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The Ontario Securities Commission
Cadillac Fairview Tower
22nd Floor, Box 55
20 Queen Street West
Toronto, Ontario
M5H 3S8

416-593-8314 or Toll Free 1-877-785-1555

Contact Centre – Inquiries, Complaints:

Office of the Secretary:

Published under the authority of the Commission by:
Thomson Reuters
One Corporate Plaza
2075 Kennedy Road
Toronto, Ontario
M1T 3V4

416-609-3800 or 1-800-387-5164

Fax: 416-593-8122
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One Corporate Plaza
2075 Kennedy Road
Toronto, Ontario
M1T 3V4

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CSA Staff Notice 31-356
Guidance on Compliance Consultants Engaged by Firms Following a Regulatory Decision

August 22, 2019

Introduction

Canadian Securities Administrators staff (**CSA staff** or **we**) are issuing this Notice to provide guidance to registered firms that we directly oversee (**Firms**) when they are required by a securities regulatory authority or regulator (**Regulator**) to engage a compliance consultant[1] (**Consultant**) to assist them to address their compliance deficiencies and improve their compliance systems. Since this Notice focuses on Consultants engaged by Firms when required by a regulatory decision, this Notice is expected to apply to a small number of Firms in any given year.

A Firm may be required to hire a Consultant as a result of regulatory action by CSA staff, a decision of a director, or an order of a Regulator (collectively, **Regulatory Decision**) following a compliance review or an enforcement investigation of the Firm that identified significant non-compliance with securities law. The requirement that a Firm hire a Consultant is typically imposed as part of terms and conditions placed on a Firm's registration, an order that a Firm submit to a review of its practices and procedures, or as an order approving a settlement agreement with a Firm, all of which have the effect of creating a requirement under securities law. The Firm is usually required to engage, at its expense, a Consultant that has been approved or accepted by CSA staff[2] to address identified compliance deficiencies. These can include cases where the Firm has an inadequate compliance system, a chief compliance officer (**CCO**) and ultimate designated person (**UDP**) who are not adequately performing their responsibilities, or significant control and supervision inadequacies.

Purpose

The purpose of this Notice is to:

- help Firms identify, evaluate and engage appropriate Consultants to assist them to effectively address their compliance deficiencies on a timely basis, as CSA staff do not endorse or recommend any Consultants
- provide transparency on CSA staff's process and criteria for approving or accepting a Consultant proposed by a Firm
- inform Consultants and Firms about CSA staff's expectations for a Consultant's engagement, including their role, and the format and content for reporting
- improve the oversight and remediation processes of Firms subject to a Regulatory Decision by increasing their consistency, efficiency and effectiveness

Who is a Consultant?

A Consultant provides professional advice and services in respect of compliance with securities law, relevant industry rules, industry best practices, and development of systems regarding controls and supervision. A Consultant has in-depth knowledge and experience on compliance in the securities industry in these matters and is independent of the Firms they advise or service.

1 Some jurisdictions use the term "compliance monitor".
2 Some jurisdictions accept or "non-object" to the engagement of the Consultant, rather than approve.

A Consultant may be a lawyer, public accountant, experienced compliance professional, former securities regulator, management or risk consultant, experienced industry person, or some combination of these roles.

Consultant's role and engagement

A Consultant advises and assists a Firm to take appropriate steps to rectify its identified compliance deficiencies and to develop controls to prevent future deficiencies. A Consultant does this by:

- understanding the Firm's business, applicable regulatory requirements, and its identified compliance deficiencies by meeting with the Firm's representatives and visiting its key business locations
- reviewing any compliance review deficiency reports, orders, terms and conditions, or settlement agreements issued by the Regulator or CSA staff
- reviewing the Firm's processes, records, policies and procedures, and system of controls and supervision
- having an open and continuing dialogue with both the Firm, especially the UDP and CCO, and CSA staff during the term of their engagement, such as by informing CSA staff of any concerns the Consultant has in completing its engagement
- making practical, tailored and effective recommendations to the Firm to address the deficiencies that comply not only with the legal requirements, but also with the spirit of the requirements and industry best practices
- proactively monitoring and assisting the Firm as it implements the recommendations
- training the Firm's representatives

A Consultant may also act as a monitor where they observe and review a Firm's activities over a period of time, such as by monitoring a Firm's trading activity or the opening of new accounts until regulatory concerns are addressed. They may also be required by a Regulatory Decision to identify if a deficiency has resulted in any investor harm (such as excessive fees), and if so (or where investor harm has already been identified), to develop and administer a remediation or compensation plan for investors.

The role of the Consultant will vary for each engagement as it will be determined by the Regulatory Decision. Typically, a Consultant will work with the Firm and CSA staff to advise, make recommendations, and assist the Firm to address its compliance deficiencies.

The Consultant's engagement will typically be to:

- create a comprehensive written compliance plan with detailed and specific recommendations and steps to address the Firm's deficiencies, along with the expected time frames for completing the steps
- provide ongoing written reports to CSA staff on the Firm's progress in implementing the recommendations in the compliance plan
- perform sufficient and appropriate testing to assess the effectiveness of the actions taken by the Firm to implement the Consultant's recommendations
- provide a final report to CSA staff assessing if the recommendations in the compliance plan have been implemented, or a written attestation to CSA staff verifying that the recommendations have been implemented, tested and are working effectively, and that the compliance deficiencies have been rectified

The Consultant's engagement is typically for an ongoing, indefinite period of time until the Firm's deficiencies have been addressed to the satisfaction of CSA staff and all other terms of the Regulatory Decision have been met (including reporting obligations to CSA staff). It is not uncommon for some engagements to last up to one year or longer.

CSA staff's typical criteria for approving or accepting a Consultant

In certain circumstances and depending on the jurisdiction, a Consultant proposed by a Firm must be approved by CSA staff. We typically apply the following criteria as part of our process for assessing if a proposed Consultant will be approved or accepted:

- Can the Consultant demonstrate it has sufficient knowledge, resources and staff to properly evaluate the Firm's compliance system and controls and supervision structure at all locations from which the Firm operates, and appropriately address any weaknesses or deficiencies?

- Can the Consultant demonstrate it has extensive experience with the type of Firm the engagement relates to, the key issues that are to be remediated, and the relevant laws and regulations?

- Is the Consultant independent of the Firm it will provide its services to? Can the Consultant demonstrate it has no conflicts of interest with respect to the engagement? For example, a lack of independence or a conflict may exist if the Consultant has an existing business, personal or family relationship with the Firm and/or its individuals, including if the Consultant previously acted in an advisory role for the Firm when the compliance deficiencies took place.

- Does the Consultant have the ability to act independently of the Firm, despite the fact that the Firm is paying for the Consultant's services? This means that the Consultant does not act as a paid advocate for the Firm's positions, but forms its own views as to what is an effective approach, recommendation or action to address the deficiencies.

- What is CSA staff's prior experience with the Consultant, including the Consultant's conduct, quality of work (recommendations, testing and reporting), and the effectiveness and efficiency of previous consulting engagements?

- Can the Consultant demonstrate it has the ability, through prior experience, to effectively persuade and influence the Firm to enhance its culture of compliance and mindset, and to improve its practices and procedures to address deficiencies?

- Can the Consultant demonstrate that it has the capacity and resources to complete the engagement on a timely basis, especially if the engagement is extensive, complicated, or is expected to take a number of months to complete?

In addition to the above, CSA staff may use other criteria as needed to assess the proposed Consultant. For some engagements, not all of the above criteria will apply.

Further, although a particular Consultant was approved by CSA staff as part of a past Regulatory Decision, it does not necessarily mean they will be approved for another engagement. Each engagement is unique and the Consultant must fit the needs of each engagement.

In most cases, one Consultant may be engaged to perform all services. But in some cases, more than one Consultant may be needed for a particular engagement as different skill sets may be required. For example, a lawyer may be needed to develop the recommendations due to his/her expertise in the area that is to be remediated, and a public accountant may be engaged to perform testing to assess if the recommendations have been fully implemented by the Firm and are working effectively.

An additional criterion may apply when the proposed Consultant is a lawyer or law firm. The terms of Regulatory Decisions often require the Firm to provide CSA staff with its written unrestricted permission for CSA staff and the Consultant to communicate with one another regarding the Firm's progress in implementing the Consultant's recommendations, or any other matter related to the Regulatory Decision. This may include CSA staff making inquiries into the substance of communications between the Consultant and the Firm. If the Consultant is a lawyer or law firm, solicitor-client privilege may apply to these communications, which may be inconsistent with the unrestricted communications required by the Regulatory Decision. As such, if the proposed Consultant is a lawyer or law firm, CSA staff in some jurisdictions may ask the Firm to waive its solicitor-client privilege as it relates to the Consultant and the engagement. Since solicitor-client privilege is a key protection in the Canadian legal system, Firms should fully understand the implications of waiving this privilege before consenting to it, such as by obtaining independent legal advice. Further, if other lawyers at the Consultant's law firm will continue to counsel the Firm on other matters, the Consultant may be asked to provide CSA staff with the controls it will put in place (such as information and ethical barriers) to ensure that the Consultant and the other lawyers do not discuss or share information about the Firm for the term of the Consultant's engagement.

As part of CSA staff's process to approve or accept a proposed Consultant, we may discuss the Consultant's credentials with the Firm, contact CSA staff in other jurisdictions who have previously dealt with the Consultant, interview the Consultant, and review the Consultant's resume and other available information.

Firm's due diligence on Consultants

The Firm is responsible for retaining and compensating the Consultant. CSA staff do not endorse or recommend any Consultants, nor do any jurisdictions maintain a list of approved Consultants. The Firm is to identify and propose one or more Consultants for

CSA staff's consideration. Given the seriousness of a Regulatory Decision, it is critical for an appropriate Consultant to be engaged.

The Firm should perform sufficient due diligence on the proposed Consultant to assess if it has the knowledge, experience, independence, and resources for the engagement before the Firm proposes one or more Consultants to CSA staff. Firms should consider the criteria that CSA staff uses when approving a Consultant, and consider asking the following questions:

- What is the Consultant's education, designations and prior employment history?
- What types of past engagements has the Consultant worked on? What were the outcomes?
- Is the Consultant able to start soon after being engaged? If no, when is their availability to start?
- Is there more than one person employed by the Consultant to provide back-up, support, expertise, and continuity?

Here are some ways for a Firm to identify a Consultant:

- in the context of a Regulatory Decision, discuss with CSA staff the Firm's options and potential choices
- obtain referrals from lawyers, public accountants, security industry contacts, service providers, and any industry or trade associations of which the Firm is a member
- check websites, online reviews and social media postings of compliance professionals and associations or societies of compliance professionals

A Firm is usually requested to propose one or more potential Consultants to CSA staff by a particular date, and should therefore perform its due diligence as soon as possible.

Other considerations for Consultant's engagement

Prior to the approval of the Consultant, CSA staff in some jurisdictions may ask the Firm to provide details of the engagement (such as a draft agreement) that have been preliminarily agreed upon with the Consultant. As necessary, we may request that changes be made to the scope of work to be performed, or other details of the engagement, so that it meets the requirements of the Regulatory Decision. For example, a Regulatory Decision typically specifies that the Firm:

- may not restrict the Consultant from providing CSA staff with copies of the Firm's books and records that were obtained from the engagement
- must provide the Consultant with reasonable access to all of the Firm's books and records necessary to complete the engagement, and require the Firm's officers, directors and employees to cooperate and meet privately with the Consultant with respect to the engagement

Once the Consultant is approved by CSA staff, the Firm should finalize a written agreement with the Consultant that outlines the roles and responsibilities of the Firm and the Consultant, the individuals involved, the scope and timing of work, fees, and the Consultant's confidentiality obligations.

Terminating a Consultant

In a small number of cases, we have required a Firm to terminate a Consultant that we had approved, and to engage another Consultant. We have done this when the Consultant was not adequately fulfilling its mandate. The terms of Regulatory Decisions typically do not permit the Firm to terminate the Consultant's engagement without CSA staff's prior approval.

Reporting and testing by the Consultant

Although the terms of each Regulatory Decision will be tailored, in most cases there will be prescribed written reporting to CSA staff at specified dates or when key milestones are reached. The Consultant is typically required to report to CSA staff on the results of the Consultant's testing and work, and on the Firm's progress in addressing the identified deficiencies.

There is no standard, required format for reporting by the Consultant to CSA staff. However, outlined below are some examples of the types and content of reports commonly required. It is prudent for the Consultant to discuss the format of its reporting with CSA staff before drafting the initial report.

Compliance plan

Many Regulatory Decisions require the Consultant to prepare a compliance plan for submission to and approval by CSA staff, within a specified period after the Consultant has been approved.

A compliance plan generally should:

- itemize in summary form each compliance deficiency that is to be addressed
- set out in sufficient detail the recommended steps to be taken by the Firm and the Consultant to address each deficiency, and, as appropriate, include how the Consultant will test the implementation and effectiveness of the recommended steps after they have been put in place by the Firm for a period of time
- state who is responsible for implementing each recommended step
- state the expected completion date for each step
- provide an end date for when the plan is expected to be completed
- include a schedule with dates the Consultant is to provide reporting to CSA staff, up until the date the plan is expected to be completed, or until the reporting required by the Regulatory Decision ends.

Compliance plans typically come in the form of a letter or a letter accompanied by a detailed table. A table can break down large amounts of information into an easily readable form. See Exhibit A for a sample template of a compliance plan in a table format showing common headings used in many plans.

Once prepared, the compliance plan is signed by the Consultant, and the Firm's UDP and CCO as evidence of their knowledge of and commitment to the plan. The plan is then provided to CSA staff for review, which typically includes a call or meeting with the Consultant to discuss the plan, prior to CSA staff approving it. Among other things, we will assess the plan to ensure all deficiencies will be appropriately addressed on a timely basis, and that it provides sufficient detail for us to assess if the plan is likely to be effective.

Progress reports

Progress reports outline the Firm's progress in implementing each of the Consultant's recommendations in the compliance plan, and provide the Consultant's comments, such as on any new issues or ongoing difficulties in meeting the plan's steps. Progress reports are to be provided on an ongoing basis until the recommendations in the plan are fully implemented. The progress reports are to be signed by the Consultant and the Firm's UDP and CCO before they are provided to CSA staff for review.

We expect the Firm to make significant progress at each reporting interval. If a recommendation or step has not been completed by its expected date, the report should explain the reason for the delay, the steps to get back on track, and provide a revised completion date.

Progress reports also typically come in the form of a letter or a letter accompanied with a detailed table. A progress report in a letter form should recite summary details for each deficiency, and each deficiency's recommendation and steps from the compliance plan, for ease of reference. When a compliance plan has been prepared in a table format, it can be converted into a progress report by adding columns for the status of each step, and the Consultant's comments on each step's progress. See Exhibit B for a sample template of a progress report in a table format showing common headings used in many reports.

The progress reports may also outline the testing that has been performed by the Consultant. Performing this testing throughout the engagement may help make the engagement more efficient.

Final report

Upon the full implementation of the compliance plan, the Consultant submits a final report directly to CSA staff, with a copy to the Firm, which provides its assessment as to whether its recommendations have been fully implemented.

If required by the Regulatory Decision, the Consultant's final report will be an attestation letter which is to verify that the recommendations in the plan have been fully implemented, tested and are working effectively, and that the identified compliance deficiencies have been rectified.

The final report or attestation letter needs to substantiate in sufficient detail how the Consultant reached its assessment. For example, the attestation letter should state in summary form the actions taken by the Firm to address the deficiencies, and detail the testing that the Consultant performed and the testing outcomes.

For the testing to be effective, a sufficient period of time should elapse from the date of the implementation of a recommendation to the date that the Consultant is performing the testing. In some cases, the required period of time between the implementation and the testing will be mandated by the Regulatory Decision. A sufficient sample size should be selected for the testing, and disclosed in the reporting. The Consultant should be able to substantiate the sample size and sampling methodology to CSA staff. The Consultant should document the outcomes of its testing, and if issues were identified, provide details and support for what was done to address and prevent recurrence of the issues. If material issues are found during testing, CSA staff may request that the Consultant perform additional testing.

The final report or attestation letter typically needs to be approved by CSA staff, for the terms of the Regulatory Decision to be completed and for the Consultant's engagement to be considered complete.

CSA staff's review of the final report or attestation letter typically includes a call or meeting with the Consultant to discuss the assessment and any accompanying information or reports. The Consultant may be asked to provide further information, reports or its working papers to support its assessment or attestation. This may include, for example, copies of client files or other documents reviewed and tested by the Consultant.

Completion of the terms imposed by a Regulatory Decision

Once a Firm has demonstrated compliance with the terms of a Regulatory Decision to the satisfaction of CSA staff, the Consultant's engagement will end, and we typically will remove any applicable terms and conditions from the Firm's registration. In many cases, we will perform a subsequent compliance review of the Firm that includes assessing if the Firm has addressed its previous compliance deficiencies and is applying the Consultant's recommendations. Repeat compliance deficiencies, or evidence that the Firm is not applying the Consultant's recommendations, will be treated seriously.

Conclusion

We will apply the guidance in this Notice when a Firm is required to engage a Consultant as part of a Regulatory Decision. In many cases, Consultants engaged in these circumstances have been effective in helping Firms to address their compliance deficiencies and to significantly improve their compliance systems, or systems of control and supervision.

