ARE YOU PREPARED FOR TOTAL COST REPORTING? A REVIEW OF THE UPCOMING CHANGES TO ONGOING SECURITIES REGISTRANT OBLIGATIONS

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On April 20, 2023, the Canadian Securities Administrators (the "**CSA**") and the Canadian Council of Insurance Regulators (the "**CCIR**") jointly announced enhanced cost disclosure reporting requirements for investment funds (the "**TCR Enhancements**") and new cost and performance reporting guidance for individual segregated fund contracts. This bulletin focuses on the TCR Enhancements, which are applicable to the securities sector. The TCR Enhancements are comprised of amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("**NI 31-103**") and its companion policy.

The TCR Enhancements are relevant for registered dealers, advisers, and investment fund managers, as they expand the reporting obligations in the annual report on charges and other compensation (the "**ARCC**") to include information on embedded fees and to notify investors of certain information pertaining to the total cost of their investments. The TCR Enhancements are intended to enhance investor protection by improving investors' awareness of the ongoing embedded fees that form part of the cost of owning investment funds.

The TCR Enhancements are expected to come into force on January 1, 2026. As such, securities registrants are required to deliver the first ARCC in compliance with the TCR Enhancements for the year ending December 31, 2026.

While the deadline for compliance may seem far off, it is anticipated that most, if not all, firms will be required to make significant enhancements to their systems and processes to comply with the TCR Enhancements. Firms should not delay in assessing and preparing for the TCR Enhancements.

Expanded ARCC Reporting Obligations

The TCR Enhancements expand required reporting in the ARCC to include the following information for all investment funds securities owned by a client during the year:

- the total amount of fund expenses, in dollars, for all investment fund securities;
- the total amount of direct investment fund charges (e.g., short-term trading fees or redemption fees), in

dollars, for all investment fund securities; and
- the fund expense ratio, as a percentage, for each investment fund class or series of securities.

The following total amounts must be reported in the ARCC:

- the total investment fund expenses and charges, consisting of the total amount of (a) the fund expenses and (b) the direct investment fund charges; and
- the total cost of investing, consisting of the total amount of (a) the registered firm's charges, which are required to be reported under current requirements and (b) the total investment fund expenses and charges, which are newly required under the TCR Enhancements.

Fund expenses must be calculated using the prescribed methodology set out in NI 31-103. In exceptional circumstances, where exact amounts cannot be obtained or determined, reasonable approximations may be used.

Enhanced ARCC Client Notifications

In addition to expanded reporting, the TCR Enhancements introduce new notification requirements for registered firms. The TCR Enhancements mandate the inclusion of a notification when certain third-party fees or charges are deducted, as well as a notification concerning the embedded fees that may be associated with ownership of products that are not included within the scope of the TCR Enhancements (e.g., prospectus-exempt funds). Investors must also be provided with explanations of fund expenses and deferred sales charges or other direct investment fund charges, and information regarding how they can take action with regards to the fee information contained in the ARCC (for example, by contacting their advisor to discuss the fees they pay or by considering the impact of those fees on the long-term performance of their portfolio).

Certain notifications must use prescribed wording (or wording substantially similar) as provided by the CSA.

Exemptions from TCR Enhancements

Not all investment funds are subject to the TCR Enhancements. Labour sponsored investment funds and prospectus-exempt funds are currently exempt from the new requirements, though the CSA has noted that they may propose extending the requirements to these funds in the future.

Additionally, the TCR Enhancements provide exemptions from certain reporting requirements for newly-established investment funds, given that information about the fund expenses and expense ratios of such funds may not be available. In the case where such information is excluded, a notification must be included in the ARCC.

Operational and Technological Implementation of TCR Enhancements

To successfully comply with the TCR Enhancements, securities registrants may need to make considerable changes to their technology and data processes. The operational challenges registrants may face include an increase in volume and frequency of data collection, determining methods for data calculation, exchanging data in a timely and accurate manner, and ensuring secure data storage.

As discussed above, given the increased volume and complexity of reporting, firms should not delay in preparing for the TCR Enhancements and should assess their compliance needs from a technological and operational standpoint promptly. The CSA (along with the CCIR and with the participation of the Canadian Investment Regulatory Organization ("**CIRO**")) has formed an implementation committee to support industry stakeholders in implementation of the TCR Enhancements. It is not anticipated that the CSA will grant extensions to the current timeframes for implementation.

For More Information

If you have any questions regarding the TCR Enhancements, please contact any member of McMillan's Investment Funds & Asset Management Group.

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A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.