, there is also the practical consideration that the dealer would have no way of knowing when the position is sold. On the issue of accountability, the Working Group agreed that dealers should be held accountable for the performance of all securities positions on which they continue to earn commissions, trailer fees or any other form of revenue.

The Working Group has recommended that, in the near term, performance reporting should be limited to client account security positions held in nominee and client name that are held in custody by the dealer for the client. While the Working Group agrees that dealers should be held accountable for the performance of all securities positions on which they continue to earn revenue, the significant operational impacts involved make providing performance information on client named securities positions that are either held in physical form by an outside custodian or in book based form a longer term objective. *[Dissenting view: OSC staff do not agree with this limitation, as this would result in no near term disclosure by dealers to their clients in respect of client named securities not held by the dealer. OSC staff believe that performance reporting should be provided by the dealer for all securities for which the dealer continues to receive compensation. However, OSC staff recognize that dealers should be able to outsource this function to take advantage of some of the current sources of information.]*

Other security exclusions

As a practical matter, there are a number of classes of illiquid securities that are hard to value and in some instances regulatory requirements mandate[3] that certain security positions be given no market value. As a result, it may be appropriate to exclude certain securities where market value is difficult to determine.

(iv) Timeframe

The Working Group has recommended that performance be disclosed for the current year and since account inception, at a minimum. As practical implementation matter, performance from rule implementation date could be provided in place of performance from account inception. The dealer may make available additional timeframes that are consistent with the client's investment timeframe.

(v) Frequency

The Working Group discussed at length the appropriate performance reporting frequency. Concerns were expressed that if performance was reported too often, clients might be inappropriately influenced by short-term market value movements. It was also noted that there would be retail clients engaged in short term trading that may wish to receive performance information on a more frequent basis than other retail clients. The Working Group has recommended that performance reporting should be provided on an annual basis, at a minimum. More frequent reporting can be provided depending on the level of service being provided by the dealer and the client's willingness to pay for such service.

(vi) Target returns

The Working Group did not address the provision of target returns for purposes other than providing a range of possible returns for risk disclosure purposes. This issue of providing a range of possible returns for risk disclosure purposes is discussed as part of the "Risk disclosure" section of this document.

Performance reporting recommendations

- Recommended that the focus of the disclosures should be on retail clients only
- Recommended that cost information be used to provide a summary account activity report

[3] The definition of the term "market value of securities" as set out in the General Notes and Definitions to Form 1 of the IDA Rule Book specifies that where a security position is "not readily marketable, no market value shall be assigned".

Performance reporting recommendations

- Recommended that AIMR standards should be used to calculate portfolio performance information
- Where multiple AIMR standards are permissible, the SROs will need to determine whether to prescribe the use of certain standards to ensure comparable disclosure
- It is expected that the default form of performance reporting would be account level reporting, but either account level or portfolio level performance reporting would be acceptable
- If the dealer makes it available, the retail client should be allowed to choose between receiving account level and multiple account level (either individual portfolio or household portfolio) reporting
- If the dealer makes it available, the retail client should be allowed to receive performance reporting with advised/non-advised detail
- Recommended that, in the near term, performance reporting should only be provided for nominee and client name securities that are held in custody by the dealer for the client. While the Working Group agrees that dealers should be held accountable for the performance of all securities positions on which they continue to earn revenue, the significant operational impacts involved make providing performance information on client named securities positions that are either held in physical form by an outside custodian or in book based form a longer term objective
  [Dissenting view: OSC staff do not agree with this limitation, as this would result in no disclosure by dealers to their clients in respect of client named securities not held by the dealer. OSC staff believe that performance reporting should be provided by the dealer for all securities for which the dealer continues to receive compensation. However, OSC staff recognize that dealers should be able to outsource this function to take advantage of some of the current sources of information.]
- It may also be appropriate to exclude certain securities where market value is difficult to determine
- Recommended that performance be disclosed for the current year and since account inception at a minimum
- As practical implementation matter, performance from rule implementation date could be provided in place of performance from account inception
- The dealer may make available additional timeframes that are consistent with the client’s investment timeframe
- Recommended that performance reporting should be provided on an annual basis, at a minimum.
- More frequent reporting can be provided depending on the level of service being provided by the dealer and the client’s willingness to pay for such service
- The provision of target returns for purposes other than providing a range of possible returns for risk disclosure purposes has not been recommended by the Working Group

Performance benchmarks

The Working Group agrees in concept that appropriate performance benchmarks should be provided for those accounts for which performance information is provided to enable the retail client to compare with account/portfolio performance information. However, the Working Group does not believe that appropriate benchmarks are always available. As a result, the Working Group has recommended that an appropriate benchmark should be provided but if there is no appropriate benchmark, no benchmark information need be disclosed. Situations where benchmarks may not be available/appropriate include: complex portfolios, where no relevant reference benchmark is available and simple portfolios involving relatively few securities, where the use of a benchmark may provide no meaningful information. Guidance on determining when it is appropriate to provide a benchmark should be developed by the SRO drafting group.