Questions

Please refer your questions to any of the following:

Trevor Walz Senior Accountant Compliance and Registrant Regulation Ontario Securities Commission 416-593-3670 twalz@osc.gov.on.ca	Brian Murphy Manager, Registration Nova Scotia Securities Commission 902-424-4592 brian.murphy@novascotia.ca
Brad Woods Compliance Auditor The Manitoba Securities Commission 204-945-6913 brad.woods@gov.mb.ca	Curtis Brezinski Compliance Auditor, Capital Markets Securities Division Financial and Consumer Affairs Authority of Saskatchewan 306-787-5876 curtis.brezinski@gov.sk.ca
Reid Hoglund Regulatory Analyst Alberta Securities Commission 403-297-2991 reid.hoglund@asc.ca	Craig Whalen Manager of Licensing, Registration and Compliance Office of the Superintendent of Securities Government of Newfoundland and Labrador 709-729-5661 cwhalen@gov.nl.ca

To-Linh Huynh Deputy Director, Operations Financial and Consumer Services Commission (New Brunswick) 506-643-7856 to-linh.huynh@fcnb.ca	Mark French Manager, Registration & Dealer Compliance British Columbia Securities Commission 604-899-6856 mfrench@bcsc.bc.ca
Éric Jacob Directeur principal de l'inspection Direction principale de l'inspection Autorité des marchés financiers 514.395.0337 ext 4741 eric.jacob@lautorite.qc.ca	

Exhibit A

Sample template for a compliance plan

Plan item #	Summary of deficiency	Recommended step(s) to address deficiency (and as appropriate, the testing to be performed)	Person(s) responsible for completing each step	Expected date of completion for each step

Exhibit B

Sample template for a progress report

Plan item #	Summary of deficiency	Recommended step(s) to address deficiency (and as appropriate, the testing to be performed)	Person(s) responsible for completing each step	Expected date of completion for each step	Status of implementation of each step, and any testing performed	Consultant comments

1.1.2 OSC Staff Notice 11-787 Improving Fee Disclosure Through Behavioural Insights

OSC Staff Notice 11-787 *Improving Fee Disclosure Through Behavioural Insights* is reproduced on the following separately numbered pages. Bulletin pagination resumes at the end of the Staff Notice.

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OSC Staff Notice 11-787
Improving Fee Disclosure Through Behavioural Insights

August 19, 2019

Introduction

The Ontario Securities Commission (the **OSC**) is committed to improving the investor experience. Reflecting this commitment, the OSC Investor Office partnered with the Behavioural Insights Team (**BIT**)[1] on a project to identify tactics for improving fee disclosure.

The report arising from this project (the **Report**) examines how investment fees are communicated to investors, with a focus on annual reports on charges and other compensation (**annual fee reports**) required to be delivered to investors by registered dealers and advisers (together with their respective registered representatives, **registrants**). The Report is appended to this staff notice (this **Notice**).

Purpose

The goal of this project was to further our work identifying practical applications of behavioural insights that will lead to better investor experiences and market participant outcomes. The OSC is also exploring further ways to improve the investor experience,[2] including in collaboration with its Canadian Securities Administrators (**CSA**) counterparts.[3]

Background

To provide registrants' clients with clear and complete disclosure of all charges and registrant compensation associated with the investment products and services they receive, and meaningful reporting on how their investments perform, the CSA introduced the second phase of the Client Relationship Model amendments (**CRM2**) to National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**). CRM2 came fully into effect in 2016.

One of the requirements imposed under CRM2 is that registrants deliver an annual fee report to their clients detailing the fees the client paid to the registrant (whether directly or indirectly) in respect of the client's investments. This requirement is set out in s. 14.17 of NI 31-103.

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[1] BIT is a social purpose company part-owned by the U.K. Government. Initially formed as the "nudge unit" within the U.K. Government, BIT was the world's first government institution dedicated to the application of behavioural sciences.

[2] See OSC Staff Notice 11-784, *Burden Reduction* (2019), 42 O.S.C.B. 550, at p. 551.

[3] See CSA Notice and Request for Comment, Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (2018), 41 O.S.C.B. (Supp-1) 1.

We note that various studies have been published suggesting that there is room for improvement with respect to the way firms' reports are designed and delivered to clients: these studies find that, while many investors are benefitting from the information included in their annual fee reports, others may not be noticing these reports or may not understand how their dealer or adviser is compensated for their services notwithstanding their receipt of these reports.[4]

Behavioural insights examine how people are often neither deliberate nor rational in their decisions in the way that traditional models, strategies, and policies assume. They illustrate the challenges people face engaging with financial disclosures: literacy or language challenges, innumeracy, and low familiarity with specialized concepts and terminology used in the investment sector can impede individuals' understanding and use of these disclosures.[5]

The OSC Investor Office partnered with BIT on behavioural insights research that speaks to how registrants can work to maximize the effectiveness of their annual fee reports in the context of their relationships with their clients, and how other stakeholders can support investors' review and use of the annual fee reports delivered to them. This continues the OSC Investor Office's focus on improving the investor experience through the application of behavioural insights,[6] promoting the use of plain language, and other initiatives.

We note that the CSA is undertaking research to measure the broader impacts of CRM2 and related reforms with respect to point of sale disclosures on investors and the investment industry.[7] We expect this study will provide insight into how these reforms are working together to help investors make better-informed investment decisions.

We also note the behavioural insights research released by the Investment Funds Institute of Canada (**IFIC**) in March 2019, which had a scope similar to that of the research described in this Notice. Without opining on the specific findings and recommendations of that research, we welcome IFIC's commitment to carrying out this type of research and to making their findings public. We believe there is much to be gained from stakeholders' not only carrying out, but also publishing and sharing the results of, behavioural insights research that has the potential to serve the public interest.

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[4] See *e.g.* British Columbia Securities Commission, News Release, "Significant improvements in investor knowledge following new fee disclosure requirements, BCSC study finds" (2 October 2017); "Low investor awareness of CRM2 a challenge for firms and advisors," *Investment Executive* (16 August 2018); Autorité des marchés financiers (Québec), *Report on principal findings of Autorité des marchés financiers focus groups with individual investors* (2018), available at <https://bit.ly/2IJEc7G>.

[5] See OSC Staff Notice 11-778, *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations* (2017), 40 O.S.C.B. 2773, at p. 26.

[6] See *supra* note 5; OSC Staff Notice 11-782, *Getting Started: Human-Centred Solutions to Engage Ontario Millennials in Investing* (2018), 41 O.S.C.B. 5567; OSC Staff Notice 11-783, *Encouraging Retirement Planning through Behavioural Insights* (2018), 41 O.S.C.B. 6148.

[7] CSA, News Release, "Canadian Securities Regulators to Measure Impact of Point of Sale Amendments and Phase 2 of the Client Relationship Model" (22 August 2016).

Research findings

Our work with BIT involved qualitative research and a randomized experiment, the results of which are described in a report (the **Report**) appended to this Notice.[8]

The Report identifies 24 concrete tactics registrants and other stakeholders can use to mitigate the following key barriers to investors' using annual fee reports as intended:

1. *Barriers to engagement*: Investors may not notice or recognize the importance of their annual fee report amid the various other disclosures provided to them.
2. *Barriers to comprehension*: Investors may be confused by the terminology and information included in their annual fee report. They may not understand which fees are included (and which are excluded) from the report, and lack reference points to determine whether their fees are higher or lower than the norm.
3. *Barriers to action*: Even if investors see and understand the report, they may not know how to act on the information it provides.

The tactics identified in the Report complement many of the higher-level recommendations reflected in the IFIC research referenced above.

Several of the tactics identified in the Report were tested in a randomized controlled trial (**RCT**). Approximately 1,900 Canadian investors were recruited online for the RCT; each reviewed one of four prototype annual fee reports designed by BIT with input from OSC staff, and then were asked several comprehension questions to test how well they understood the information presented to them in their prototype report.

The baseline (or "control") prototype was based on the sample annual fee report included as Appendix D to Companion Policy 31-103CP, *Registration Requirements and Exemptions* (**31-103CP**). Two other prototypes omitted much of the information required under s. 14.17 of NI 31-103; these prototypes were included to test the hypothesis that simplifying the reports by removing information would improve investor comprehension. A final prototype included all of the information required under s. 14.17 of NI 31-103, but presented this information in a slightly different way from the control. These differences are described in the Report.

Significantly, the only prototype that outperformed the control by a statistically significant margin (meaning that it is unlikely that the difference in score was the result of chance) with respect to investor comprehension was the prototype that included all of the information required under s. 14.17 of NI 31-103. In light of this outcome, the Report does not recommend any changes to s. 14.17 of NI 31-103. Rather, the tactics and trial outcomes suggest that registrants can make their annual fee reports more effective by presenting the required disclosure in clearer, more engaging ways.

We also note that while the margin of outperformance was statistically significant, it was not dramatic. Investors who saw the redesigned prototype answered 4.4 questions out of seven correctly on average,

[8] The Report also reflects feedback from PureFacts Financial Solutions, which was subcontracted to review and provide additional perspective on potential policy and other implications of the research conducted.

while investors who saw the control prototype answered 4.1 questions correctly on average. This outcome suggests that the sample report included in Appendix D to 31-103CP, which was designed based on research and testing carried out while CRM2 was under development,[9] is fit for purpose as a baseline for registrants looking to develop annual fee reports for their clients.

Conclusion

Disclosure testing, informed by behavioural insights, can help ensure that disclosures are "clear and meaningful" as contemplated under s. 1.1 of 31-103CP.

The sample annual fee report included in Appendix D to 31-103CP is intended to serve as a baseline example for registrants. As noted in s. 14.17 of 31-103CP, it is intended only as guidance to support registrants' design of these reports.

We encourage registrants to review the findings of the Report and consider testing and, if proven effective, integrating the tactics suggested in the Report into their current practices. More generally, we encourage registrants to test methods of designing and presenting annual fee reports that they believe their clients may find more intuitive, including through presenting disclosure in non-traditional formats—for example, as an interactive webpage rather than as a non-interactive hard copy or PDF. We also encourage registrants to share their findings with us and with other stakeholders that could benefit from them.

We look forward to engaging with investors, registrants, and other stakeholders with respect to the Report findings and our broader work to improve the investor experience.

Questions

If you have any questions or comments about this Notice or the Report, please contact:

Tyler Fleming
Director
Investor Office
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Email: tfleming@osc.gov.on.ca

Michael Tracey
Senior Advisor, Behavioural Insights
Investor Office
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Email: mtracey@osc.gov.on.ca

[9] See "Investor Research Reports and Document Testing," online: <http://www.osc.gov.on.ca/en/SecuritiesLaw_oth_20120614_31-103_research-rpt-testing.htm>.

Improving fee disclosure through behavioural insights

Prepared by the Behavioural Insights Team in collaboration with the Ontario Securities Commission Investor Office

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OSC ONTARIO SECURITIES COMMISSION | INVESTOR OFFICE

THE BEHAVIOURAL INSIGHTS TEAM

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Introduction

Disclosure requirements are a well-established regulatory approach to supporting the needs of consumers and helping them make better decisions for themselves. The underlying rationale is that consumers will review and understand the disclosed information and then take it into account when making decisions (e.g. when selecting an investment firm or choosing which securities to purchase). Things do not always work out quite so well in practice, however. Consumers may fail to read the proverbial "fine print" or may not understand it. The field of behavioural science can help improve consumer disclosures and make for a better client experience.

The Investor Office is a regulatory branch of the Ontario Securities Commission (OSC) that leads the OSC's efforts in investor engagement, education, outreach, and research. The Investor Office also has a policy function, and provides leadership at the OSC in applying behavioural insights and improving the investor experience. A key priority for the Investor Office is helping Ontarians get smarter about money and make better-informed investment decisions.[i]

In recent years, the OSC, together with other Canadian securities regulators, implemented the "Client Relationship Model — Phase 2" project (CRM2), which became fully effective in July 2016. CRM2 is designed to provide investors with more meaningful information about their investments. Among other things, it requires registered dealers and registered advisers to provide clearer information to clients about the cost and performance of their investments. (Throughout this document, we will refer to these types of firms collectively as "investment firms" or simply "firms.")

One of the rules introduced under CRM2 requires investment firms to send their clients an annual report summarizing all charges that clients paid to them and all other compensation received by the registered firm that relates to the client's account. (Throughout this document, we will refer to this report as the Annual Fee Report.) These charges must be displayed in dollar values, with totals shown for each type of fee.

The Annual Fee Report offers significant potential benefits to investors, especially because it requires disclosure of charges paid directly by those investors *and* indirect charges, like trailing commissions paid by fund managers to investment firms. One of the goals of CRM2 is to clarify to investors how their investment firm is compensated. The transparency around fees can help investors understand the true cost of different investment choices and make better-informed decisions as a result. Disclosure rules can also prompt industry to

[i] This report uses the terms "fees" and "charges" interchangeably to refer to all types of compensation received by investment firms, including compensation received directly from investors and compensation provided by third-parties like investment fund managers.

proactively change practices and foster innovation.[1] Investment firms may anticipate client questions and concerns and reduce fees or increase the level of service provided, improving the investor experience. However, there are limitations to the effectiveness of disclosure, including ones that are particularly relevant to the Annual Fee Report, given the complexity of investment firm fees and the fact that Annual Fee Reports, by their nature, can be provided only *after* fees have been incurred.[ii]

As noted, consumer disclosures and, in turn, the client experience can be improved through the application of behavioural insights. Behavioural science is the study of how people process information, make decisions, and behave. By combining insights from behavioural economics, social psychology, and other disciplines it provides a more nuanced, realistic model of human behaviour than the traditional understanding offered by classical economics. The term "behavioural insights" (BI) is often used to refer to concrete, real-world applications of behavioural science findings. BI is well suited to developing and testing innovative tactics to address the limitations of disclosure requirements, and significant work has already been done in this domain by the Behavioural Insights Team, the Investor Office, and others.[2]

This report, prepared by the Behavioural Insights Team in collaboration with the Investor Office, examines how BI can be used to improve the impact of Annual Fee Reports. We want to unlock the potential offered by CRM2 to enable investors to make better-informed decisions and reach their financial goals. This report identifies 11 key barriers that may limit the impact of the Annual Fee Reports and proposes 24 tactics (i.e. new approaches) that investment firms, regulators, and other key stakeholders can further develop, test[iii] and implement to address them. Most of these tactics would be simple and low-cost to implement, and would not require any regulatory changes (or exemptions from existing rules).

We identified these barriers and developed the tactics over five months through a variety of research methods including:

- A scan of the relevant behavioural science literature;
- A review of current and leading practices (in both industry and regulatory oversight); and
- A series of qualitative interviews with investors in Ontario.

We also had an opportunity to empirically (i.e. experimentally) test several of our ideas using an online randomized controlled trial. Using a platform called Predictiv, we recruited about 1,900 Canadian investors to take part in our research. Each investor saw one of four versions of a sample Annual Fee Report. They were then asked a series of questions to test

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[ii] Other disclosures, such as "Fund Facts" (in the case of mutual funds) and "ETF Facts" (in the case of exchange-traded funds) are required to be provided at point of sale and include general information on fees. These disclosures are beyond the scope of this report.

[iii] We strongly encourage organizations to rigorously test the tactics we propose (or other ideas they develop) before implementing them at scale, potentially using methods similar to those we describe below. Behaviour is complex and context-dependent; while we believe our ideas have significant merit, we cannot say what impact they would have without empirical evidence.

their comprehension. We found that a simple summary of the most critical information, supplemented with a more detailed description of fees that included explanations of why those fees were incurred, was most effective in boosting comprehension. For more information about this innovative approach and our findings, see the “Testing our ideas” section below.

This report is organized into four main sections. The first three sections of this report focus on different barriers to using the Annual Fee Report. The first focuses on barriers to seeing and reading the Annual Fee Report, the second focuses on barriers to comprehension of the information in the Annual Fee Report, and the third examines barriers to making better-informed decisions on the basis of that information. Tactics informed by behavioural science that might help address the barriers are provided after the description of each barrier. The fourth section of this report describes the results of our randomized controlled trial.

For clarity, we note that the recommendations made in this report are being made by BIT to investment firms, regulators, and other stakeholders. In the discussion surrounding these recommendations, references to “we” refer to BIT.

Addressing barriers to engagement

Although it may go without saying, investors cannot learn from a disclosure they do not see and read. Even this basic level of engagement is a significant challenge for mandated disclosures like the Annual Fee Report. For example, in the U.K. fewer than 1% of online shoppers click to open the information about terms and conditions regarding their retail purchase.[3] People are constantly bombarded with information, and we filter out that which does not grab our attention or otherwise seem important. If Annual Fee Reports are going to help investors make better-informed investment decisions, addressing barriers to investors seeing the report and reading it may be just as important as improving the content of the reports.

1) Investors may not see the report

Although CRM2 was fully phased-in by mid-2016, research completed in 2017 and 2018 indicates that, while many investors are benefitting from the information included in their annual fee reports, others may not be noticing these reports.[4, 5] In our qualitative research for this report, only one of nine people we interviewed said that they had received an annual report detailing investment firm fees, and that person described a report that did not seem like the type mandated by CRM2. Even investors who indicated that they were very diligent in reviewing financial documents were unaware of it.

It is clear that a significant number of investors are not engaging with their Annual Fee Report at all. Through our research, we identified several key issues:

1. The Annual Fee Report is sometimes included with or added to the end of another document (e.g. an account statement), meaning that an investor would need to read or browse through multiple pages before getting to the report.[iv]

2. Mailed reports, whether included with other documents or only with an annual performance report (also required under CRM2), can go unopened because they appear to be “just another document.”

