

# CRM3 – Total Cost Reporting for Investment Funds

## Regulation Overview and Requirements Summary

### Regulation Overview

On April 20, 2023, the Canadian Securities Administrators (CSA) issued new total cost reporting (TCR) requirements for investment funds, which includes foreign and Canadian mutual funds, ETFs, and scholarship plans. These new requirements serve as enhancements to the disclosures introduced in 2016 under CRM2 and will provide investors with annual disclosure of all the embedded costs of owning funds, including management expense ratios (MERs) and trading expense ratios (TERs) in both dollar and percentage terms.

Securities registrants will have to deliver the first annual reports that incorporate the TCR enhancements for the year ending December 31, 2026. There are no grandfathering provisions.

### Investment Fund Manager Duties

For each day a client owns an investment fund, the investment fund manager (IFM) is to provide to the dealer “within a reasonable period of time” the daily fund expenses per security, expressed in dollars, for the applicable class or series, calculated as follows:

$$\text{Daily fund expense ratio} \times \text{EOD market value} = \text{Daily fund expenses}$$

In circumstances where the exact information is unavailable or the cost to obtain it is exorbitant, IFMs may use reasonable approximation by exercising professional judgement in determining what approximations are reasonable.

### Rule Requirements Summary

There are 3 main components to the new rules:

1 An annual report from dealers on charges and other compensation, which must include information relating to:

For the account as a whole

- The aggregate amount of fund expenses, in dollars;
- The aggregate amount of any direct investment fund charges (e.g., short-term trading fees or redemption fees), in dollars

For each investment security owned by the client during the year

- The fund expense ratio (the FER), as a percentage

2 Additions to the existing requirement for investment fund managers to provide necessary information to the dealers who distribute their products.

3 Provisions relating to the calculation and reporting of this information.

### Dealer Duties

For each day in the 12-month reporting period, registered dealers are to calculate the aggregate amount of fund expenses by: (1) multiplying the fund expenses per security by the number of securities owned, and (2) adding together the resulting amounts for each class or series of investment fund securities owned by a client and for each day in the reporting period.

Dealers must also adopt the expanded notifications explaining fund expenses.

**Exclusions:** The information required for investment funds need not be provided for:

- 1) Newly-established investment funds (i.e., a fund that has not yet filed a management report of fund performance, or a fund established less than 12 months before the end of the period covered by the statement);
- 2) Existing exemptions for non-individual permitted clients (e.g., many different institutional investors).

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## Sample Annual Cost and Compensation Report (1/2)

### Your Cost of Investing and Our Compensation

Your Account Number: 123-4567

This report shows for 2023:

- Your cost of investing, including what you paid to us and to investment fund companies;
- Our compensation.

#### Your Cost of Investing - What you paid:

**Our charges:** Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.

Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell some investments	\$20.00
<b>Total you paid to us</b>	<b>\$120.00</b>

**Investment fund company fees:** Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account, and in investment fund related fees.

<b>Fund Expenses</b> <sup>1</sup> - See the fund expenses % shown in the table below	\$645.00
Redemption fees on deferred sales charge (DSC) investments <sup>2</sup>	\$50.00
<b>Total you paid to investment fund companies</b>	<b>\$695.00</b>
<b>Your total cost of investing</b> <sup>3</sup>	<b>\$815.00</b>

#### Our Compensation - What we received:

Total you paid us, as indicated above	\$120.00
Trailing commissions <sup>4</sup> paid to us by investment fund companies, included in the fund expenses above	\$342.00
<b>Total we received for advice and services we provided to you</b>	<b>\$462.00</b>

#### Mandated Notifications:

- 1. Fund Expenses:** Fund expenses are made up of the management fee (which includes trailing commissions paid to us), operating expenses and trading costs. You don't pay these expenses directly...
- 2. Redemption Fees on DSC Investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule...
- 3. Third-party Costs:** The costs in this report do not include any fees you pay directly to third parties, including custodial fees...
- 4. Trailing Commissions:** Investment funds pay investment fund companies a fee for managing their funds...

**Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.**

**What can you do with this information?**  
Take action by contacting your advisor...

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## Sample Annual Cost and Compensation Report (2/2)

### Fund Expense Ratio for Investment Funds You Owned During the Year<sup>1</sup>

On December 31, 2023  
Portfolio Assets

Description	Fund Expense Ratio <sup>2</sup>
<b>Canadian Investment Funds</b>	
ABC Management Monthly Income Fund, Series A FE	1.00%
ABC Management Canadian Equity, Series A FE	2.00%
ABC Management Global Equity, Series A	N/A <sup>3</sup>
<b>Foreign Investment Funds</b>	
XYZ Management S&P 500 ETF (U.S. fund)	0.03% <sup>4</sup>
Weighted Average	1.64%

#### Mandated Notifications:

1. This table presents information about the fund expenses of the investment funds you owned during the year, including exchange traded funds, expressed as a yearly ratio. Please refer to note 1 - Fund Expenses above for more information about fund expenses. Please note that other products you may own or may have owned during the reporting period, such as exempt-market investment funds, labour-sponsored investment funds or structured products may have embedded fees that are not reported here. You can contact us for more information. This report includes information about the fund expenses and fund expense ratio of foreign investment funds. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, that may include different types of fees.
2. Please refer to the prospectus or fund facts document for each investment fund for more detailed information about fund expenses and fund performance. Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own.
3. The fund expense ratio of this fund is not available, as it is a newly established investment fund.
4. This is the fund's expense ratio, calculated according to applicable U.S. securities regulations. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, which may include different types of fees.

# SEC Regulation NMS

## Additional Information



For additional information about this Regulatory brief or Botsford Associates Financial Services Regulatory Practice, and how we can help you, please contact:

**Gordon Wong**  
Managing Director - Advisory  
Financial Services  
NYC: 917.722.1200 ext 319 / TOR: 437.253.4933  
[gwong@botsford.com](mailto:gwong@botsford.com)

**Andrew Moreira**  
Managing Director - Consulting  
Financial Services  
NYC: 917.722.0939 / TOR: 647.361.4404  
[amoreira@botsford.com](mailto:amoreira@botsford.com)

**Mike Bamford**  
Engagement Manager - Wealth Management  
Financial Services  
TOR: 437-700-5616 x 307  
[mbamford@botsfrd.com](mailto:mbamford@botsfrd.com)