Performance benchmarks recommendations

- Recommended that an appropriate benchmark should be provided but if there is no appropriate benchmark, no benchmark information need be disclosed
- Situations where benchmarks may not be available/appropriate include: complex portfolios, where no relevant reference benchmark is available and simple portfolios involving relatively few securities, where the use of a benchmark may provide no meaningful information

Service costs

The Working Group reviewed the disclosure of service costs on both a transactional and aggregated basis.

(i) Transactional disclosure requirements

While the Working Group was aware that the disclosure of service costs on a transactional basis was within the mandate of the Costs and Conflicts Working Group, there were discussions on whether costs should be disclosed on a “gross to the dealer” or “net to the advisor” basis and on the specific transactional disclosures that should be provided for mutual fund and bond transactions. The Working Group expressed concern that, if the intent of service cost disclosure is to provide the retail client with a true comparison of account/portfolio earnings versus costs, the basis of service cost disclosure should allow for a proper “apples to apples” comparison. The Working Group deferred making any final recommendations of transactional service costs until the recommendations of the Costs and Conflicts Working Group are known.

(ii) Aggregated disclosure requirements

The Working Group felt it was important that service cost information, covering the same timeframe and provided on the same frequency as performance information, be provided to the retail client. Having such information will allow the retail client to make an assessment of the value of the advice being provided in relation to the service costs being paid. The Working Group has recommended that aggregated service cost information should be made available on an annual basis, at a minimum and at the same time that performance information is made available (and preferably as part of the same report).

Service cost recommendations

- Recommended that aggregated service cost information should be made available on an annual basis, at a minimum and at the same time that performance information is made available (and preferably as part of the same report)

Portfolio risks

The Working Group found it very difficult to come up with precise recommendations on risk disclosure. The Working Group acknowledged the importance of risk disclosure but felt it would be difficult to develop disclosure requirements that were comparable from dealer to dealer and that resulted in understandable and meaningful disclosure. Further, it was felt that it would be very difficult to mandate a specific approach to measuring risk, particularly if there is to be no mandated approach to determine a client's risk tolerance (included in Attachment #2 is a sample approach for assessing a client's willingness/ability to assume risk). Specifically, mandating a risk disclosure regime that would require the disclosure of the expected return range on an account/portfolio, if a similar range of performance was not being used to determine a client's risk tolerance.

The Working Group was also uncomfortable with assuming that everyone's definition of risk was the same and that the disclosure of the same expected return range to different holders of the same or similar portfolio would have the same meaning. The Working Group concluded that there was a need to define portfolio risk as, on account by account basis, risk could be measured in different ways taking into account the client's investment timeline and the trading strategy being employed (i.e., short-term trading versus buy and hold).

While the Working Group concluded that defining risk and performing a risk assessment is not an exact science, they reaffirmed the need for the advisor to perform and provide to their clients a periodic portfolio risk assessment. For a risk assessment to be meaningful, the underlying logic for assessing the portfolio risk at a certain level should be provided to the client at the same time as the risk assessment itself.

The Working Group was unwilling to prescribe a precise numeric risk disclosure approach, such as providing an expected portfolio return range. Rather, to provide some context/framework for the advisor's risk assessment, the Working Group suggested that the client could be given a dealer risk information document (included in Attachment #2 is a sample approach for disclosing risk information) outlining the key risk factors that are considered in assessing portfolio risk including asset mix risk, interest rate term risk, industry sector risk and geographic risk, along with details of the client's actual asset mix, interest rate term, industry sector and geographic portfolio weightings.