3. Similarly, electronically delivered reports are rarely salient (i.e. easy to notice), getting lost among a volume of other “e-documents” and email notifications.

[iv] Investment dealers that are members of the Investment Industry Regulatory Organization of Canada (IIROC) are required under IIROC Rule 200.4(b) to deliver the Annual Fee Report together with the client’s annual performance report (also required under CRM2).

To address these challenges, we present a handful of simple ideas (i.e. "tactics") informed by behavioural science that might increase the chance that investors actually look at their Annual Fee Report(s).

Tactic 1A

Provide the fee report as a standalone document. Instead of combining the Annual Fee Report with a more frequent communication like an account statement (which arrives quarterly or even monthly), investment firms could make the report more salient by providing it as a separate document or alongside the annual performance report required by CRM2, which is also an important annual document.[v]

Tactic 1B

If the report is sent by mail, **use language or visuals on the envelope itself to call out its importance.** Mailed communications can better attract attention by adding compelling language or visuals to the envelope. In particular, handwritten notes have been effective in increasing engagement. BIT used this tactic in Lexington, KY to reduce the likelihood that citizens would make delinquent payments on their bills.[6]

Figure 1: BIT's courtesy letter envelope tactic to increase timely payment of sewer bills in Lexington, Kentucky.

Tactic 1C

If the report is provided electronically, **send investors an alert or notification that grabs their attention.** Alerts could include an email, a pop-up notification on an online brokerage, or even (and perhaps most effectively) a text message. The notification should serve as more than a reminder to review the document; it should also communicate that the Annual Fee Report is important. Potentially effective key messages for the alert could include that it is annual, simple to review (e.g. one page), or can help clients understand their fees. More creatively, the alert or notification could appeal to the investor's identity by suggesting that informed investors care about fees and review their Annual Fee Report, or that their peers review the report.

Tactic 1D

If the report is provided electronically, investment firms could **monitor whether recipients have opened the fee report and send them a reminder if they have not**. These

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[v] Note that IIROC Rule 200.4(b) does not preclude the preparation of performance and fee reports as separate documents—it requires only that these documents be "sent … together" (for example, in the same envelope).

reminders could be provided through email, text or online notification systems, as appropriate. Reminders may help people who intended to read the report but failed to follow through and would also help communicate the importance of the document.

2) Investors may open the Annual Fee Report but not really read it

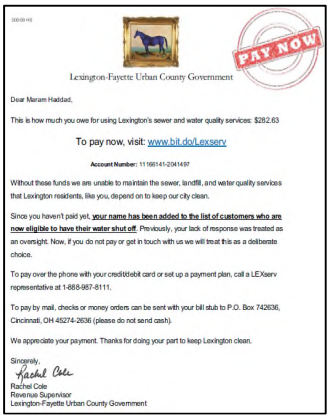
Investors are bombarded with financial documents: proxy circulars, trade confirmations, performance reports, account statements, prospectuses, and more. They are only willing to devote so much time to reviewing financial information, and it's hard to know which are most important. As a result, when investors open these documents, they are likely to skim them without truly engaging with the material.

We have identified several reasons why investors may open but not meaningfully engage with their Annual Fee Report:

- At first glance, the Annual Fee Report may appear unimportant (e.g. it may not be immediately evident that the report can meaningfully inform investment decisions).
- Investors may avoid engaging with the report because the information it contains is unpleasant. When investors see that the report is about fees, they may not want to engage further.
- The purpose of the report may be unclear, limiting the impetus to read and digest it. At BIT, we've coined the phrase "flip test" to capture the importance of recipients being able to quickly understand the intent of a communication. In the flip test you put a communication face down then flip it over. If you can't understand the purpose within seconds of flipping it over, it has failed the flip test. The sample Annual Fee Reports BIT reviewed for this project would not pass this test.
- The report may appear to be complex, long, or otherwise taxing to read. Behavioural science research has repeatedly shown that when the perceived complexity of choice increases, people become more likely to rely on rules of thumb or to take no action at all.[7] Thus, when getting investors to read a document, the perceived complexity can be a significant barrier to engagement. This is a particularly important consideration for investors with multiple accounts, as CRM2 requires an Annual Fee Report for each one.

We identify one tactic below that may help address some of these barriers. We also note that many of the tactics listed in the next section of this report, which focuses on barriers to comprehension, may also help address them. For example, simplifying language and reducing the volume of information may improve both engagement and comprehension.

Tactic 2A



Lexington-Fayette Urban County Government

PAY NOW

Dear Maram Haddad,

This is how much you owe for using Lexington's sewer and water quality services: $282.63

To pay now, visit: www.bit.do/Lexserv

Account Number: 11166141-20414/97

Without these funds we are unable to maintain the sewer, landfill, and water quality services that Lexington residents, like you, depend on to keep our city clean.

Since you haven't paid yet, **your name has been added to the list of customers who are now eligible to have their water shut off.** Previously, your lack of response was treated as an oversight. Now, if you do not pay or get in touch with us we will treat this as a deliberate choice.

To pay over the phone with your credit/debit card or set up a payment plan, call a LEXserv representative at 1-888-987-8111.

To pay by mail, checks or money orders can be sent with your bill stub to P.O. Box 742636, Cincinnati, OH 45274-2636 (please do not send cash).

We appreciate your payment. Thanks for doing your part to keep Lexington clean.

Sincerely,
Rachel Cole
Revenue Supervisor
Lexington-Fayette Urban County Government

Clearly indicate the nature of the report and its importance. Investment firms could make the significance of the report more salient. For example, they could add a large, bold title or "stamp" that says something like: "Important Annual Fees Report – Please Read – Fees Impact the Value of Your Investments." BIT has found success in the past in getting document recipients to read and comply with a request by including a stamp that concisely describes the purpose of the document.

Figure 2: BIT's courtesy letter tactic to increase timely payment of sewer bills in Lexington, Kentucky.

Addressing barriers to comprehension

The goal of the fee disclosure component of CRM2 is to help investors assess whether they are receiving value for their fees and make better-informed choices in light of this assessment. Better choices can in turn lead to greater prosperity and financial security. Enabling better-informed choices requires that investors go further than simply reading the Annual Fee Report; they need to understand the information and be able to link that understanding to their own circumstances and choices.

Investors face significant barriers to understanding the information contained in Annual Fee Reports. The language used to describe different types of investment firm fees and charges is not intuitive. Most people outside the investment industry are unlikely to know what a trailing commission or a front-end load is. The volume of information can also be a challenge given that people have limited attention (a barrier exacerbated by complexity).[8] Our level of attention, and therefore comprehension, can ebb as we wade deeper into a document.

Investors may experience confusion related to the scope of the report. In our qualitative interviews, most participants presented with a sample report assumed that it included fees charged and retained by investment fund managers (referred to in this report as "product fees"),[vi] which they do not. (The reports are required to disclose only the amount paid directly or indirectly through a client's account to the client's investment firm.)

Indirect fees, like commissions paid to investment firms by fund managers, create real confusion among investors. Most of our qualitative research participants did not readily grasp the relationship between investment fund managers and investment firms and therefore how indirect charges work. We also believe that investors may underestimate the cost of indirect charges, as a result of their being less psychologically "painful" than direct charges.

There are also more subtle barriers to understanding how the information relates to the individual investor, their choices and their long-term investment goals:

- Investors may not understand that indirect charges reduce the value of investments in the same way that direct charges do, as they are not directly debited from their account. (For example, they may misattribute the impact of these charges to poor performance in the market.)

[vi] Investment fund managers are businesses that manage the mutual funds, exchange-traded funds, or other investment products that investment firms, in turn, may buy or sell on behalf of clients.

- Even if people understand the direct and indirect compensation that investment firms receive, it is hard to evaluate whether that compensation is appropriate. Investors do not have a benchmark or other reference point to compare their fees and charges to.

- The exponential trajectory of compounding is not intuitive, and so people may underestimate the impact of fees over time.

The remainder of this section provides more detail about each of these barriers and presents promising tactics to address them.

3) Certain critical but complex terms may limit investor comprehension

Complex language and terminology can quickly confuse readers. In our interviews, almost all participants had never heard of or didn't understand terms like deferred sales charge (DSC), trailing commissions, and third-party compensation. Even the terms "compensation" and "commission" were unclear to many interviewees. This problem is made worse by the inconsistent use of terminology across investment firms.[9]

There will always be different terms needed to describe investment fees because of the variety of investment firm compensation structures. However, it is still possible to improve investor comprehension by simplifying, standardizing, and more clearly defining complex language.

Tactic 3A

Use simpler terms to describe key concepts and different types of fees. Much of the language used in Annual Fee Reports is complex, limiting comprehension. While we expected terms like "deferred sales charges" to generate confusion, our research also suggested that some broader terminology like "third-party compensation" and "commission" is not intuitive. While some of this complexity may be unresolvable, exploring simpler language is worth the effort. For example, in the versions of the Annual Fee Report we tested, we substituted the term "indirect charges" for "third-party compensation." We recommend that the investment industry explore and share best practices for simplifying specific phrases that generate confusion. Ideally, this would be an empirical process to see what phrases and words are most likely to get the accurate message across, similar to the trial we ran for this report. For example, investors could be randomly assigned to view one of four different options for describing trailing commissions, deferred sales commissions, and other key terms. Whichever term or phrase leads to participants having the highest scores in a subsequent comprehension test should be adopted.

Tactic 3B

Where complex language is unavoidable, include a plain language explanation of the term in the Annual Fee Report or on a linked website. CRM2 recognizes the importance of defining complex terms. It prescribes the inclusion of a specific definition (or language substantially similar to the prescribed definition) for one type of indirect charge, trailing

commissions.[10] This approach, whether mandated in regulation or not, could be extended to other terms that cause confusion (e.g. “switch fees,” “DSCs,” etc.). It is important that the explanations be sufficiently clear and use plain language. Our qualitative research suggests, however, that even the mandated definition for trailing commissions may not be enough, at least on its own, to communicate this complex concept.

The use of examples is an important strategy in defining and explaining abstract concepts. In trying to reduce confusion related to third-party compensation (i.e. indirect charges), the tested versions of the Annual Fee Report explained third-party compensation by saying “Investment firms like us can receive payments from third-parties, *such as fund managers* [emphasis added], when our clients have investments in their funds.” Another promising strategy is to explain what services were provided for that fee.

While the inclusion of plain language definitions and explanations can help comprehension, this does need to be balanced against the preference for short documentation that reduces cognitive load. One solution is to use hyperlinks for explanations (or to enable explanations to “pop up” when moused over), but that is only an option for electronic Annual Fee Reports. On a printed Annual Fee Report a link could be included, but that would impose a “hassle factor” on users and we would not expect many to make it to the website with the explanations.

Tactic 3C

Standardize how different types of fees are referred to across investment firms. Standard terms would reduce investor confusion by reducing the number of terms that investors need to learn. It would also facilitate comparison between the fees charged by different investment firms. Standardized terms should be chosen with care, using the most intuitive and empirically-supported options (see Tactic 3A). While the desire to standardize terminology is implied in CRM2 (and supported by the sample fee report the CSA published), there is much more that can be done.

Tactic 3D

A **plain language guide or handbook for investment firms** could encourage the use of clearer terminology. This guide could provide industry with general strategies for simplifying complex concepts and terminology. The handbook could address fee disclosures and a broader range of topics. This idea was inspired by the Securities and Exchange Commission’s plain language guides for industry.[11] Using plain language could be mandated in some circumstances deemed critical to investor protection. If use is mandated, industry should have opportunities to propose alternatives that improve investor comprehension, especially as new products or services are introduced.

4) The volume and format of the content may overwhelm the reader, leading to poorer comprehension

Annual Fee Reports contain quite dense information about the various types of fees and charges that investment firms levy. Counter-intuitively, providing more information can sometimes *reduce* comprehension. People have a limited amount of cognitive resources (i.e. ability to perform mental work) at any given time, and some of those are already taken up by internal cognition, like worrying or planning other activities. When the rest of a person's cognitive resources are exhausted, for example by reading a report, they suffer from cognitive overload and tend to lose focus and struggle to make decisions.[12] Cognitive load requirements depend on both the volume and format of information. Depending on how things are presented people may be able to digest more or less of it. Including a substantial amount of dense information in an Annual Fee Report may induce cognitive overload and cause investors to miss key information (as they expend their attention on less important details). There are three potential approaches we have identified for reducing the cognitive burden associated with reading Annual Fee Reports.

Tactic 4A

Eliminate non-essential or redundant information. One way to reduce cognitive load is by eliminating non-essential or redundant information presented in the Annual Fee Report. For example, investment firms could decide not to include reference to categories of fees that do not apply to a given client.

We also considered whether presenting less detailed fee information (e.g. by aggregating all transactions into a single item on the Annual Fee Report) might increase comprehension. We were able to test this experimentally but did not find a significant, positive impact. As a result, we would not suggest aggregating fees at a higher level without also providing a breakdown of how the fees were incurred (as currently contemplated under CRM2).

However, the broader point about reducing cognitive load by providing less information overall is sound. Investment firms should think carefully before adding further information to fee reports.

Tactic 4B

Present the essential information up front. Where it is not possible or desirable to significantly reduce the amount of information provided, investment firms could ensure that the most important information is presented near the beginning of the Annual Fee Report. Information at the top of documents gets more attention and is more likely to be remembered than information in the middle. This is called the *primacy effect*. [13]

This could be accomplished by providing the most critical information in a summary page with only the most critical information, with the additional information provided on a subsequent page (or two). We tested this idea in our online experiment (see "Testing Our Ideas") and it was the most effective of the versions that we developed. This approach provides flexibility to suit investors with different levels of interest and attention.

Tactic 4C

Format the report to highlight the most critical information. In addition to putting the most important information front and centre, formatting can help ensure that people's scarce attention is spent on the right content, such as the purpose of the report and the total fee amount. Using bold font, larger font, text boxes, icons, or other visuals can attract reader attention. In a study that is forthcoming, BIT found that including content-related "icons" helped readers pay more attention to contract terms and conditions. Last, highlighting too much information should be avoided; if everything is in bold, nothing will stand out.

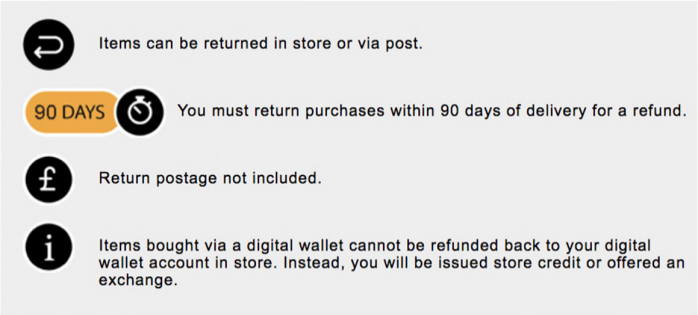


Figure 3: Screenshot from BIT trial that used content-relevant icons to improve participant comprehension of retail terms and conditions.

5) Investors may believe that the Annual Fee Report includes product fees

Understanding which types of fees are included in the Annual Fee Report is a key element of comprehension. We believe that many—perhaps even most—Ontario investors who receive the report believe that it includes all fees associated with their investments. When we informed our qualitative research participants that product fees were not included in the report, most were surprised.

Some stakeholders have proposed expanding the scope of the Annual Fee Report to include fund product fees.[14] While the question of whether product fees should be included in the Annual Fee Report is largely outside the scope of our research, from a BI perspective, **providing all of the relevant fees to an investor in one place makes it more likely they will be considered.** This is because individuals tend to be poor at noticing when relevant information is omitted.[15] If product fees are not included in the Annual Fee Report document, it is likely that a substantial portion of investors will incorrectly believe that the document is comprehensive. However, we recognize some of the challenges that such an approach would create (e.g. providing transparency on indirect charges without double-counting those charges, which come out of product fees). In the interim, we would suggest that investment firms explicitly note that product fees are not included as they are not paid to the firm issuing the Annual Fee Report. Further, Annual Fee Reports should avoid the phrases "total charges" and "total fees," and instead clarify that they are "total charges for our services" or "total charges we received."

6) Third-party compensation is not well understood, and investors may be underestimating its significance

One of the most significant changes introduced under CRM2 was the requirement for clearer disclosure of third-party compensation that investment firms receive related to their clients'

accounts. This closes an important gap in enabling investors to make informed decisions, but the concept of indirect charges is not well understood. This was evident throughout our qualitative interviews and stemmed primarily from lack of clarity on the difference and relationship between investment firms and fund managers. (As noted above, the term "third-party compensation" adds to this confusion). Improving understanding of indirect charges is important. First, depending on the investments a client holds, indirect charges can have a significant impact on the client's returns over the long-term. Second, investors should consider indirect fees when reflecting on advice they receive from their investment firm and its representatives. The compensation firms and/or their representatives receive may give rise to conflicts of interest, an important and much broader topic that is the subject of other regulatory policy development work.[16]

In addition to Tactic 6A, below, we recommend that investment firms include a plain language explanation of indirect charges (see Tactic 3C) and avoid the term "third-party compensation" (see Tactic 3A). More broadly, we suggest that the investment industry make explaining indirect charges a priority in their communications with investors.

