

Final rules for Total Cost Reporting released with important changes

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On April 20, 2023, the Canadian Securities Administrators (CSA), jointly with the Canadian Council of Insurance Regulators (CCIR), released final amendments (the Final TCR Amendments) relating to enhanced cost disclosure reporting requirements for investment funds and new cost and performance reporting guidance for insurance segregated funds (Total Cost Reporting).

The goal of Total Cost Reporting is to improve investors' awareness of the ongoing embedded fees, such as those captured in management expense ratios (MERs) and trading expense ratios (TERs), that form part of the cost of owning investment funds and segregated funds.

This Osler Update will focus on the Final TCR Amendments that will affect registered dealers, advisers and investment fund managers.

Important changes from the April 2022 proposal

The CSA and CCIR published an earlier version of the proposals for Total Cost Reporting on April 28, 2022 (the April 2022 Proposals). These proposals were the subject of significant industry discussion and advocacy and resulted in the submission of 38 comment letters to the CSA and CCIR. The CSA and CCIR, following consideration of these submissions, have revised the April 2022 Proposals in several important respects, including

- **No requirement to report Fund Expense Ratios (FERs) in quarterly or monthly account statements; only annual reporting required** – The April 2022 Proposals had contemplated that new cost reporting be included in both investors' quarterly/monthly account statements and in their annual report on charges and other compensation (Annual Report on Charges). Specifically, they had proposed that FERs (comprised of the MER and TER) be included in statements as a percentage for every investment fund held by the investor.
 - Many industry participants had questioned the appropriateness of listing FERs in account statements, as these statements are principally meant to inform clients of

their transaction activity during the applicable period, as well as to provide period-end security positions and cash balances. Some industry members felt that providing fund expense-related information on statements (which do not otherwise contain any expense-related information) would be confusing to investors, particularly if provided without a holistic view on annual returns and full distribution costs. Some dealers were also concerned that, from an operational perspective, the process of gathering accurate FERs and incorporating them into quarterly/monthly statements could jeopardize dealers' ability to deliver these statements on time. The CSA has taken these concerns into account and has moved the requirement to report FERs from the quarterly/monthly account statements to the Annual Report on Charges.

- The Final TCR Amendments will require new reporting only in the Annual Report on Charges. The Annual Report on Charges will need to include
 - the aggregate amount of fund expenses, in dollars, for all investment funds
 - the aggregate amount of any direct investment fund charges (such as short-term trading fees or redemption fees), in dollars for all investment funds
 - the FER, as a percentage, for all investment fund classes or series
- **Exclusion of prospectus-exempt funds and labour-sponsored investment funds, but exchange-traded funds still in scope** – The Final TCR Amendments now exclude prospectus-exempt funds and labour-sponsored investment funds. Exchange-traded funds, however, are still in scope, despite some of the challenges that industry participants noted they may face in facilitating the transfer of exchange-traded fund expense information from fund managers to dealers. The CSA noted that it may consider making proposals to extend Total Cost Reporting to include prospectus-exempt funds and labour-sponsored investment funds at a future date.
- **Extended transition period** – The Final TCR Amendments will take effect on January 1, 2026, and securities registrants will need to deliver the first Annual Reports on Charges that incorporate the changes for the year ending December 31, 2026. This extension is in response to the significant implementation issues and concerns identified by industry participants.

Next steps

The Final TCR Amendments are not subject to a further comment period. The CSA and CCIR intend to establish an implementation committee, with participation from the New SRO, in order to provide ongoing guidance and to assist industry members in operationalizing the changes.

Although the Final TCR Amendments are reactive to many of the concerns that industry participants expressed with respect to operationalizing Total Cost Reporting, there will undoubtedly be many challenges ahead as firms seek to come into compliance with the new requirements. We would be pleased to answer any questions you may have regarding the Final TCR Amendments or to assist as you seek to comply with these changes.