Portfolio risk recommendations

- The Working Group acknowledged the importance of risk disclosure but felt it would be difficult to develop disclosure requirements that were comparable from dealer to dealer

Portfolio risk recommendations

and that resulted in understandable and meaningful disclosure

- It was felt that it would be very difficult to mandate a specific approach to measuring risk, particularly if there is to be no mandated approach to determine a client's risk tolerance
- There is also a need to define portfolio risk as, on account by account basis, risk could be measured in different ways taking into account the client's investment timeline and the trading strategy being employed (i.e., short-term trading versus buy and hold)
- The Working Group reaffirmed the need for the advisor to perform and provide to their clients a periodic portfolio risk assessment. For a risk assessment to be meaningful, the underlying logic for assessing the portfolio risk at a certain level should be provided to the client at the same time as the risk assessment itself
- The Working Group was unwilling to prescribe a precise numeric risk disclosure approach, such as providing an expected portfolio return range. Rather, to provide some context/framework for the advisor's risk assessment, the Working Group suggested that the client could be given a dealer risk information document outlining the key risk factors that are considered in assessing portfolio risk including asset mix risk, interest rate term risk, industry sector risk and geographic risk, along with details of the client's actual asset mix, interest rate term, industry sector and geographic portfolio weightings

Use of information for marketing purposes

At the request of one of the Working Group members, the use of performance information for marketing purposes was discussed. The concern raised related to the use of performance information by mutual fund issuers; specifically, providing performance information which may mislead the retail client as to the future performance prospects of the mutual fund. The Working Group did not disagree with the concern but felt that this was an issuer reporting matter that was outside the mandate of the Working Group. The Working Group did review the regulatory requirements relating to marketing materials and found them to be adequate.

Use of information for marketing purposes recommendations

- The Working Group considers the current regulatory requirements to be adequate

Benchmarks to measure the success of the Working Group's Recommendations

All three Working Groups have been asked to consider developing benchmarks to measure the success of their recommendations. All of the Working Group's recommendations relate to improving disclosure of performance, performance benchmarks, service costs and risks and these disclosures are intended to be more understandable and meaningful. As a result, the most direct way of measuring the success of the Working Group's recommendations is to survey retail clients.

Matrix of Performance Reporting Working Group Issues, Current Requirements and Working Group Recommendations

ISSUE	OSC	IDA	MFDA	RECOMMENDATIONS
Account statements ▪ **content**	S.97 (Reg.) ▪ Market value of unlisted securities shall be the reasonable value based on published market reports or inter dealer quotations and if no published reports or inter dealer quotes then it will be assigned a market value of 0.	Reg. 200.1(c) ▪ Statement content requirements include cash balances (opening and closing), details of cash transactions (deposits, withdrawals, transfers), details of all securities transactions (purchases, sales, receipts, deliveries) and details of security positions held (issue description, quantity held, unit value and market value of position)	For client name accounts: ▪ All debits/credits ▪ Quantity, description, date of each transaction For nominee accounts: ▪ All of the above ▪ Opening/closing balance ▪ Quantity, description and market value of holdings ▪ For all accounts: ▪ Account type ▪ Account # ▪ Period covered by statement ▪ Name of AP servicing the account, if applicable ▪ Member's name, address and phone number ▪ Only transactions executed by the member may appear on statements (which does not preclude reporting other securities to clients on non-statement reports)	▪ Recommended that any additional performance, service cost and risk disclosures that are mandated need not be incorporated into account statements and that the frequency of these disclosures need not be tied to minimum account statement requirements ▪ Recommended that the disclosure of cost information (both security specific and total for account) be required in account statements
Account statements ▪ **frequency**	S.123 (Reg.) ▪ Monthly accounts if there has been a transaction and debit/credit balance of securities. ▪ Quarterly if no transaction. ▪ Must list and indicate securities held for client and which are held for safekeeping or in segregation	Reg. 200.1(c) ▪ Monthly for all Client account that have affected a transaction, where a transaction does not include dividend and interest payments ▪ Quarterly for accounts that are otherwise inactive	For client name accounts: ▪ Min. once every 12 mos. For nominee accounts: ▪ Monthly where there is a transaction and a cash balance or security position ▪ Quarterly where there is no transaction but there is a quarter-end security position or cash balance	▪ No recommendations were developed for statement frequency as the Working Group did not recommend that the incorporation of additional disclosures into the client account statements be mandated

ISSUE	**OSC**	**IDA**	**MFDA**	**RECOMMENDATIONS**
	▪ Mutual fund dealer – annually – showing all purchases and redemptions during the year and total market value of all securities of mutual fund held by clients. ▪ Portfolio Manager – Quarterly unless directed otherwise.			
Performance reporting ▪ **general**	38(2) ▪ May not give an undertaking relating to the future value or price of a security with the intention of effecting a trade	▪ No current IDA requirement to disclose performance information ▪ A number of IDA Member firms provide this information voluntarily ▪ The remainder of the comments on performance refer to the practices of IDA Member firms that provide this information voluntarily	▪ No specific requirement to provide portfolio performance ▪ No specific prohibition against providing portfolio performance. Rule 2.8.2 requires that client communications (which would include client statements or other such reports) shall not: ▪ Be untrue or misleading ▪ Make unwarranted or exaggerated claims ▪ Be detrimental to the interests of clients, the public, the MFDA or its Members ▪ Contravene applicable legislation ▪ Be inconsistent or confusing with any info provided by the member or AP	▪ Recommended that the focus of the disclosures should be on retail clients only
Performance reporting ▪ **form of disclosure and calculation method**		▪ AIMR standards	Rule 2.8.3 requires where a rate of return is provided regarding a specific account	▪ Recommended that cost information be used to provide a summary account