We also think that investors may not take indirect charges into account to the same extent as direct charges. There's an old saying that "a dollar is a dollar." The author of this quote is unknown, but you can be sure that they were not a behavioural economist—depending on the circumstances and method of payment, the exact same charge can feel more or less painful to pay.[17] We tend to feel the *pain of payment* much more substantially when we are paying directly in cash, rather than paying less directly such as with a credit card or an automatically renewing subscription. Investors may experience less pain of payment for indirect charges than they do for direct charges; direct charges are taken out of the investor's account while indirect charges never get into their account in the first place. As a result, they may pay less attention to indirect charges than they should.

We recognize that this dynamic may cut both ways—if costs feel too painful, people may focus disproportionately on these costs and discount the potential benefits of making investments, which may also lead to suboptimal outcomes. The tactics outlined below are aimed not at changing the way in which firms are compensated for their services, but on making indirect charges easier to notice and understand.

Tactic 6A

Develop compelling visuals or narratives that explain how indirect charges work and build knowledge about the different actors in the investment industry. It is often easier to learn an abstract or difficult concept through images or stories than through traditional definitions. These might help investors understand indirect charges, and the underlying relationships between investment firms and their representatives, on the one hand, and fund managers, on the other. These firms and other organizations should consider developing such resources. One idea is a "flow diagram" that depicts the flow of services and payment between investment firms and their representatives, fund managers, and investors. Another approach would be a simple, illustrated story that places indirect charges into an easy-to-understand context.

Tactic 6B

Include a prominent statement in the Annual Fee Report that both direct charges and indirect charges affect investment returns. We believe that a simple and clear indication may be enough to meaningfully address this challenge. Today, many investment firms already state that direct and indirect charges reduce investment returns, following a sample fee report developed by the CSA.[18] In the versions of the report that BIT developed and tested, we used the phrase "Both direct charges and indirect charges are important because they reduce the value of your investments."

7) *Without a reference point, it may be difficult for investors to know whether their fees are appropriate or not*

When making decisions that involve the weighing of costs and benefits, people tend to depend on comparisons to make their choice. That is, people often evaluate the benefits of a choice by seeing how it compares *relative* to something else, as opposed to understanding its benefits on its own.[19] It's hard to know the right price for a nice big-screen TV—we might need to know how much it costs to manufacture, and what a fair mark-up is for consumer electronics. It's a lot easier to compare two similar models and select the one that is less expensive.

When we have nothing to compare a price to, we find it hard to evaluate whether something is a fair deal or not. This is exactly the situation that most investors find themselves in after receiving their Annual Fee Report. This challenge was raised explicitly in our qualitative research. In looking at a sample Fee Report, one research participant noted that "I don't know if that [amount] is reasonable or not" and another said, "without any context, is $1,035 (the total amount of charges in our example) a great deal, a terrible deal, more than the average, less than the average?" In making better-informed choices about investment firm fees, investors may benefit from a point of reference for their fees.

Tactic 7A

Establish a series of benchmarks (i.e. guidelines) that investors could use to gauge the appropriateness of their fees and charges. A benchmark provided by a trusted organization would likely be perceived by investors as an *injunctive norm,* a statement telling people that that's how much they *should* pay in fees, so it would need to be done quite carefully. The benchmarks could be presented in the Annual Fee Report (e.g. in a table or bar graph), or online. They could be based on the type of fee (e.g. a fair amount for an RRSP account administration fee) or it could be aggregated at the account level (e.g. the percentage of total portfolio value fees should amount to).

For a benchmark to be relevant and appropriate, it needs to be quite specific to the context of the individual investor. Benchmarks will need to be informed by the level of services provided by the investment firm, the value of the investor's portfolio and the type of securities they hold, among other potential factors. We recognize the inherent challenges in presenting this type of guidepost to investors, and that developing them would require

significant analysis. However, we believe the potential value to investors suggests this may be worth exploring.

There are also risks in providing benchmarks to investors. Investors currently paying less than a benchmark rate may choose not to take any action, even though they could still save substantial amounts of money by seeking out a cheaper alternative. As a result, we think this tactic in particular should be empirically tested before it is implemented at scale.

Tactic 7B

As an alternative to providing a benchmark, which tells investors about how much they *should* pay, an organization could **inform investors how much other investors like them pay**. The behavioural science literature refers to this as a *descriptive social norm*, and these norms can have a strong effect on peoples' behaviour. In one of BIT's earliest projects, we found that adding social norms to tax collection letters in the UK brought forward hundreds of millions of pounds in revenue each year.[20] The same caveats and considerations from Tactic 7A apply here: the comparison must be appropriate and specific to the given investor. Large investment firms might be able to develop meaningful comparisons from within their own client base, but we believe the positive impact on consumers may be greater if the comparison included clients of all investment firms. However, the data required to enable this type of comparison is dispersed among individual firms. Aggregating data in this way may give rise to costs and other issues that are beyond the scope of this report.

8) Investors may underestimate the impact of fees over time

Investors may underestimate the impact of fees on the value of their investments over time due to a set of heuristics (i.e. mental shortcuts) and biases:

- When the absolute value of fees is small in a given year, investors may mentally round it down to zero and neglect to consider it as a real cost. This phenomenon is referred to as the *peanuts effect*.[21] This is problematic because even small fees can have a substantial impact given a long investment horizon.

- Fees reduce our returns, which in turn reduces the amount that we can continue to invest (or use for other purposes). This is the opportunity cost of fees, and opportunity costs are not something that most people grasp intuitively; the behavioural science literature refers to this as *opportunity cost neglect*.[22]

- Opportunity costs are particularly relevant when it comes to investing because returns compound over time. Like opportunity costs, the effect of compounding is not intuitive. This is because of what is known as the *exponential growth bias*—we intuitively treat exponential growth as though it were linear growth. This leads people to intuitively underestimate the effect of compounding growth. In this context, investors are likely to underestimate how rapidly the impact of their fees will grow with time.[23]

- More broadly, people systemically undervalue long-term outcomes compared to nearer-term outcomes. We see this effect, called *hyperbolic discounting*,[24] in everything from savings to exercise habits. This means that investors are likely to pay too little heed to the long-term impact of fees even before we account for the peanuts effect, opportunity cost neglect, and exponential growth bias.

Tactic 8A

Create an interactive online tool that shows a projection of how investment firm fees impact returns over time. The OSC Investor Office maintains an online mutual fund fee calculator that shows users how much their mutual fund fees have cost them (both in total fee amount and opportunity cost) over a given timeframe.[25] A similar tool could be created by investment firms or other organizations for investment firm fees. An investor would enter their current fees, the value of their portfolio, growth assumption, and timeframe. The tool would then display a graph or table illustrating the aggregate impact that these fees have on the user's portfolio.[vii]

WHAT IT COSTS	FUND 1	FUND 2
Sales fees	$0.00	$0.00
Other fees (MER, redemption fees)	$7,182.38	$11,694.66
Total fees	$7,182.38	$11,694.66
Average annual costs:	1.58%	2.65%
Opportunity cost	$5,841.67	$11,363.73

Figure 4: A segment of an example result from the OSC's online mutual fund fee calculator.

Ideally, we would also like to make the long-term opportunity costs of fees more salient by providing investors with those costs as a dollar amount over a 5-, 10-, or 20-year period on the Annual Fee Report itself. However, doing so would require assumptions about fees and returns over time, and we recognize that investment firms' making these assumptions (in contrast to investors inputting them) could cause unintended consequences. For example, it could give investors false confidence or certainty about what their returns will be.

[vii] This approach could be combined to with Tactic 7A or 7B to illustrate the impact of paying fees at the level of the benchmark or peer comparison.

Addressing barriers to action

The goal of CRM2 disclosure requirements is to enable investors to make better-informed investment decisions, helping them meet their financial goals and increase their financial security. Improving investor comprehension of investment firm charges is an important step towards this goal, but it is not enough.

For example, imagine an investor who receives their Annual Fee Report and fully understands it. They realize that they are paying fees for services that they do not require, but they have no idea what to do, and so they take no action. Comprehension has not translated into better-informed choices, and for this investor, the policy aims of CRM2 disclosure requirements have not been achieved.

The gap between understanding and action is a core focus of behavioural science. Unlike traditional economic models of human behaviour, behavioural scientists recognize that a wide range of barriers can interfere with people making choices that they want to make or know are correct.

In this section, we identify important barriers to informed action and propose potential solutions informed by behavioural insights. This is a difficult task because there is no single action or set of actions that will be right for all investors. We cannot say, for example, that all investors should seek to reduce their fees. Relatively high fees will be right for some investors based on their investment strategy and the level of service they desire. In some cases, investors will already be paying the right level and types of fees for them, and so the best action would be no change at all.

However, there are some actions that would signal that investors are moving from comprehension to better-informed choices. Some of these actions would be steps to learn more about the investor's options (e.g. contacting their investment representative to learn more). Other actions might more directly "right-size" fees to align them with investor's personal needs and goals. These actions include but are not limited to:

- Renegotiating fees;
- Reducing transactions;
- Choosing different investment products or strategies; and
- Switching their investment firm.

Our research indicates that the following barriers may be significant in investors' moving from comprehension to the types of actions listed above:

- Gaps in knowledge;
- Discomfort;
- Friction costs (i.e. "hassle factors"); and
- Belief that action is not necessary because fees have been disclosed.

The rest of this section describes these barriers in more detail and proposes tactics to address them.

9) Investors may be unaware of their options for reducing fees

The simplest reason that investors may not take steps to reduce investment firm fees (or increase the value they receive from those fees) is that they don't know what options are available to them. Some investment firms will renegotiate fee structures on behalf of their clients, but investors may not always know this (and many firms may simply not do this). Mutual fund investors may lack knowledge about the types of fee structures for mutual funds or which structure might be most appropriate for them given their investment objectives. They may not be aware of products or services that could help meet their needs at a lower cost, or the fact that, for some investors, making fewer, larger transactions might reduce fees without compromising returns.

We have identified several simple tactics that might address this knowledge gap. As always, we note that the desire to educate investors needs to be balanced against the cognitive load requirements that providing more information entails.

Tactic 9A

List actions that investors can take to reduce their investment firm fees or increase the level of service they receive for those fees. Providing investors with a simple list of potential actions could help close the knowledge gap in a way that imposes little cognitive burden. One of the Annual Fee Report options that we developed and tested used this idea, illustrated in Fig. 5 below. To our surprise, adding this information did not significantly increase investors' likelihood of describing one or more actions that they would take after reading the report (nor did it decrease the likelihood). This may be because investors are able to identify potential actions without a prompt, although we also acknowledge methodological limitations in testing this through an online simulation rather than in the "real world" (see "Testing our ideas" for more information).

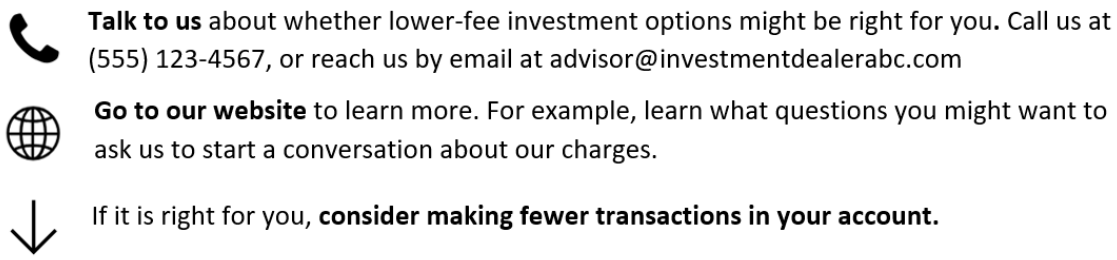


Figure 5: A screenshot of the action steps nudge used in BIT's online predictive trial.

The approach that we tested represented a simple, generic approach to increasing awareness of the steps that investors can take. However, investment firms could take this idea much further by providing **personalized recommendations** that reflect the investor's strategy, goals and holdings. Personalization can make the recommended actions more

relevant *and* more compelling. There is strong evidence that even modest elements of personalization, like the inclusion of a first name, can make recipients of a communication more likely to engage with and respond to it.[26,27] Investment firms would be wise to personalize their recommended action steps and make clear that they are personalized (e.g. by noting that the actions have been specifically recommended for them). They could also make an *appeal to identity* by writing a message that speaks to the self-image that investors have of themselves: for example, telling Annual Fee Report recipients that *informed* investors tend to take the actions listed in the report.[28]

Tactic 9B

Link fees to the actions that triggered them. Today, Annual Fee Reports provide a relatively detailed list of direct and indirect charges, but they do not explicitly link those charges to the choices that investors have made or services that they have received. In some cases that link may be relatively intuitive (e.g. in transaction fees) but in other cases it may be quite opaque (e.g. trailing commissions or redemption fees). As noted above, without a clear understanding of the link between their actions and charges incurred, it may be less likely that investors will act. One of the Annual Fee Report options that we developed and tested sought to address this by adding a description for each type of fee that linked the fee to an investor choice (e.g. buying, selling, or holding a security). This version of the report was the most effective in boosting comprehension but did not have a significant impact on investors' likelihood of describing an action that they would take when prompted to do so (see Testing our ideas for further context on this result).

Transaction Charges	**$233**	
Trading Fees	$29	Charged for three mutual fund transactions.
Sales Charges	$204	Charged for purchasing ABC Mutual Fund, which has a front-load sales charge.

Figure 6: A screenshot of a segment of the "Summary + Detail" Annual Fee Report version BIT developed and tested for this report. It includes short descriptions that explain what actions generated each set of charges.

10) Investors may be uncomfortable speaking with their investment representative about their fees

Talking to one's investment representative is often going to be a critical first step in making better-informed choices. Investment representatives can provide more clarity and context on fees than the Annual Fee Report. But speaking with a financial professional can be intimidating for many investors, just like talking to a doctor. They are professionals with specialized knowledge and training, and sometimes it feels like they speak a whole other language. This can lead people to avoid having discussions. Our discomfort can be heightened in situations where we're asking for something, like renegotiated, lower fees. While this is a tough barrier to overcome, we have one recommended tactic that applies to investment firms and other stakeholders. We also note that Tactic 10A, providing a list of potential actions, can help by "normalizing" taking actions like calling your investment representative.

Tactic 10A

Create a "script" or recommended set of questions for investors to use in discussions with their investment representative. These questions could focus on shedding more light on fees (especially indirect fees, which are harder to understand), services that the investment firm offers, and options for reducing fees where appropriate based on the investor's goals and strategy. The questions could be included in the Annual Fee Report, but we think they might be better communicated separately. We also think that it would be helpful if the suggested questions were provided on the website of a trusted third party like a regulator, rather than from investment firms themselves. Potential questions could include:

- What services does your firm provide in return for these fees?
- What should I be doing differently to take better advantage of the services you offer?
- What actions could I take to reduce these fees without compromising my investment goals?
- Are there other, more cost-effective investing strategies that I should be considering based on my investment goals?
- Are you able to reduce any of these fees or charges for me?

11) Investors may intend to act, but fail to do so because of the "hassle factor" involved

Even the smallest moments of friction can have a significant impact on behaviour. Just think about the last time you wanted to read an article or buy something online, then dropped out because you had to create an account! In one of BIT's simplest interventions, we removed a single click from the process of filing an online tax form and saw a 22% increase in the completion rate.[29]

Many of the actions that investors may want to take once they've reviewed and understood their Annual Fee Report involve potential friction points, from simply finding out how to contact one's investment representative to more complex actions like considering alternative investment firms. We have recommended some specific tactics below. They focus primarily on the fundamental step of discussing options with one's investment representative but cannot be comprehensive given the diversity of potential actions an investor could take based on their needs and circumstances. We encourage all key stakeholders to spend time identifying and addressing the moments of friction that they are asking investors to work through.

Tactic 11A

Prominently include contact information for the investment representative (or other relevant investment firm contact information) on the Annual Fee Report itself. While this idea may be so obvious that it goes without saying, many of the reports that we

reviewed in the course of this project failed to do so. It is a simple first step in reducing the friction associated with better-informed decision-making. Ideally this would be both a phone number and an email address.

This information should include a specific, named individual that the investor can reach out to, a desire raised by several of our research participants. As noted previously, personalisation of communications improves their effectiveness, and having someone specific to contact is likely to provide the impression of a more personalised service.

Tactic 11B

When sending the Annual Fee Report, investment firms could pre-book a brief call with the investor to discuss investment fees and performance. Investment firms could go further than providing contact information—they could actually pre-book a meeting with their clients and communicate the time and date of that meeting in the Annual Fee Report (giving clients an option to reschedule or cancel, of course). By doing so, having that discussion would become the "default option"—it would occur if the investor does not make a decision. Default options are one of the most powerful and effective behavioural insights tactics across a very wide range of behaviour change goals.

Tactic 11C

On the Annual Fee Report, **include space for investors to make a specific plan regarding how and when they will speak to their investment representative or take other appropriate actions**. This type of prompt to make a specific plan is called a *implementation intention* tactic, and there is a rich literature on their impact.[30] In past work, BIT has found success in asking recipients to set a date for when they plan to complete the desired behaviour (see Figure 7).[31]

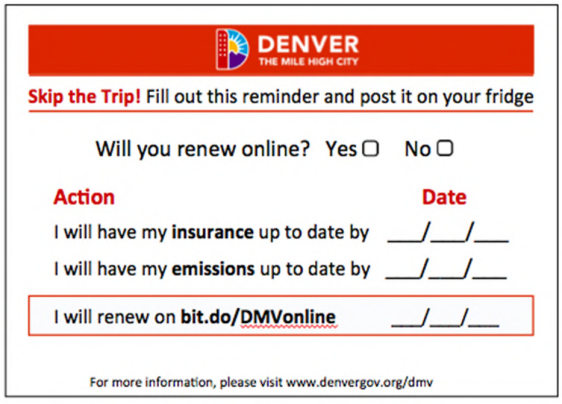


Figure 7: BIT's implementation intentions postcard to increase take-up of online DMV registrations

In the Annual Fee Report context, this could be a statement that investors would fill in such as: "At [time] on [date], I will book a meeting with my investment representative."