ISSUE	OSC	IDA	MFDA	RECOMMENDATIONS
			or group of accounts: ▪ Must use annualized rate of return except where the account is newer than 12 mos., then use rate of return since account opening ▪ Explain methodology used to calculate the rate of return in sufficient detail and clarity to reasonably permit the client to understand the basis for the rate of return	activity report ▪ Recommended that AIMR standards should be used to calculate portfolio performance information ▪ Where multiple AIMR standards are permissible, the SROs will need to determine whether to prescribe the use of certain standards to ensure comparable disclosure
Performance reporting ▪ **aggregation approach** ➢ **account versus portfolio** ➢ **all positions versus only advised positions** ➢ **nominee named positions versus client named positions** ➢ **other security exclusions**		▪ All nominee and client named securities held in custody, provided cost base information is available		▪ It is expected that the default form of performance reporting would be account level reporting, but either account level or portfolio level performance reporting would be acceptable ▪ If the dealer makes it available, the retail client should be allowed to choose between receiving account level and multiple account level (either individual portfolio or household portfolio) reporting ▪ If the dealer makes it available, the retail client should be allowed to receive performance reporting with advised/non-advised detail ▪ Recommended that, in the near term, performance reporting should only be

ISSUE	**OSC**	**IDA**	**MFDA**	**RECOMMENDATIONS**
				provided for nominee and client name securities that are held in custody by the dealer for the client. While the Working Group agrees that dealers should be held accountable for the performance of all securities positions on which they continue to earn revenue, the significant operational impacts involved make providing performance information on client named securities positions that are either held in physical form by an outside custodian or in book based form a longer term objective *[Dissenting view: OSC staff do not agree with this limitation, as this would result in no disclosure by dealers to their clients in respect of client named securities not held by the dealer. OSC staff believe that performance reporting should be provided by the dealer for all securities for which the dealer continues to receive compensation.]* ▪ It may be appropriate to exclude certain securities where market value is difficult to determine
Performance		▪ Generally at least current		▪ Recommended that

ISSUE	**OSC**	**IDA**	**MFDA**	**RECOMMENDATIONS**
▪ **timeframe**		quarter, current year to date and previous year; additional timeframes may be made available depending upon extent of historic account information available		performance be disclosed for the current year and since account inception at a minimum ▪ As practical implementation matter, performance from rule implementation date could be provided in place of performance from account inception ▪ The dealer may make available additional timeframes that are consistent with the client's investment timeframe
Performance ▪ **frequency**		▪ Generally on a calendar quarter basis		▪ Recommended that performance reporting should be provided on an annual basis, at a minimum. ▪ More frequent reporting can be provided depending on the level of service being provided by the dealer and the client's willingness to pay for such service
Performance ▪ **target returns**		▪ Target returns are not generally provided		▪ The provision of target returns for purposes other than providing a range of possible returns for risk disclosure purposes has not been recommended by the Working Group
Benchmark usage	▪ Disclosure materials (prospectus and proposed annual management report of fund performance)	▪ No current IDA requirement to disclose benchmark performance information ▪ Not aware of any IDA	▪ No specific requirement to provide benchmark comparison. No specific prohibition against	▪ Recommended that an appropriate benchmark should be provided but if there is no appropriate

ISSUE	**OSC**	**IDA**	**MFDA**	**RECOMMENDATIONS**
	require the use of an appropriate broad-based securities market index. (NI 81-101F1, Part B, Item 11.3(6) and proposed NI 81-106F1 Part B Item 4.3)	Member firms providing this information	providing benchmark comparison. ▪ Rule 2.8.2, above, would apply to benchmark info provided to clients.	benchmark, no benchmark information need be disclosed ▪ Situations where benchmarks may not be available/appropriate include: complex portfolios, where no relevant reference benchmark is available and simple portfolios involving relatively few securities, where the use of a benchmark may provide no meaningful information
Reporting on costs ▪ **what** ▪ **when** ▪ **aggregation over what period of time**	S.36 Confirms ▪ Must promptly send written confirmation stating: Quantity and description of securities, consideration, whether acting as principal or agent (from or to or through transacted), date and name of exchange, commission, name of salesperson. ▪ If mutual fund – also include price per share or unit, amounts deducted for sales, service and other charges ▪ If mutual fund and under a contractual plan – initial payment of fees and portion of charges allocated to subsequent investments and brief statement of future charges, total number of	▪ No current IDA requirement to disclose costs (compensation or other costs) on account statements ▪ Reg. 200.1(h) ▪ Trade confirmations must disclose the commission charged in respect of the trade	Cost reporting required on trade confirmations only (Rule 5.4.3): ▪ The commission, if any, charged in respect of the trade ▪ The amount deducted by way of sales, service and other charges ▪ The amount, if any, of deferred sales charges Separate Rules for cost disclosure re: service fees and fees earned from referral arrangements.	▪ Recommended that aggregated service cost information should be made available on an annual basis, at a minimum and at the same time that performance information is made available (and preferably as part of the same report) ▪ Recommended that mutual fund trailer fees not be included in annual aggregated service cost information reported to avoid double counting of fees. An alternative would be to report the trailer fees and gross up the mutual fund performance by the same amount.

ISSUE	OSC	IDA	MFDA	RECOMMENDATIONS
	units and sales charges up to date of confirmation. ▪ Dealer exempt if fund manager sends written confirmation. ▪ Ont. Reg. 1015 s. 95(1) ▪ Confirmation of trade in mutual fund under contractual plan must also contain disclosure re. prepaid sales, service charges			
Risks ▪ **measurement** ▪ **presentation**	▪ No current requirement for mutual fund account statements ▪ Mutual fund prospectus requires brief statement of suitability of fund for particular investors and portfolios (NI 81-101F1 Part B Item 10)	▪ No current IDA requirement to disclose risk information on account statements	▪ No specific requirement to provide portfolio risk information (except for KYC requirement to assess and document client risk tolerance). No specific prohibition against providing portfolio risk information. Rule 2.8.2, above, would apply to risk info reported to clients.	▪ The Working Group acknowledged the importance of risk disclosure but felt it would be difficult to develop disclosure requirements that were comparable from dealer to dealer and that resulted in understandable and meaningful disclosure ▪ It was felt that it would be very difficult to mandate a specific approach to measuring risk, particularly if there is to be no mandated approach to determine a client's risk tolerance ▪ There is also a need to define portfolio risk as, on account by account basis, risk could be measured in different ways taking into account the client's investment timeline and the

ISSUE	OSC	IDA	MFDA	RECOMMENDATIONS
				trading strategy being employed (i.e., short-term trading versus buy and hold) ▪ The Working Group reaffirmed the need for the advisor to perform and provide to their clients a periodic portfolio risk assessment. For a risk assessment to be meaningful, the underlying logic for assessing the portfolio risk at a certain level should be provided to the client at the same time as the risk assessment itself ▪ The Working Group was unwilling to prescribe a precise numeric risk disclosure approach, such as providing an expected portfolio return range. Rather, to provide some context/framework for the advisor's risk assessment, the Working Group suggested that the client could be given a dealer risk information document outlining the key risk factors that are considered in assessing portfolio risk including asset mix risk, interest rate term risk, industry sector risk and geographic risk, along with details of the client's actual

ISSUE	OSC	IDA	MFDA	RECOMMENDATIONS
				asset mix, interest rate term, industry sector and geographic portfolio weightings
Use of information for marketing ▪ **content** ▪ **use**	▪ S.38 – see above. ▪ NP 42 – No advertising of specific securities unless government debt or certificates of receipts of loan or trust company except specific information during distribution. ▪ NI 81-102 Part 15 ▪ General rule ads must be true, not misleading, consistent with prospectus disclosure, at least 10 point type ▪ Comparisons with benchmark, reference to performance rating/ranking regulated ▪ Performance measurement period covered: 10, 5, 3, 1 year period + since inception or, for money market fund, most recent calculable 7 day period ▪ Prescribed formula and assumptions for calculating standard performance data	▪ By-law 29.7 ▪ General rule relating to the pre-approval of advertisements, sales literature and correspondence ▪ No requirements specific to performance information since the disclosure of such information is not mandatory	Rule 2.7 governs “advertising and sales communications”, which shall not: ▪ Contain an untrue statement or omission of a material fact ▪ Contain an unjustified promise of specific results ▪ Use unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify material assumptions ▪ Contain any opinion or forecast of future events which is not labeled as such ▪ Fail to fairly present the potential risks to the client ▪ Be detrimental to the interests of the public, the MFDA or its Members ▪ Contravene applicable legislation ▪ Advertisements and sales communications must be pre-approved by the Member	▪ The Working Group considers the current regulatory requirements to be adequate