Tactic 11D

Facilitate "comparison shopping" of investment firms by **creating a website that allows investors to more easily compare charges across investment firms.** This tactic, which could be implemented by stakeholders that aren't affiliated with a particular firm, would be specifically effective for encouraging behaviours around switching and negotiating fees. Comparison sites are commonplace for some financial services companies such as credit card companies.[32] Incorporating the lessons from other popular comparison sites and from

behavioural science, the site should try to minimize friction as much as possible (e.g. by automatically populating the comparison site with the investor's info). We recognize that this is an ambitious idea and that it may not be possible in the near term. Simplifying, standardizing, and publishing fee structures would mitigate the challenges. If not feasible on an industry-wide basis, comparison sites could be developed for certain segments of the investment sector offering similar services. We note that comparison sites covering some of these sectors (in particular, online discount brokerages and online investment advisers) were already available online as of the date of this report.[viii]

12) Disclosure of certain fees may "backfire" and have a negative impact on investor decision-making and investment representative advice

There is a significant body of research into how the disclosure of misaligned incentives (e.g. conflict of interest disclosure) can, *in some cases*, "backfire" and undermine consumer decision making. As discussed further below, it is challenging to situate this research within the Annual Fee Report context, but we think it is worth flagging and considering.

There are at least three reasons why a disclosure of misaligned incentives may "backfire": *moral licensing*, *reluctant altruism*, and *insinuation anxiety*.[33]

- When potentially misaligned incentives between a representative and a client are disclosed, the representative may feel that it has become less morally wrong for them to provide biased (self-interested) advice now that the consumer is aware of the incentives at play. In behavioural science terms, the representative now feels that they are *morally licensed* to provide more self-interested advice.

- The disclosure of misaligned incentives can sometimes result in *increased* compliance with biased advice. This is because clients may interpret the disclosure as a description of the personal aims of their representative, and then may feel social pressure to assist their representative in achieving those aims. This phenomenon is sometimes referred to as *reluctant altruism.*

- After they learn of potentially misaligned incentives, clients may feel that if they reject or question their representative's advice, the representative will think the rejection is because they are untrustworthy. If clients do not want to insinuate that their representative's advice may be biased, they might avoid rejecting or questioning the

[viii] As of the date of this report, the CSA had published proposed rules that would require registered firms to make information on their charges and other costs to clients publicly available. If implemented, these rules could facilitate the creation of new comparison sites covering the investment sector. CSA Notice and Request for Comment, Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (2018), 41 O.S.C.B. (Supp-1), p.11.

advice they receive. Thus, clients may become *more* likely to follow their representative's suggestions—a concept referred to as *insinuation anxiety*.

These "backfire effects" of misaligned incentive disclosure have been found in lab experiments that simulate a variety of relevant contexts, including the relationship between a homebuyer and his or her real estate agent,[34] and the relationship between a patient and a doctor.[35]

It is not obvious whether this research can be extended to the Annual Fee Report context. First, the investment firm/investor context may be different than the relationships that have been studied previously. Second, we are not aware of any research related to the form of implicit misaligned incentive disclosure reflected in the Annual Fee Report. We also note that these concerns may be most relevant to investors who have a close, longstanding relationship with their representative. Reluctant altruism and insinuation anxiety may be more common where such a relationship exists.

Given the uncertainty, we recommend further research to determine whether this risk is significant for Annual Fee Report recipients.

Testing our ideas

What did we test and why?

We had the opportunity to test four versions of an Annual Fee Report. We wanted to see if we could improve investor comprehension of key information by incorporating several of the tactics described above. We also used this opportunity to explore several other questions, including whether certain changes to the report could increase investors' self-reported intent to act on the information in the Annual Fee Report. The four versions we tested were:

1. *Control*

The *Control* version was our best effort at mirroring what a typical Annual Fee Report looks like today. We modelled the report off of the CSA's sample fee report, then incorporated common elements from other sample reports we obtained.

2. *Simple*

In this version of the Annual Fee Report, we focused on addressing "information overload" by minimizing the volume and complexity of the information provided while emphasizing the most essential information. We used an attention-grabbing "header" that emphasized the importance of the report, reduced the number of fee categories presented, and highlighted the total amount of charges. It was an application of the ideas articulated in Tactics 2A, 4A, 4B, and 4C.

3. *Summary + Detail*

Our *Summary + Detail* version took the *Simple* version and added a second page with a more thorough breakdown of the fees. This breakdown contained the same amount of information as the *Control* but presented it in a layout we thought would be clearer. For each category of fee, we provided a description that explained why the fee was incurred. We hoped to improve comprehension and increase intent to act on the report by highlighting the link between the investor's actions and their corresponding fees (see Tactic 9B).

4. *Action*

The *Action* version was designed to encourage recipients to take action on the basis of the report. We took the *Simple* version and added a list of three actions that investors might want to take (Tactic 9A): calling their advisor for information about lower-fee options, going to their advisor's website to learn more, and considering passive as well as active investment strategies. This version also included investment firm contact information (Tactic 11A).

Pictures of each of those options are available in the Appendix to this report.

How did we test it?

We tested the impact of these Annual Fee Report versions through a randomized controlled trial (RCT). This RCT was conducted using Predictiv, an online platform developed by the Behavioural Insights Team.

We recruited roughly 1,900 current investors from across Canada, with most (60%) residing in Ontario. There were an approximately equal number of men and women. Each investor received some basic information about the task and the scenario—that they were an investor receiving a report on fees from their investment firm (which, in this scenario, was a registered dealer). Then, they were shown one of the four versions of the Annual Fee Report. The version they saw was decided at random, with about the same number of people seeing each one. After viewing the report, participants were asked seven multiple choice questions intended to test their understanding of the key information in the Annual Fee Report. We measured their comprehension based on how many questions they got right. We adopted this approach as it provides a more reliable measure than self-reported understanding.[36]

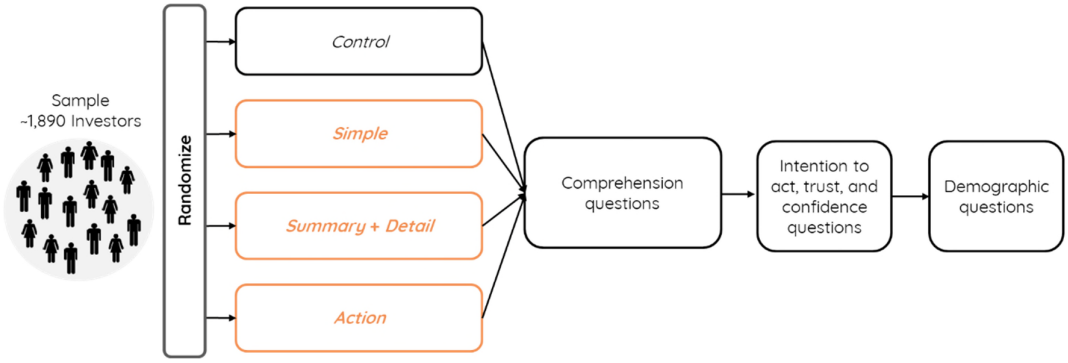


Figure 8: Key stages of the Predictiv trial

Our primary focus was the comprehension score, but we asked several other types of questions. We wanted to see how the different versions of the Annual Fee Report might impact investors' intention to act on what they read. While this is quite difficult to assess in a simulated scenario, we attempted to do so by asking investors what actions they might take, if any, after reading a report like the one they saw. We then took a random subset of 500 free-text responses to this question and manually determined whether the investor had indicated an action or not. We also asked several questions related to trust[37] in the hypothetical investment firm that was sending them the Annual Fee Report and about their level of confidence in their understanding of the information in the Annual Fee Report. Lastly, we asked basic demographic questions. The participants were financially compensated for completing the task, with a small additional reward for each answer they got right.

What were the results?

To evaluate the results of our trial, we conducted statistical analyses on our comprehension measure while controlling for certain demographic variables (i.e. gender, age, income, education, and region) through multiple regression.

Investors who saw the *Summary + Detail* version of the Annual Fee Report had the highest comprehension scores, answering 4.4 out of 7 questions correctly on average. This was "significantly" higher than the *Control* version, which had an average of 4.1 out of 7 questions answered correctly. "Significantly" means that it is unlikely that the difference in score was the result of chance. The *Simple* and *Action* versions also had higher comprehension scores than the *Control* but these results were not statistically significant. This was somewhat surprising to us, as we had hypothesized that the *Simple* treatment would have the highest comprehension scores.

These results suggest that simplifying overall information and providing a more detailed breakdown of fees can help increase understanding of the information contained in Annual Fee Reports.

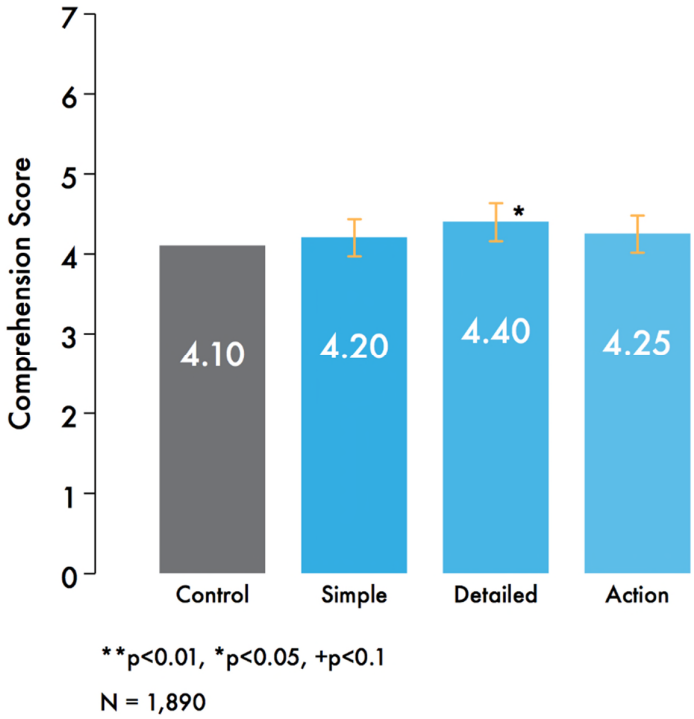


Figure 9: The impact of each version on comprehension

Regardless of which version they saw, participants struggled to answer questions about indirect fees. Only 42% of people were able to select the correct definition of indirect fees, and only 36% of people understood the types of indirect fees that were detailed in the sample Annual Fee Report. The other five questions focused on the purpose of the report, direct charges, the impact of fees, and the total amount of compensation received. Investors answered these questions correctly 59%–77% of the time, for comparison.

When we analyzed the actions that people said they might take after receiving this type of report, we did not find any statistically significant differences. In other words, none of the report versions that we developed increased investors' likelihood of describing an action that they would take. This was quite surprising to us, as we thought that the *Action* version would

increase the likelihood of listing one or more potential actions. It may be that the people do not require these prompts because the potential actions are self-evident. Alternatively, helpful prompts may be insufficient to address other barriers, like friction costs or aversion to having difficult discussions with one's adviser.

We did not find any significant differences in participants' trust in their investment firm or in their confidence about their level of understanding.

The Predictiv platform collected information on how long the investors spent reviewing the Annual Fee Report. People who were presented with the *Control* or *Summary + Detail* option spent about 65 seconds reviewing it, while people who saw the *Simple* or *Action* versions spent about 47 seconds. This difference is not surprising given that the *Simple* and *Action* versions had less information, but the overall low level of time spent does reinforce just how limited our attention is! Further, we observed high variance in the amount of time people spent reviewing the reports, which suggests that the Annual Fee Report needs to be designed for a range of audiences.

This was an online trial where investors were presented with a sample Annual Fee Report, and it is important to consider how the impact might be different if implemented in practice. We note the following key considerations:

On comprehension: We are confident that the approach represented by the *Summary + Detail* treatment is effective at increasing comprehension, and that the results would hold in practice. We believe that the baseline level of comprehension might be lower in the "real world" than it was in our trial, given that the participating investors had an immediate financial incentive to try hard to understand the information. We also believe that the impact (i.e. "treatment effect") of the three new approaches we tested may be higher in practice, because they were partially designed to address the barrier of limited attention, which we think would be heightened in the real world.

On action: We did not find any differences in intent to act based on which version of the report investors saw. Further, it can be challenging to assess the extent to which intent to act translates to follow-up action. This means that we cannot say whether the Annual Fee Report versions we developed and tested would encourage investors to learn more about their fees, negotiate those fees, or take other actions after reviewing their report. We recommend further testing in the "field" to determine whether changes to the Annual Fee Report like the ones in the *Action* version might be effective in encouraging investors to learn more and make better-informed choices.

On engagement: Our literature review and qualitative research identified barriers to engagement. Investors may not open the report or may simply glance at it once opened. Given the nature of our trial, which required engagement with the content, we cannot say whether any of the versions we developed would increase engagement in practice. We hypothesize that the versions we developed, and the *Simple* version in particular, might help address these barriers by making the Annual Fee Report appear easier to review on first glance. This is another area where we believe further testing would be valuable to investors.

Recommendations based on trial results

Based on our experiment, we recommend that **investment firms adopt Annual Fee Reports with a simple summary page that includes only the most critical information, with additional information provided on a subsequent page** (or two). This would apply to both paper and electronic Annual Fee Reports. We also suggest that they **help investors understand the more detailed information by providing descriptions of why each type of fee was incurred**. These were the two key elements of *Summary + Detail* version of the Annual Fee Report, which had the highest comprehension scores. Our experiment does not allow us to determine which of these elements was most important.

The *Summary + Detail* version, which performed best, had a relatively modest impact on comprehension (the increase from 4.1 to 4.4 is about 7%). Other potential versions of the report that we did not test might have a much greater impact, but our sense is that there are significant limitations to the impact that changes to the Annual Fee Report can have on investor comprehension. **Investment firms, regulators, and other stakeholders should continue to pursue supplementary avenues to build investor understanding of these fees.** In particular, they should help investors understand indirect fees. There are many ways that this could be accomplished, and several of our proposed tactics address this imperative.

About Predictiv

Predictiv (www.predictiv.co.uk) is an online research platform that was built by the Behavioural Insights Team to run randomized controlled trials with online populations. It enables governments and other organisations to test new policies and interventions before they are deployed in the real world. Predictiv provides access to millions of individual participants in over 60 countries and has the functionality to run a range of online experiments.

Conclusion

Enabling a better understanding of fees should place investors in Ontario and across the country in a better position to make informed decisions about investment products and services. However, our research uncovered significant barriers to investors engaging with, understanding, and acting on the important information provided in Annual Fee Reports.

People are deluged with information and communications, and Annual Fee Reports may fail to stand out among the other documents people receive related to their investments and finances. The information people receive in the Annual Fee Reports is complex. These reports cover multiple categories of fees and may use inconsistent terminology or terminology that is unfamiliar to most people. Indirect fees in particular are hard to grasp, requiring an understanding of the relationships between various participants in the industry (e.g. fund managers and dealers/advisers). This complexity impedes understanding, but the challenges go even deeper. Moving from a baseline understanding of what investors pay to evaluating the appropriateness of what they pay is a critical challenge, and reference points or other guidelines to support such an evaluation are not readily available. Finally, the impact of fees *over time* is both critical and difficult to understand – our brains are hardwired to focus on short-term considerations.

If there is one key takeaway that we want industry and regulators to take from this report, it is that the challenges do not stop with comprehension. To capitalize on the promise of CRM2, the sector needs to consider how to support investors in moving from understanding to action. This is an even more significant challenge with Annual Fee Reports than with most disclosures, because the information included in these reports, by its nature, would not be available at the “point of sale”—it can only become available *after* fees are incurred. Supporting investors in making better-informed choices will mean helping them understand their options and reducing the friction in taking action.

Based on our research, this report includes 24 suggested tactics for addressing the identified barriers. Most of these tactics are “nudges,” low-cost ideas that do not require regulatory or operational changes. We hope that investment firms, regulators and other key stakeholders in the investment sector review and consider these ideas. Where possible, we encourage them to test them empirically before rolling them out at scale.

We had an opportunity to test several of these tactics through an innovative online trial. We recruited about 1,900 investors in Canada and randomly selected them to receive one of four different Annual Fee Report options. We then asked them seven key questions to test their comprehension. We found that the most effective approach combined a simple, one-page summary that included only the most critical information *and* a second page with more detail about the fees the investor incurred and what those fees were for. We recommend that investment firms consider adopting this approach for their clients.

We note, however, that while the increase in comprehension was meaningful, it was not dramatic. Other design choices and other options may have a larger impact—only further testing can identify whether this is the case. We believe that our results do point, however, to the critical importance of additional avenues—including conversations between investment representatives and their clients, and investor education resources—to work alongside Annual Fee Reports to help investors understand investment fees.

Acknowledgements

The Behavioural Insights Team would like to thank our qualitative research participants, the OSC Investor Office (and Doug Sarro in particular), as well as Susan Silma of PureFacts for their invaluable assistance with our research and this report.

Appendix: Report options

Control

Investment Dealer ABC Inc.

Annual Charges and Compensation Report

Sam Doe
123 Pleasant St.
Your Account Number: 123-4567

Dear Sam,

This report summarizes the compensation that we received directly and indirectly in 2017. Our compensation comes from two sources:

1. What we **charge you directly**. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales and other transactions you make in the account.

2. What we **receive from third parties.**

Charges are important because they reduce your profit or increase your loss from investing.

Charges you paid directly to us		**Totals**
RRSP Administration Fee	$100	
RRSP Withdrawal Fees	$50	
Total charges associated with the operation of your account		**$150**
Commissions on purchases of mutual funds with a sales charge	$204	
Trading fees	$29	
Total charges associated with transactions we executed for you		**$233**
Total charges you paid directly to us		**$383**

Compensation we received through third parties	
Commissions from mutual fund managers on purchases of mutual funds[1]	$407
Trailing commissions from mutual fund managers[2]	$111
Total compensation we received through third parties	**$518**
Total charges and compensation we received in 2018	**$901**

Notes:

1. **Commission from deferred sales charge investments**: When you purchase units of mutual funds on a deferred sales charge basis, we receive a commission from the investment fund manager.

2. **Trailing Commission**: Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce

Page 1 of 2

Investment Dealer ABC Inc.

the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.

If you need an explanation of the charges described in this report, your representative can help you.

Page 2 of 2

Simple

Investment Dealer ABC Inc.

IMPORTANT: ANNUAL REPORT ON OUR FEES

Sam Doe
123 Pleasant St.
Your Account Number: 123-4567

Dear Sam,

This report describes the fees we received in 2017 for the services we provide to you. These fees come from two sources:

1. What we **charge you directly**. Some of these charges are for the operation of your account (e.g. account administration fees). Other charges are associated with purchases, sales, and other transactions you made.

2. What you are **indirectly charged**. Investment dealers like us can receive payments from third-parties, such as fund managers, when our clients have investments in their funds.

Both direct charges and indirect charges are important because they reduce the value of your investments.

Summary of Direct and Indirect Charges

Total Direct Charges		$383
Operating Charges	$150	
Transaction Charges	$233	
Total Indirect Charges		$518
Total Charges		**$901**

If you need an explanation of the charges described in this report, your representative can help you.

Summary + Detail

Investment Dealer ABC Inc.

IMPORTANT: ANNUAL REPORT ON OUR FEES

Sam Doe
123 Pleasant St.
Your Account Number: 123-4567

Dear Sam,

This report describes the fees we received in 2017 for the services we provide to you. These fees come from two sources:

1. What we **charge you directly**. Some of these charges are for the operation of your account (e.g. account administration fees). Other charges are associated with purchases, sales, and other transactions you made.

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Both direct charges and indirect charges are important because they reduce the value of your investments.

Summary of Direct and Indirect Charges

Total Direct Charges		$383
Operating Charges	$150	
Transaction Charges	$233	
Total Indirect Charges		$518
Total Charges		**$901**

➔ More detail about your direct and indirect charges is provided on the following page.

Page 1 of 3

Investment Dealer ABC Inc.

Detailed Breakdown of Direct and Indirect Charges

Account #: 123-4567

Direct Charges	Amount	Description
Operating Charges	**$150**	
RRSP Administration Fee	$100	Charged on 12/31/2017 for maintaining your RRSP Account.
RRSP Withdrawal Fees	$50	Charged for two withdrawals of funds from your RRSP account.
Transaction Charges	**$233**	
Trading Fees	$29	Charged for three mutual fund transactions.
Sales Charges	$204	Charged for purchasing ABC Mutual Fund, which has a front-load sales charge.
Total Direct Charges	**$383**	

Indirect Charges	Amount	Description
DSC Fund Purchase Commissions	$407	When you purchased units of XYZ Mutual Fund on 04/12/17 on a deferred sales charge basis, we received a commission from the investment fund manager, XYZ Inc.
Trailer Fees (1)	$111	Commission we receive because you hold ABC Mutual Fund and XYZ Mutual Fund. We receive 1.20% of the amount you hold in each of these funds each year as a trailer fee in return for the service and advice that we provide you.
Total Indirect Charges	**$518**	

Notes:

(1) Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing

Page 2 of 3

Investment Dealer ABC Inc.

commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.

If you need a further explanation of the charges described in this report, your representative can help you.

Page 1 of 3

Action

Investment Dealer ABC Inc.

IMPORTANT: ANNUAL REPORT ON OUR FEES

Sam Doe
123 Pleasant St.
Your Account Number: 123-4567

Dear Sam,

This report describes the fees we received in 2017 for the services we provide to you. These fees come from two sources:

1. What we **charge you directly**. Some of these charges are for the operation of your account (e.g. account administration fees). Other charges are associated with purchases, sales, and other transactions you made.

2. What you are **indirectly charged**. Investment dealers like us can receive payments from third-parties, such as fund managers, when our clients have investments in their funds.

Both direct charges and indirect charges are important because they reduce the value of your investments.

Summary of Direct and Indirect Charges

Total Direct Charges	$383
Operating Charges	$150
Transaction Charges	$233
Total Indirect Charges	$518
Total Charges	**$901**

Here are some of the **steps you might take to reduce your fees:**

Talk to us about whether lower-fee investment options might be right for you**.** Call us at (555) 123-4567, or reach us by email at advisor@investmentdealerabc.com

Go to our website to learn more. For example, learn what questions you might want to ask us to start a conversation about our charges.

If you think it might be right for you, **ask your advisor about investment strategies that include passive as well as active investments**.

Endnotes

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1.1.3 CSA Staff Notice 95-301 Margin and Collateral Requirements for Non-Centrally Cleared Derivatives

CSA Staff Notice 95-301
Margin and Collateral Requirements for Non-Centrally Cleared Derivatives

August 22, 2019

Introduction

This notice provides an update on work being done by the Canadian Securities Administrators (**CSA** or **we**) on the implementation of margin and collateral requirements relating to over-the-counter derivatives that are not centrally cleared.

Background

Subsequent to the 2008 financial crisis, the G20 leaders agreed on reforms to the way that OTC derivatives are regulated. One element of these reforms, agreed to at the Cannes Summit held in November 2011, was the development of mandatory margin and collateral requirements for non-centrally cleared derivatives. In response to this decision, the Basel Committee on Banking Supervision and the Board of the International Organization of Securities Commissions formed a working group (the **WGMR**) to develop minimum standards which were published in September, 2013. A revised version of the WGMR's standards was published in March 2015.

The WGMR's standards provide a timeline for phasing in the margin and collateral requirements. Under the timeline requirements, the largest covered entities, those with an aggregate month-end notional amount of non-centrally cleared derivatives in excess of a € 3 trillion threshold, were phased in from September 1, 2016. The requirement was then implemented, in stages, over several years for the covered entities with progressively smaller thresholds. WGMR proposes that covered entities with an aggregate month-end notional amount of non-centrally cleared derivatives in excess of an € 8 billion threshold will be phased in from September 1, 2021[1].

In response to the WGMR's standards, on July 7, 2016, the CSA published CSA Consultation Paper 95-401 – *Margin and Collateral Requirements for Non-Centrally Cleared Derivatives* for the purpose of soliciting public comment on policy recommendations about proposed minimum margin and collateral requirements for non-centrally cleared derivatives that are consistent with the WGMR's standards.

In June 2017, the Office of the Superintendent of Financial Institutions (**OSFI**) published Guideline E-22 – Margin Requirements for Non-Centrally Cleared Derivatives. This guideline applies to federally regulated financial institutions.[2]

In recent months representatives of key global market participants published documents that raise issues relating to the implementation of margin requirements for non-centrally cleared derivatives.[3]

Plan for Implementation of Margin and Collateral Requirements for Non-centrally Cleared Derivatives

The CSA has decided that it will delay the implementation of mandatory margin and collateral requirements for non-centrally cleared derivatives.

After completing a review of derivatives trade data, the CSA does not believe that such a delay will result in increased systemic risk to Canadian financial markets or participants. The CSA will implement a harmonized process to monitor Canada's derivatives markets and the positions of participants. We will also monitor international developments. The monitoring will inform our decisions as to the implementation of margin and collateral requirements for non-centrally cleared derivatives.

---

1 The International Organization of Securities Commissions (IOSCO) and the Basel Committee on Banking Supervision (BCBS) published an updated version of the policy framework for margin requirements for non-centrally cleared derivatives that extended the implementation period on July 23, 2019. See the updated framework at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD635.pdf.

2 Under OSFI's guideline, federally-regulated financial institution refers to banks, foreign bank branches, bank holding companies, trust and loan companies, cooperative credit associations, cooperative retail associations, life insurance companies, property and casualty insurance companies and insurance holding companies.

3 For example, see the white paper co-published by the International Swaps and Derivatives Association in July, 2018 at https://www.isda.org/a/D6fEE/ISDA-SIFMA-Initial-Margin-Phase-in-White-Paper-July-2018.pdf and the Joint Trade Association Letter on Margin Requirements for Non-Centrally Cleared Derivatives: Issues for 2019 and 2020 dated September 12, 2018 at https://www.isda.org/a/5evEE/Initial-Margin-Phase-In-Implementation-Joint-Trade-Association-Comments.pdf.

Questions

Please refer your questions to any of:

Kevin Fine
Co-Chair, CSA Derivatives Committee
Director, Derivatives Branch
Ontario Securities Commission
416-593-8109
kfine@osc.gov.on.ca

Lise Estelle Brault
Co-Chair, CSA Derivatives Committee
Senior Director, Fintech, Innovation and Derivatives
Autorité des marchés financiers
514-395-0337, ext. 4481
lise-estelle.brault@lautorite.qc.ca

Carissa Browning
Legal Counsel
Alberta Securities Commission
403-355-9047
carissa.browning@asc.ca

Michael Brady
Manager, Derivatives
British Columbia Securities Commission
604-899-6561
mbrady@bcsc.bc.ca

Paula White
Deputy Director, Compliance and Oversight
Manitoba Securities Commission
204-945-5195
paula.white@gov.mb.ca

Wendy Morgan
Deputy Director, Policy
Financial and Consumer Services Commission (New Brunswick)
506-643-7202
wendy.morgan@fcnb.ca

Abel Lazarus
Director, Corporate Finance
Nova Scotia Securities Commission
902-424-6859
abel.lazarus@novascotia.ca

Nathanial Day
Legal Counsel
Financial and Consumer Affairs Authority of Saskachewan
306-787-5867
nathanial.day@gov.sk.ca

1.4 Notices from the Office of the Secretary

1.4.1 Sean Daley et al.

FOR IMMEDIATE RELEASE
August 16, 2019

SEAN DALEY; and
SEAN DALEY carrying on business as
the ASCENSION FOUNDATION,
OTO.Money,
SilentVault, and
CryptoWealth;
WEALTH DISTRIBUTED CORP.;
CYBERVISION MMX INC.;
KEVIN WILKERSON; and
AUG ENTERPRISES INC.,
File No. 2019-28

TORONTO – The Commission issued an Order in the above named matter.

A copy of the Order dated August 16, 2019 is available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
GRACE KNAKOWSKI
SECRETARY TO THE COMMISSION

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.4.2 BDO Canada LLP

FOR IMMEDIATE RELEASE
August 19, 2019

BDO CANADA LLP,
File No. 2018-59

TORONTO – The Commission issued an Order in the above named matter.

A copy of the Order dated August 19, 2019 is available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
GRACE KNAKOWSKI
SECRETARY TO THE COMMISSION

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

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Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 Algonquin Capital Corporation and Algonquin Fixed Income 2.0 Fund

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Relief granted from short selling restrictions in NI 81-102 to permit an alternative mutual fund to short sell "government securities", as defined in NI 81-102, up to 300% of NAV – relief sought in order to short securities in connection with fund's hedging strategy – features of government bonds mitigate many of the risks associated with short selling strategies – relief also granted to future alternative mutual funds managed by the Filer with similar short selling strategies.

Applicable Legislative Provisions

National Instrument 81-102 Investment Funds – ss. 2.6.1, 2.6.2, 19.1.

June 3, 2019

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
ALGONQUIN CAPITAL CORPORATION
(the Filer)

AND

IN THE MATTER OF
ALGONQUIN FIXED INCOME 2.0 FUND
(the Initial Fund)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer on behalf of the Initial Fund for a decision under the securities legislation of the Jurisdiction of the principal regulator (the **Legislation**) exempting the Initial Fund and any alternative mutual funds established in the future for which the Filer or an affiliate of the Filer acts as investment fund manager and which employ short selling strategies similar to the Initial Fund (the **Future Funds** and together with the Initial Fund, the **Funds** or individually, a **Fund**) from the following provisions of National Instrument 81-102 *Investment Funds* (**NI 81-102**) in order to permit the Fund to short sell "government securities" as that term is defined in NI 81- 102, up to a maximum of 300% of a Fund's net asset value (**NAV**) (the **Exemption Sought**):

(a) subparagraph 2.6.1(1)(c)(v) of NI 81-102, which restricts the Funds from selling a security short if, at the time, the aggregate market value of the securities sold short by the Fund exceeds 50% of the Funds' NAV; and

(b) section 2.6.2 of NI 81-102, which states that the Funds may not borrow cash or sell securities short if, immediately after entering into a cash borrowing or short selling transactions, the aggregate value of cash borrowing combined with the aggregate market value of the securities sold short by the Funds would exceed 50% of the Funds' NAV.

(together, the **Short Selling Restrictions**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

(i) the Ontario Securities Commission is the principal regulator for this application; and

(ii) the Filer has provided notice that paragraph 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon in each of British Columbia, Alberta, Saskatchewan, Manitoba, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Northwest Territories, Yukon and Nunavut (the **Other Jurisdictions** and with the Jurisdiction, the **Jurisdictions**).

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

Representations

The decision is based on the following facts represented by the Filer on behalf of itself and the Fund:

The Filer

1. The Filer is a corporation established under the laws of the Province of Ontario. The Filer's head office is located in Toronto, Ontario.

2. The Filer is the investment fund manager, trustee and portfolio manager of the Initial Fund. The Filer, or an affiliate, will be the investment fund manager and portfolio manager and/or sub-adviser of the Future Funds. The Filer also acts as the investment fund manager and portfolio manager of an investment fund, the Algonquin Debt Strategies Fund (**ADSF**), the securities of which are sold pursuant to exemptions from applicable prospectus requirements in securities legislation.

3. The Filer is registered as an investment fund manager, portfolio manager and exempt market dealer in Ontario and as an investment fund manager and exempt market dealer in Québec and Newfoundland and Labrador. The Filer is also registered as an exempt market dealer in British Columbia, Alberta, Manitoba and Nova Scotia. Each of the Funds will be alternative mutual funds created under the laws of the Province of Ontario and will be governed by the provisions of NI 81-102, subject to any relief therefrom granted by the applicable securities regulatory authorities.

4. The Filer is not in default of applicable securities legislation in any of the Jurisdictions.

The Funds

5. The Funds are or will be open-ended public alternative mutual funds governed by NI 81-102.

6. The Funds are or will be organized as trusts established under the laws of the Province of Ontario.

7. The Funds will distribute units in each of the Jurisdictions pursuant to a simplified prospectus, annual information form and fund facts, prepared and filed in accordance with National Instrument 81-101 *Mutual Fund Prospectus Disclosure*.

8. The Initial Fund is not in default of applicable securities legislation in any of the Jurisdictions.

9. The Initial Fund's investment objective is to seek to provide stable, risk-adjusted absolute returns by investing primarily in corporate and government-issued fixed income securities and limiting interest rate exposure through offsetting positions in "government securities" (as such term is defined in NI 81-102). It will use alternative strategies including engaging in physical short sales, cash borrowing for investment purposes, and using derivatives, in the process creating leverage. The maximum aggregate exposure created by leverage is 300% of the Fund's net asset value, unless otherwise permitted by securities legislation.

10. The Filer will employ a "bottom up" approach to portfolio construction focusing on selection of individual long positions. The Fund's exposure to credit risk will depend upon the Filer's assessment of the credit cycle as well as the Filer's bottom up valuation of individual securities.

11. The Funds' long position portfolio will be invested primarily in North American corporate and government fixed income securities. The Funds will focus on corporate debt, and may invest in corporate bonds, convertible corporate debt securities, commercial paper, asset backed securities, floating rate notes and fixed income securities of governments, government agencies, supranational agencies, companies, trusts, exchange traded funds, limited partnerships, preferred shares and equity securities.

12. The overall credit rating of the Initial Fund's investment portfolio is expected to be investment grade (BBB- or higher). However, the Initial Fund will be permitted to invest up to 40% of its NAV in debt securities that are unrated or rated below investment grade.

13. The Initial Fund will not invest more than 20% of its NAV in long positions (including entering into specified derivatives or index participation units) in the securities of any single issuer in accordance with the restrictions set out in section 2.1(1.1) of NI 81-102.

14. The Initial Fund will not participate or invest in active currency trading, emerging market debt securities, private direct lending and commodities.

15. The Initial Fund will limit investments in other alternative mutual funds, non-redeemable investment funds and exchange-traded funds to a maximum of 15% of net asset value.