Attachment #2

Sample approach for assessment of client's willingness/ability to assume risk

The client's risk profile should be divided into two categories: **capacity** and **tolerance**. Capacity is a matter of circumstance at the time the assessment is made. Key considerations are time horizon, liquidity needs and constraints, liability structure, and overall wealth. Tolerance is a personality trait that measures the comfort of a client with portfolio performance volatility over short and long-term time horizons. Portfolio performance volatility should be assessed against both absolute and relative performance measures.

- **Capacity** to absorb market fluctuations could be assessed as high, medium or low. Guidelines for assessing time horizon could include duration of investment period that, for example, could be: > 10 years is high capacity, > 5 years but <= 10 years is medium capacity and <= five years is low capacity. Other factors can be documented and considered as appropriate.
- **Tolerance** for portfolio volatility could be assessed as high, medium or low. Parameters for fluctuation in annual portfolio performance could be > 20% is high, >10% but <= 20% is medium and <= 10% is low.

The lower of the capacity and tolerance ratings should drive the overall portfolio investment strategy. The following table summarizes this sample approach to determining a client's willingness/ability to assume risk:

ASSESSMENT OF CLIENT'S WILLINGNESS/ABILITY TO ASSUME RISK

		Risk Tolerance [FLUCTUATION IN ANNUAL PORTFOLIO PERFORMANCE]		
		<10%	**>10% but <20%**	**>20%**
Risk Capacity [INVESTMENT TIME HORIZON]	**> 10 years**	**LOW**	**MEDIUM**	**HIGH**
	> 5 but <= 10 years	**LOW**	**MEDIUM**	**MEDIUM**
	<= 5 years	**LOW**	**LOW**	**LOW**

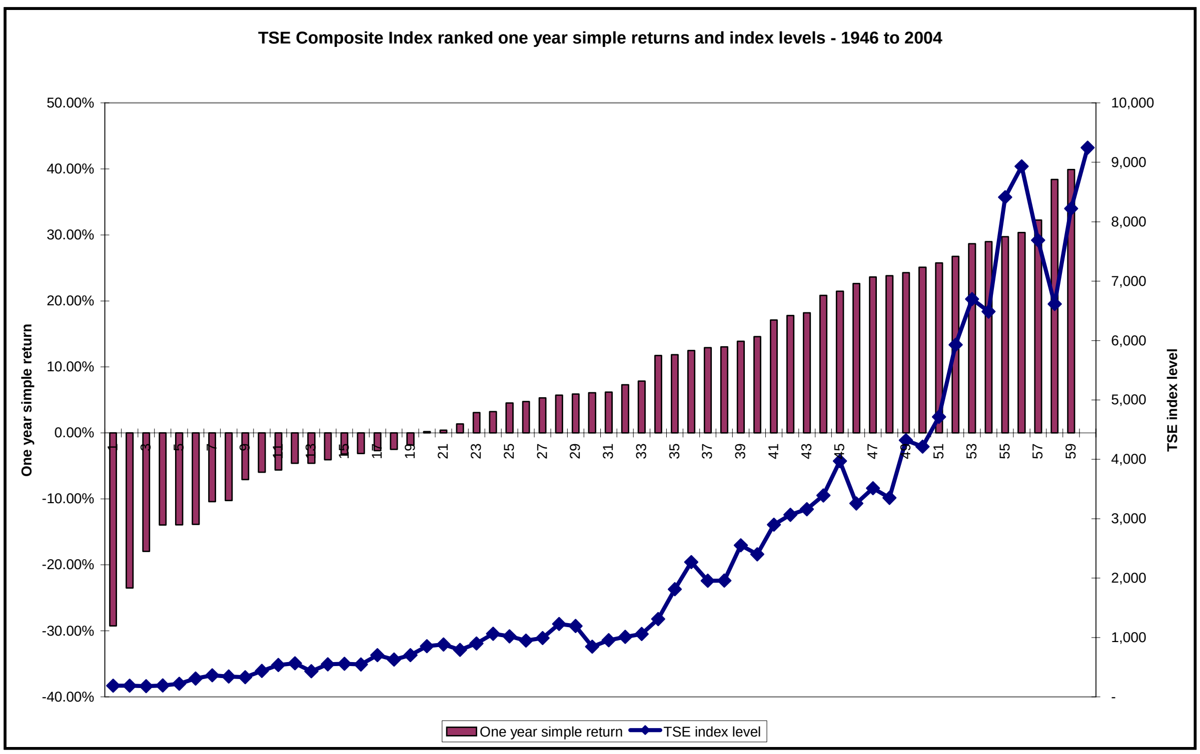
Sample approach for disclosure to client of risk information

General risk disclosure considerations

- The client and advisor should review historical market performance volatility over one, five and ten year time periods. This process should facilitate an understanding of the possible decline, based on prior experience, of a basket of equities over one, five and ten year time periods.
- For the purpose of portfolio performance volatility assessments, fixed income investments should be assumed to be investment grade and held to maturity. The incorporation of pricing issues of bonds at mid term will add too many complications to volatility and risk assessments.
- Portfolio performance risk should be addressed from both an absolute and relative performance prospective. Where appropriate, reference to a benchmark and risk profile compared to benchmark should be made.

Specific market risk disclosures

- The client and advisor should review historical performance volatility for relevant markets. The following is an example of the type of disclosures that could be provided for the Toronto Stock Exchange:



Source: Bloomberg, Odlum Brown Analysis

TSE Composite Index simple returns 1946 to 2004

Date	Px Last	TSX Index Simple Return				
		1 year	2 year	3 year	4 year	5 year
12/31/1945	188.96					
12/31/1946	189.71	0.40%				
12/31/1947	180.96	-4.61%	-4.23%			
12/31/1948	191.63	5.90%	1.01%	1.41%		
12/30/1949	219.58	14.59%	21.34%	15.75%	16.20%	
12/29/1950	307.22	39.91%	60.32%	69.77%	61.94%	62.58%
12/31/1951	361.86	17.79%	64.80%	88.83%	99.97%	90.74%
12/31/1952	341.5	-5.63%	11.16%	55.52%	78.21%	88.72%
12/31/1953	330.83	-3.12%	-8.58%	7.69%	50.66%	72.64%
12/31/1954	437.49	32.24%	28.11%	20.90%	42.40%	99.24%
12/30/1955	536.5	22.63%	62.17%	57.10%	48.26%	74.63%
12/31/1956	564.97	5.31%	29.14%	70.77%	65.44%	56.13%
12/31/1957	432.11	**-23.52%**	-19.46%	-1.23%	30.61%	26.53%
12/31/1958	547.72	26.75%	-3.05%	2.09%	25.20%	65.56%
12/31/1959	555.09	1.35%	28.46%	-1.75%	3.47%	26.88%
12/30/1960	544.74	-1.86%	-0.54%	26.07%	-3.58%	1.54%
12/29/1961	700.85	28.66%	26.26%	27.96%	62.19%	24.05%
12/31/1962	628.99	-10.25%	15.47%	13.31%	14.84%	45.56%
12/31/1963	702.71	11.72%	0.27%	29.00%	26.59%	28.30%
12/31/1964	853.53	21.46%	35.70%	21.78%	56.69%	53.76%
12/31/1965	881.14	3.23%	25.39%	40.09%	25.72%	61.75%
12/30/1966	789.51	-10.40%	-7.50%	12.35%	25.52%	12.65%
12/29/1967	899.2	13.89%	2.05%	5.35%	27.96%	42.96%
12/31/1968	1062.88	18.20%	34.63%	20.63%	24.53%	51.25%
12/31/1969	1019.77	-4.06%	13.41%	29.16%	15.73%	19.48%
12/31/1970	947.54	-7.08%	-10.85%	5.38%	20.02%	7.54%
12/31/1971	990.54	4.54%	-2.87%	-6.81%	10.16%	25.46%
12/29/1972	1226.58	23.83%	29.45%	20.28%	15.40%	36.41%
12/31/1973	1193.56	-2.69%	20.50%	25.96%	17.04%	12.29%
12/31/1974	844.48	**-29.25%**	-31.15%	-14.75%	-10.88%	-17.19%
12/31/1975	953.54	12.91%	-20.11%	-22.26%	-3.74%	0.63%
12/31/1976	1011.52	6.08%	19.78%	-15.25%	-17.53%	2.12%
12/30/1977	1059.59	4.75%	11.12%	25.47%	-11.22%	-13.61%
12/29/1978	1309.99	23.63%	29.51%	37.38%	55.12%	9.75%
12/31/1979	1813.17	38.41%	71.12%	79.25%	90.15%	114.71%
12/31/1980	2268.7	25.12%	73.18%	114.11%	124.29%	137.92%
12/31/1981	1954.2	-13.86%	7.78%	49.18%	84.43%	93.19%
12/31/1982	1958.08	0.20%	-13.69%	7.99%	49.47%	84.80%
12/30/1983	2552.35	30.35%	30.61%	12.50%	40.77%	94.84%
12/31/1984	2400.33	-5.96%	22.59%	22.83%	5.80%	32.38%
12/31/1985	2900.6	20.84%	13.64%	48.13%	48.43%	27.85%
12/31/1986	3066.18	5.71%	27.74%	20.13%	56.59%	56.90%
12/31/1987	3160.05	3.06%	8.94%	31.65%	23.81%	61.39%
12/30/1988	3389.99	7.28%	10.56%	16.87%	41.23%	32.82%
12/29/1989	3969.8	17.10%	25.62%	29.47%	36.86%	65.39%
12/31/1990	3256.8	**-17.96%**	-3.93%	3.06%	6.22%	12.28%
12/31/1991	3512.36	7.85%	-11.52%	3.61%	11.15%	14.55%
12/31/1992	3350.44	-4.61%	2.88%	-15.60%	-1.17%	6.02%
12/31/1993	4321.43	28.98%	23.03%	32.69%	8.86%	27.48%
12/30/1994	4213.61	-2.50%	25.76%	19.97%	29.38%	6.14%
12/29/1995	4713.54	11.86%	9.07%	40.68%	34.20%	44.73%
12/31/1996	5927.03	25.74%	40.66%	37.15%	76.90%	68.75%
12/31/1997	6699.44	13.03%	42.13%	59.00%	55.03%	99.96%
12/31/1998	6485.94	-3.19%	9.43%	37.60%	53.93%	50.09%
12/31/1999	8413.75	29.72%	25.59%	41.96%	78.50%	99.68%
12/29/2000	8933.7	6.18%	37.74%	33.35%	50.73%	89.53%
12/31/2001	7688.41	**-13.94%**	-8.62%	18.54%	14.76%	29.72%
12/31/2002	6614.54	**-13.97%**	-25.96%	-21.38%	1.98%	-1.27%
12/31/2003	8220.89	24.29%	6.93%	-7.98%	-2.29%	26.75%
12/31/2004	9246.65	12.48%	39.79%	20.27%	3.50%	9.90%