16. The Initial Fund's base currency will be the Canadian dollar. The Initial Fund, will limit foreign currency exposure through hedging transactions to 10% of its NAV and, to that end, the Initial Fund may use specified derivatives to hedge against non-Canadian dollar currency risk.

The Short Hedging Strategy

17. In order to hedge against interest rate risk in the Initial Fund and isolate levered corporate credit exposure, the Initial Fund proposes to short sell liquid government fixed income securities at the same time that the Initial Fund invests in corporate fixed income securities (the **Short Hedging Strategy**). The Short Hedging Strategy is effective because there a high degree of correlation between the movement of government and corporate fixed income securities caused by changes in interest rates, creating a hedge against losses in value of the long corporate position. This relationship is a fundamental part of the fixed-income market such that dealers quote the price of corporate bond based on the incremental yield of the corporate bond over an equivalent term government bond.

18. The Filer believes that the Short Hedging Strategy provides investors with the potential for low volatility and compelling returns. A similar strategy has proven to be highly successful with ADSF.

19. The Short Selling Restrictions would restrict the Initial Fund to short selling government fixed income securities to no more than 50% of the Fund's NAV. However, NI 81-102 would permit the Initial Fund to obtain the additional leveraged short exposure through the use of specified derivatives, up to an aggregate exposure of 300% of the Fund's NAV.

20. The Filer is of the view however, that it would be in the Initial Fund's best interest to permit it to physically short sell government securities, up to 300% of the Initial Fund's NAV, instead of being forced to achieve the same degree of leverage through either specified derivatives alone, or a combination of physical short selling and specified derivatives, for the following reasons:

    (a) While derivatives may be used to create similar investment exposure as the Short Hedging Strategy up to 300% of the Initial Fund's NAV, the use of derivatives is less effective, more complex and riskier than the Short Hedging Strategy. Derivatives provide credit exposure that is less targeted than the Short Hedging Strategy with a longer duration that increases risk, often without commensurately higher returns. In addition, implementing derivatives necessitates incremental transactional steps. These steps increase both operational risk and counterparty risk, as well as cost.

    (b) The risk of covering short government securities positions in a rising market is largely mitigated by several factors: (i) the strong correlation between the government security sold short and the corporate fixed income security held long by the Initial Fund which provides a hedge against short cover risk; (ii) government securities are highly liquid and more than one issuance of government securities can be used to hedge interest rate risk; (iii) government securities have markedly lower price volatility than equity securities; (iv) unlike equity securities,

government securities have an effective upper value limit; and (v) financial institutions that facilitate short selling are regulated and implement effective risk controls on short sellers.

Generally

21. The Future Funds will employ an investment strategy similar to the Initial Fund and, in particular, the Short Hedging Strategy in that each will contemplate short-selling government securities concurrently with investing in long positions in corporate fixed income securities.

22. The only securities sold short by the Funds in excess of 50% of a Fund's NAV will be "government securities" as that term is defined in NI 81-102. The Funds will otherwise comply with the provisions governing short selling by an alternative mutual fund under sections 2.6.1 and 2.6.2 of NI 81-102.

23. Each Fund's aggregate exposure to short selling, cash borrowing and specified derivatives will not exceed 300% of the Fund's NAV, in compliance with section 2.9.1 of NI 81-102 (the **Aggregate Leverage Limit**).

24. Each of the Funds will implement the following controls when conducting a short sale:

    (a) the Fund will assume the obligation to return to the Borrowing Agent (as defined in NI 81- 102) the securities borrowed to effect the short sale;

    (b) the Fund will receive cash for the securities sold short within normal trading settlement periods for the market in which the short sale is effected;

    (c) the Filer will monitor the short positions of the Fund at least as frequently as daily;

    (d) the security interest provided by the Fund over any of its assets that is required to enable the Fund to effect a short sale transaction is made in accordance with section 6.8.1 of NI 81-102 and will otherwise be in accordance industry practice for that type of transaction and relates only to obligations arising under such short sale transactions;

    (e) the Fund maintains appropriate internal controls regarding short sales, including written policies and procedures for the conduct of short sales, risk management controls and proper books and records; and

    (f) the Filer and the Fund keep proper books and records of short sales and all of its assets deposited with Borrowing Agents as security.

25. Each Fund's prospectus (the **Prospectus**) will contain adequate disclosure of the Fund's short selling activities, including the material terms of the Exemption Sought.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision. The decision of the principal regulator under the Legislation is that the Exemption Sought is granted provided that:

1. The only securities which a Fund will sell short in an amount that exceeds 50% of the Fund's NAV will be securities that meet the definition of "government security" as that term is defined in NI 81- 102.

2. Each short sale made by a Fund will otherwise comply with all of the short sale requirements applicable to alternative mutual funds in sections 2.6.1 and 2.6.2 of NI 81-102.

3. A Fund's aggregate exposure to short selling, cash borrowing and specified derivatives will not exceed the Aggregate Leverage Limit.

4. Each short sale will be made consistent with the Fund's investment objectives and investment strategies.

5. The Fund's Prospectus will disclose that the Fund is able to short sell "government securities" (as defined in NI 81-102) in an amount up to 300% of the Fund's NAV, including the material terms of this decision.

"Darren McKall"
Manager, Investment Funds and Structured Products Branch
Ontario Securities Commission

2.1.2 Cortland Credit Group Inc. et al.

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Approval granted for change of manager of investment funds – change of manager is not detrimental to unitholders or the public interest – change of manager to be approved by the funds' unitholders at a special meeting of the unitholders – National Instrument 81-102 Investment Funds.

Applicable Legislative Provisions

National Instrument 81-102 Investment Funds, s. 5.5(1)(a).

August 15, 2019

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
CORTLAND CREDIT GROUP INC.
(Cortland)

AND

IN THE MATTER OF
CALDWELL INVESTMENT MANAGEMENT LTD.
(Caldwell)

AND

IN THE MATTER OF
CLEARPOINT SHORT TERM INCOME FUND
(the Fund)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from Cortland, on behalf of the Fund, for a decision under the securities legislation of the Jurisdiction (the **Legislation**) for approval of the proposed change of manager of the Fund from Caldwell to Cortland (the **Change in Manager**) pursuant to section 5.5(1)(a) of National Instrument 81-102 – *Investment Funds* (**NI 81-102**) (the **Approval Sought**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

(a) the Ontario Securities Commission (the **Commission**) is the principal regulator (the **Principal Regulator**) for this application; and

(b) Cortland has provided notice that subsection 4.7(1) of Multinational Instrument 11-102 – *Passport System* (**MI 11-102**) is intended to be relied upon in each equivalent provision in each of British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland (together with Ontario, the **Canadian Jurisdictions**).

Interpretation

Terms defined in MI 11-102; National Instrument 14-101 – *Definitions*; NI 81-102; and National Instrument 81-107 – *Independent Review Committee* have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by Cortland:

The Fund

1. Clearpoint Short Term Income Fund is an open-ended mutual fund trust, which was established under the laws of the Province of Ontario by way of declaration of trust on October 17, 2016 (the **Declaration of Trust**).

2. The Fund is a reporting issuer in each of the Canadian Jurisdictions and offers its securities to the public pursuant to a simplified prospectus, annual information form and fund facts documents, each dated February 28, 2019, as amended and restated on June 24, 2019 and July 18, 2019.

3. The Fund's Declaration of Trust states that it is authorized to issue an unlimited number of series of units, and that the Fund may create or re-designate series of units at any time by amendment to the Declaration of Trust. Currently, the Declaration of Trust authorizes three series of units for issuance: Series A Units, Series F Units and Series I Units.

4. The Fund is not in default of the securities legislation in any of the Canadian Jurisdictions.

Caldwell

5. Caldwell is a corporation incorporated under the *Business Corporations Act* (Ontario).

6. The head office of Caldwell is located in Toronto, Ontario.

7. Caldwell is currently the manager and trustee of the Fund.

8. Caldwell is registered as: (i) a portfolio manager in Alberta, British Columbia, Manitoba, Ontario, Quebec and Saskatchewan; and (ii) an investment fund manager in Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Ontario, Quebec and Saskatchewan.

9. The Commission made an order on July 19, 2019 that Caldwell comply with certain terms and conditions described therein. Except for such terms and conditions outstanding as of the date hereof, Caldwell is not in default of the securities legislation in any of the Canadian Jurisdictions.

Cortland

10. Cortland is a corporation incorporated under the *Business Corporations Act* (Ontario).

11. The head office of Cortland is located in Oakville, Ontario.

12. Cortland is currently the portfolio adviser of the Fund.

13. Cortland is registered as: (i) a portfolio manager in Ontario; (ii) an investment fund manager in Ontario and Quebec; and (iii) an exempt market dealer in Alberta, British Columbia, Manitoba, Ontario, Quebec and Saskatchewan.

14. Cortland is not in default of the securities legislation in any of the Canadian Jurisdictions.

Securities Law Requirements for Pre-Approval

15. Under section 5.5(1)(a) of NI 81-102, the approval of the regulator is required before the manager of an investment fund is changed, unless the new manager is an affiliate of the current manager.

The Change in Manager

16. The Fund wishes to change its manager and trustee from Caldwell to Cortland.

17. Cortland possesses all registration under the securities legislation of the Canadian Jurisdictions and National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* to allow it to manage the Fund after completion of the Change in Manager.

18. Cortland will have the appropriate personnel, policies and procedures and systems in place to assume the management of the Fund after completion of the Change in Manager.

19. Pursuant to paragraph 5.1(1)(b) of NI 81-102, special meetings of the unitholders of the Fund will be held on or about August 15, 2019 for the purpose of seeking approval of the Change in Manager (the **Meeting**) At this Meeting, the affirmative vote of not less than a majority of the votes cast by unitholders of the Fund present in person or represented by proxy at the Meeting is required for approval of the Change in Manager, as applicable.

20. On July 3, 2019, the current independent review committee (**IRC**) established for the Fund under National Instrument 81-107 – *Independent Review Committee for Investment Funds* (**NI 81-107**) reviewed the proposed Change in Manager and advised Caldwell that, in the opinion of the IRC, the Change in Manager, if implemented, would achieve a fair and reasonable result for the Fund.

21. In accordance with National Instrument 81-106 – *Investment Fund Continuous Disclosure*, a press release announcing the Proposed Transaction was issued by Caldwell on July 10, 2019, and a material change report was filed on the System for Electronic Document Analysis and Retrieval (**SEDAR**) on July 11, 2019, relating to the proposed Change in Manager.

22. The notice of the Meeting and the management information circular in respect of the Meeting (the **Circular**), asking unitholders of the Fund to approve, among other things, the appointment of Cortland as manager of the Fund was mailed to unitholders of the Fund on or about July 18, 2019, and copies thereof filed on SEDAR in accordance with applicable securities legislation. The Circular contains sufficient information regarding the business, management and operations of Cortland, including details of its officers and directors, and all information necessary to allow unitholders to make an informed decision on whether to approve the Change in Manager, which approval is required before the Change in Manager can be completed.

23. Subject to receiving all necessary unitholder and regulatory approval, it is proposed that the Change of Manager be completed on or about August 19, 2019.

24. In connection with the Change in Manager, if approved by the Commission and unitholders of the Fund, Caldwell shall resign as manager of the Fund pursuant to the management agreement, and the trustee of the Fund shall appoint Cortland as manager of the Fund.

25. Upon the completion of the Change in Manager, the current members of the IRC, consisting of Sharon Kent, F. Michael Walsh and Trent Morris, will cease to act as members and will be deemed to have resigned pursuant to section 3.10(1)(b) of NI 81-107.

26. Upon the completion of the Change in Manager, Cortland, as manager of the Fund at that time, will appoint the following members to serve on the new IRC: Ted Carmichael, John Varao and Paul Martin.

27. Following the completion of the Change in Manager, Cortland will provide investment management services to the Fund through a team led by Sean Rogister, Alex Preobrazenski and Brandon Rogister.

28. The individuals who will be principally responsible for the investment fund management of the Fund upon completion of the Change in Manager have the requisite integrity and experience, as required under section 5.7(1)(a)(v) of NI 81-102.

29. Upon the completion of the Change in Manager: (a) a change in trustee of the Fund from Caldwell to Cortland will take place (the **Change in Trustee**); and (b) the auditor of the Fund will be changed from Deloitte LLP to KPMG LLP following completion of the current fiscal year of the Fund (the **Change in Auditor**). Unitholders of the Fund will be asked to approve the proposed Change in Trustee at the Meeting. The new IRC will convene to consider the proposed Change in Auditor.

Business Reasons for the Proposed Change in Manager

30. Cortland is currently the portfolio adviser of the Fund under an agreement between Caldwell and Cortland dated October 17, 2016. Therefore, Cortland has in-depth understanding and knowledge of the portfolio of the Fund and is able to provide continuity and growth to the Fund, allowing unitholders of the Fund to benefit from economies of scale and to draw on Cortland's strength and expertise in the fixed income market.

31. The Change in Manager is not expected to have any material adverse impact on the business, operations or affairs of the Fund or the unitholders of the Fund.

32. The Change in Manager will not adversely affect the Fund's financial position or its ability to fulfill its regulatory obligations.

33. The Fund will not bear any of the costs and expenses associated with the Change in Manager.

34. Cortland intends to administer the Fund in substantially the same manner as Caldwell, with no intention to change the investment objectives or fees or expenses of the Fund. All material agreements regarding administration of the Fund will either be assigned to Cortland, or Cortland will enter into new agreements as required. Other than as required to reflect the Change in Manager, Cortland does not currently contemplate any changes to the material contracts of the Fund.

35. The rationale, benefits and material terms of the Change in Manager will be disclosed to unitholders in the meeting materials in advance of the Meeting.

General

36. The Approval Sought will not be detrimental to the protection of investors in the Fund or prejudicial to the public interest.

Decision

The Principal Regulator is satisfied that the decision meets the test set out in the Legislation for the Principal Regulator to make the decision.

The decision of the Principal Regulator is that the Approval Sought is granted, provided that Caldwell obtains the prior approval of unitholders of the Fund for the Change in Manager at the Meeting.

“Neeti Varma”
Investment Funds and Structured Products Branch
Ontario Securities Commission

2.1.3 Connacher Oil and Gas Limited

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – issuer deemed to no longer be a reporting issuer under the Legislation of the Jurisdictions – issuer is in the process of undergoing a Court and creditor approved CCAA plan of arrangement – condition precedent of the plan is that the issuer no longer be a reporting issuer – more than 15 securityholders in each of the Jurisdictions and more than 50 securityholders worldwide – all of the issuer's outstanding securities will be cancelled upon implementation of the Plan – following implementation of the Plan the only securityholders will be 21 lenders of the issuer with only two being in Canada – shareholders were informed the issuer intended to cease to be a reporting issuer.

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., s. 1(10)(a)(ii).

Citation: *Re Connacher Oil and Gas Limited*, 2019 ABASC 122

July 30, 2019

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA,
ALBERTA,
SASKATCHEWAN,
MANITOBA,
ONTARIO,
QUÉBEC,
NEW BRUNSWICK,
NOVA SCOTIA,
PRINCE EDWARD ISLAND AND
NEWFOUNDLAND AND LABRADOR
(the Jurisdictions)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
CONNACHER OIL AND GAS LIMITED
(the Filer)

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the **Reporting Issuer Relief Decision Makers**) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the **Reporting Issuer Legislation**) that the Filer has ceased to be a reporting issuer in the Jurisdictions (the **Reporting Issuer Relief**).

The securities regulatory authority or regulator in each of the Jurisdictions other than Ontario (the **OTC Relief Decision Makers**) has received an application from the Filer for a decision under the securities legislation of those jurisdictions (the **OTC Legislation**) that the Filer is exempt from being designated a reporting issuer under Section 3 of Multilateral Instrument 51-105 *Issuers Quoted in the U.S. Over-the Counter Markets* (**MI 51-105**) (the **OTC Relief**, and together with the Reporting Issuer Relief, the **Decisions Sought**)

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a coordinated review application):

(a) the Alberta Securities Commission is the principal regulator for this application; and

(b) this decision is the decision of the principal regulator and evidences the decision of each Reporting Issuer Relief Decision Maker, in respect of the Reporting Issuer Relief, and each OTC Relief Decision Maker, in respect of the OTC Relief.

Interpretation

Terms defined in Multilateral Instrument 11-102 *Passport System*, National Instrument 14-101 *Definitions* or MI 51-105 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer was amalgamated under, and is governed by, the *Canada Business Corporations Act* (the **CBCA**).

2. The Filer's head and registered offices are located in Calgary, Alberta.

3. The Filer is a reporting issuer in each of the Jurisdictions and is not in default of its obligations as a reporting issuer under the securities legislation in any of the Jurisdictions.

4. The Filer is not subject to reporting obligations under U.S. federal securities law.

5. The Filer's outstanding securities currently consist of: (i) 28,328,656 common shares (**Existing Shares**); (ii) stock options exercisable for up to 709,442 Existing Shares (**Options**); and (iii) U.S.$35 million principal amount of 12% convertible notes due August 31, 2018 (**Convertible Notes**). The Filer has no other outstanding securities.

6. The Filer's capital structure also includes indebtedness under a Credit Agreement dated as of May 23, 2014, as amended (as so amended, the **First Lien Credit Agreement** and the lenders thereunder the **First Lien Lenders**), which is secured by a first ranking lien on all of the Filer's assets. Two tranches of loans are outstanding under the First Lien Credit Agreement (referred to herein as the **Tranche A Loans** and the **Tranche B Loans**).