Source: Bloomberg, Odlum Brown Analysis

TSE Composite Index performance since 1945		
Positive versus negative returns	**Number of periods**	**Percentage of periods**
Positive one year return	40	67.80%
Negative one year return	19	32.20%
Total	59	100.00%
Percentage returns		**Percentage**
Average one year simple return		7.96%
Worst one year simple return (1974)		-29.25%
Second worst one year simple return (1957)		-23.52%
Third worst one year simple return (1990)		-17.96%
Average of five worst one year simple return years		-19.73%
TSE CAGR 1945 to 2004		6.82%

Source: Bloomberg, Odlum Brown Analysis

Specific asset mix risk disclosures

- The client and advisor should review historical performance volatility for various portfolio asset mixes. The following is an example of the type of disclosure that could be provided:

Asset mix and risk versus return table

Asset mix		Short term		Longer term	
Fixed income percentage	Equity percentage	One year return	One year downside risk	Long Term Annual Return	Five Year Downside Risk
0.00%	100.00%	7.96%	-29.25%	6.82%	-17.19%
10.00%	90.00%	7.60%	-26.32%	6.57%	-15.47%
20.00%	80.00%	7.23%	-23.40%	6.32%	-13.75%
30.00%	70.00%	6.87%	-20.47%	6.07%	-12.03%
40.00%	60.00%	6.51%	-17.55%	5.82%	-10.31%
50.00%	50.00%	6.14%	-14.62%	5.57%	-8.59%
60.00%	40.00%	5.78%	-11.70%	5.32%	-6.88%
70.00%	30.00%	5.42%	-8.77%	5.08%	-5.16%
80.00%	20.00%	5.06%	-5.85%	4.83%	-3.44%
90.00%	10.00%	4.69%	-2.92%	4.58%	-1.72%
100.00%	0.00%	4.33%	0.00%	4.33%	0.00%
* Average one year simple return and CAGR for TSX Composite from 1946 to 2004				7.96%	6.82%
** Ten year Government of Canada bond yield				4.33%	4.33%
*** Worst one year and worst five year simple returns for the TSX from 1946 to 2004				-29.25%	-17.19%

Source: Bloomberg, Odlum Brown Analysis

Other risk disclosures

- The client and advisor should review portfolio interest rate term risk, industry sector risk and geographic risk to the extent there is a need for such reviews