7. The total indebtedness outstanding under the First Lien Credit Agreement as at March 31, 2019 (the date of the Filer's most recent interim unaudited financial statements) was $319.7 million.

8. No securities of the Filer are listed for trading on any stock exchange. The Convertible Notes are not, and have never been, listed on any stock exchange. The Existing Shares were listed on the Toronto Stock Exchange (**TSX**) until June 17, 2016, when they were delisted following commencement by the Filer of a proceeding under the *Companies' Creditors Arrangement Act* (Canada) (the **CCAA**) in the Court of Queen's Bench of Alberta (the **Court**).

9. The Filer obtained from the Court an initial order under the CCAA on May 17, 2016 which, among other things, appointed a monitor of the Filer, stayed proceedings against the Filer and permitted the filing, upon further order of the Court, of a plan of compromise or arrangement under the CCAA.

10. During the course of its CCAA proceeding, the Filer has undertaken and completed, with requisite Court approvals, two sale and investment solicitation processes. Those processes have culminated in a proposed capital restructuring supported by First Lien Lenders holding more than 75% of the principal amount of debt outstanding under the First Lien Credit Agreement.

11. On May 6, 2019, the Filer filed with the Court a plan of compromise and arrangement under the CCAA (as may be amended, supplemented or restated in accordance with its terms, the **Plan**) that will implement the proposed restructuring. By order dated May 16, 2019 the Court accepted the Plan for filing and authorized and directed the Filer to call creditors' meetings for the purposes of having affected creditors vote on the Plan.

12. Implementation of the Plan will result in the First Lien Lenders becoming the owners of the Filer's business through an exchange of a portion of the obligations under the First Lien Credit Agreement for new senior secured debt of the Filer and the acquisition of all of the Filer's equity. In accordance with the CCAA, since the Plan involves a compromise of the Filer's indebtedness there is no recovery for holders of the Existing Shares or other equity claims, all of which will be cancelled.

13. More particularly, the Plan includes the following transactions whereby, among other things, pursuant to and in accordance with the Plan:

(a) all outstanding Existing Shares and related equity instruments and claims of the Filer (collectively, the **Equity Claims**), including all outstanding Options, will be cancelled and extinguished for no consideration and without any return of capital;

(b) all outstanding Convertible Notes will be cancelled in exchange for a (nominal) cash payment; and

(c) the First Lien Lenders will receive:

(i) in respect of the principal amount of their outstanding Tranche A Loans under the First Lien Credit Agreement, a *pro rata* share of the Filer's obligations under a new non-convertible senior secured term loan facility (the **Senior Secured Facility**) to which the Filer will be party and that will become effective on implementation of the Plan; and

(ii) in respect of the principal amount of their outstanding Tranche B Loans under the First Lien Credit Agreement plus all accrued and unpaid interest amounts thereunder, a *pro rata* share of a newly created class of common shares of the Filer (**New Shares**) to be designated as Class A Common Shares.

14. The New Shares will, on implementation of the Plan, constitute all of the issued and outstanding shares of the Filer, and will be subject to transfer restrictions under the Filer's articles and a unanimous shareholders' agreement that will become effective on implementation.

15. The New Shares to be issued upon implementation of the Plan will not be qualified for distribution to the public under any applicable Canadian securities laws and will be subject to restrictions on transfer in Canada. The New Shares will be distributed to the First Lien Lenders pursuant to the exemption from the prospectus requirements in section 2.11 of National Instrument 45-106 *Prospectus Exemptions*, and such securities held by such persons will be subject to the resale restrictions specified in subsection 2.5 of National Instrument 45-102 *Resale Restrictions*.

16. In accordance with the requirements of the CCAA and applicable Court orders, the Plan was approved by the requisite majorities of creditors at creditors' meetings held on June 19, 2019. All of the affected creditors who voted at the creditors' meetings voted in favour of the Plan. The affected creditors voting at the creditors' meetings represented 99% in value of the first lien claims and 95% in value of the general creditor class proven claims.

17. On July 16, 2019, the Court granted an order sanctioning the Plan under the CCAA.

18. Implementation of the Plan is subject to various conditions precedent set out therein, including that the Filer not be a reporting issuer in any jurisdiction upon implementation. Assuming satisfaction or waiver of all conditions precedent, the Filer intends to implement the Plan not later than July 31, 2019.

19. Immediately following implementation of the Plan, the only securityholders of the Filer will be the First Lien Lenders, who will beneficially own all of the issued equity capital of the Filer (consisting of the New Shares) as well as all of the outstanding debt capital of the Filer (consisting of interests under the Senior Secured Facility).

20. There are 21 First Lien Lenders, two of which are resident in a jurisdiction of Canada.

21. The information circular of the Filer dated May 16, 2019 relating to the Plan and to the creditors' meetings (the **Information Circular**) disclosed that the Filer intended to apply for the Reporting Issuer Relief, such that its reporting obligations under the securities legislation of all applicable Canadian jurisdictions would terminate in connection with the implementation of the Plan. The Information Circular further disclosed that the New Shares would be subject to resale restrictions and that as a consequence of the Filer not being a reporting issuer, the New Shares will not be freely tradable under Canadian securities laws and the New Shares will only be transferable in Canada pursuant to an exemption from the prospectus requirements.

22. The Existing Shares were assigned a ticker symbol (an **OTC Ticker Symbol**) by the Financial Industry Regulatory Authority (**FINRA**) in the United States for use on the over-the-counter markets in the U.S.. Because the Existing Shares are no longer listed on the TSX the Filer constitutes an OTC issuer and an OTC reporting issuer under MI 51-105.

23. The Filer has notified FINRA that the Existing Shares will be cancelled as part of the implementation of the Plan but has been unable to have the OTC Ticker Symbol for the Existing Shares eliminated.

24. The Existing Shares do not currently trade on the OTCQX, OTCQB or "Pink" markets of OTC and are therefore denoted as "grey market securities". Broker dealers are not willing or able to publicly quote the Existing Shares. No other securities of the Filer, including debt securities, are traded in Canada or another country on a "marketplace" as defined in National

Instrument 21-101 *Marketplace Operations* (**NI 21-101**) or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported.

25. The Filer has no current intention to seek public financing by way of an offering of securities.

26. The Filer does not carry on any activities that would constitute promotional activities under MI 51-105.

27. The Filer is not eligible to file under the simplified procedure in Section 19 of National Policy 11-206 *Process for Cease to be Reporting Issuer Applications* because the Filer's outstanding securities are beneficially owned, directly or indirectly, by more than 15 securityholders in certain provinces in Canada and by more than 51 securityholders in total worldwide and it is an OTC reporting issuer under MI 51-105.

28. The Filer is applying for the Reporting Issuer Relief from the securities regulatory authority or regulator in each Jurisdiction; the Filer is applying for the OTC Relief in each Jurisdiction in which it is an OTC reporting issuer.

29. The Filer, upon the Decisions Sought becoming effective, will no longer be a reporting issuer or OTC reporting issuer in any jurisdiction of Canada.

30. The Filer will promptly issue a news release upon the implementation of the Plan that will specify that the Filer is no longer a reporting issuer in any jurisdiction of Canada as of the date of implementation of the Plan.

31. The Filer acknowledges that, in granting the Decisions Sought, the Reporting Issuer Decision Makers and the OTC Relief Decision Makers are not expressing any opinion or approval as to the terms of the Plan.

Decision

Each of the Reporting Issuer Decision Makers is satisfied that the decision meets the test set out in the Reporting Issuer Legislation for the Reporting Issuer Decision Maker to make the decision.

Each of the OTC Relief Decision Makers is satisfied that the decision meets the test set out in the OTC Legislation for the OTC Relief Decision Maker to make the decision.

The decision of the Reporting Issuer Decision Makers under the Reporting Issuer Legislation is that the Reporting Issuer Relief is granted effective immediately before the time at which the Plan becomes effective, provided that the Plan shall have become effective not later than September 30, 2019.

The decision of the OTC Relief Decision Makers under the OTC Legislation is that the OTC Relief is granted effective immediately before the time at which the Plan becomes effective, provided that:

(a) the Plan shall have become effective not later than September 30, 2019;

(b) the Filer does not have either of the following:

(i) a class of securities, other than the Existing Shares, that has been assigned an OTC Ticker Symbol, or

(ii) any class of securities that are quoted or listed for trading on the U.S. over-the-counter markets, any marketplace as defined in NI 21-101 or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported; and

(c) the Existing Shares are not reissued.

"Tom Graham, CA"
Director, Corporate Finance
Alberta Securities Commission

2.1.4 Allard, Allard & Associés Inc.

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Exemption granted from conflict of interest trading prohibition in paragraph 13.5(2)(b)(iii) of NI 31-103 to permit In-Specie Transactions by Managed Accounts and Funds in Funds – Portfolio manager of Managed Accounts is also portfolio manager of Funds and is therefore a « responsible person » – Relief subject to certain conditions.

Applicable Legislative Provisions

National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, s. 13.5(2)(b)(iii).

TRANSLATION

June 27, 2019

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
QUÉBEC AND
ONTARIO
(the Jurisdictions)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
ALLARD, ALLARD & ASSOCIÉS INC.
(the Filer)

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the **Decision Makers**) has received an application from the Filer pursuant to section 15.1 of *National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations*, which, in Québec, is a regulation (**NI 31-103**) for a decision under the securities legislation of the Jurisdictions (the **Legislation**) providing an exemption from the requirement in subparagraph 13.5(2)(b)(iii) of NI 31-103 that prohibits a registered adviser from knowingly causing an investment portfolio managed by it, including an investment fund for which it acts as an adviser, to purchase or sell a security from or to the investment portfolio of an investment fund for which a responsible person acts as an adviser, to permit (each purchase and redemption, an **In Specie Transaction**):

a) the purchase by a Fund (as defined below) of securities of another Fund, and the redemption of securities held by a Fund in another Fund, and as payment for such purchase or redemption, in whole or in part, by making good delivery of portfolio securities that meet the investment objectives of that Fund; and

b) the purchase by a Managed Account (as defined below) of securities of a Fund, and the redemption of securities held by a Managed Account in a Fund, and as payment:

   i) for such purchase, in whole or in part, by the Managed Account making good delivery of portfolio securities to the Fund; and

   ii) for such redemption, in whole or in part, by the Fund making good delivery of portfolio securities to the Managed Account.

   (the **Exemption Sought**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a dual application):

a) the *Autorité des marchés financiers* is the principal regulator for this application;

b) the decision is the decision of the principal regulator and evidences the decision of the regulator in Ontario.

Interpretation

Terms defined in the Legislation, *National Instrument 14-101 – Definitions* and *National Instrument 11-102 – Passport System*, which, in Québec, are regulations, have the same meanings if used in this decision, unless otherwise defined.

Funds means all existing investment funds and all investment funds subsequently established for which the Filer acts or will act as investment fund manager and portfolio manager, that are not reporting issuers, and whose securities are distributed pursuant to prospectus exemptions under applicable securities legislation, each such investment fund being individually referred to as a **Fund**. For greater certainty, **Funds** include the Initial Funds (as defined below).

Managed Account means the account of a Client (as defined below) over which the Filer has discretionary authority.

Certain other defined terms have the meanings given to them above or below.

Representations

This decision is based on the following facts represented by the Filer:

The Filer

1. The Filer is a corporation incorporated under the *Canada Business Corporations Act*.

2. The Filer's head office is located at 9001, boul. de l'Acadie, office 401 in Montréal, Québec, Canada.

3. The Filer is registered in the category of portfolio manager in the provinces of Québec and Ontario and offers discretionary portfolio management services to individual and institutional investors (the **Clients**) in accordance with an investment management agreement entered into between each Client and the Filer. The Filer is also registered as an investment fund manager in the provinces of Ontario and Québec.

4. The Filer is not a reporting issuer and is not in default of securities legislation in any of the Jurisdictions.

The Managed Accounts

5. The Filer is the portfolio manager of each of the Managed Accounts.

6. Each Managed Account is, or will be, managed pursuant to an investment management agreement or other document which is, or will be, executed by each client who wishes to receive the portfolio management services of the Filer and which provides the Filer full discretionary authority to trade securities for the Managed Account without obtaining the specific consent of the client to execute the trade (the "**Discretionary Management Agreements**").

7. Each Discretionary Management Agreement contains, or will contain, authorization from the client for the Filer to make In-Specie Transactions.

8. The portfolio management services provided by the Filer, as the portfolio manager of the Managed Accounts, to each client, consist of the following:

   a) supervising, managing and directing purchases and sales in the client's Managed Accounts, at the Filer's full discretion on a continuing basis;

   b) qualified employees of the Filer perform investment research, securities selection and portfolio management functions with respect to all securities, derivatives, investments, cash and cash equivalents and other assets in the Managed Accounts;

   c) each Managed Account holds securities and other investments as selected by the Filer in its sole discretion;

   d) the Filer retains overall responsibility for the advice provided to its clients and has a designated senior officer to oversee and supervise the Managed Accounts.

The Funds

9. The Filer is currently in the process of creating four initial Funds (the **Initial Funds**), for which the Filer intends to act as investment fund manager, portfolio manager and principal distributor.

10. The Initial Funds will be open-ended pooled funds structured as trusts and established under the laws of the province of Québec pursuant to a declaration of trust to be entered on or about July 31st, 2019, or on such other date as the Filer may determine for operational reasons.

11. Natcan Trust Company will act as trustee of each Initial Fund.

12. Natcan Trust Company will act as custodian of each Initial Fund.

13. The Filer may, in the future, become the investment fund manager of other Funds, structured as trusts, corporations or partnerships under the laws of Canada or of one of the provinces or territories of Canada.

14. The securities of each Fund will be distributed on an exempt basis pursuant to available prospectus exemptions from the prospectus requirements in one or both of the Jurisdictions. None of the Funds will be a reporting issuer in any Jurisdiction.

The In Specie Transactions

15. When acting for a Managed Account, the Filer may wish, in accordance with the investment objectives and investment restrictions of the Client, to cause the Managed Account to either invest in securities, or redeem securities, of a Fund, provided that such In Specie Transaction is in the best interests of the Client.

16. Similarly, when acting for a Fund, the Filer may decide, in accordance with the investment objectives and investment restrictions of the Fund, that the Fund should either invest in securities, or redeem securities, of another Fund pursuant to an In Specie Transaction, provided that such In Specie Transaction is in the best interests of the Fund.

17. The Filer has determined that effecting the In Specie Transactions of securities between a Fund and a Managed Account or between a Fund and another Fund will allow the Filer to manage each asset class more effectively and reduce transaction costs for the Client, as applicable, and the Funds. For example, In Specie Transactions may:

    a) reduce market impact costs, which can be detrimental to clients and/or the Funds;

    b) allow the Filer to retain within its control institutional-size blocks of securities that otherwise would need to be broken and re-assembled; and

    c) facilitate the portfolio management of the Funds and the Managed Accounts.

18. At the time of an In Specie Transaction, the Filer will have in place policies and procedures governing In Specie Transactions, as applicable :

    a) prior to engaging in an In Specie Transaction on behalf of a Managed Account, the Discretionary Management Agreement or other documentation in respect of the Managed Account will contain an authorization from the Client allowing the Filer to enter into In Specie Transactions on behalf of the Client, and such authorization will not have been revoked;

    b) the portfolio securities transferred in In Specie Transactions will be consistent with the investment objectives and investment strategies of the Fund or Managed Account, as applicable, that is acquiring such portfolio securities;

    c) the Filer's chief compliance officer (**CCO**), will pre-approve each In Specie Transaction in connection with the purchase or redemption of securities of a Fund by another Fund or by a Managed Account;

    d) the portfolio securities transferred in an In Specie Transaction will be valued using the same valuation principles as are used to calculate the net asset value of the Funds;

    e) none of the portfolio securities which will be the subject of an In Specie Transaction shall be the securities of a related issuer of the Filer;

f) the Funds will keep written records of each In Specie Transaction, including records of each purchase and redemption of portfolio securities and the terms thereof for a period of five years commencing after the end of the financial year in which the trade occurred, the most recent two years in a reasonably accessible place; and

g) In Specie Transactions will be subject to

i) compliance with the written policies and procedures of the Filer respecting In Specie Transactions that are consistent with applicable securities legislation;

ii) the oversight of the CCO or compliance department of the Filer, as the case may be, to ensure that the In Specie Transactions represent the business judgment of the Filer acting in its discretionary capacity with respect to the Funds and the Managed Accounts, uninfluenced by considerations other than the best interests of the Funds and the Managed Accounts; and

iii) the board of directors of the Filer receiving, on a regular basis, a report on the oversight of the CCO or compliance department of the Filer, as the case may be, of the Filer referred to in sub-paragraph ii) above.

19. the Filer will not receive any compensation in respect of any In Specie Transaction and, in respect of any delivery of portfolio securities further to an In Specie Transaction, the only charges paid by the Managed Account or the applicable Fund is the commission charged by the dealer executing the trade (if any) and/or any administrative charges levied by the custodian of the Fund or the separate institutional custodian of the Managed Account.

20. As the Filer will be the portfolio manager of the Funds and the portfolio manager of the Managed Accounts, the Filer would be considered a "responsible person" within the meaning of Section 13.5 of NI 31-103.

21. Accordingly, absent receipt of the Exemption Sought neither the Funds and Managed Accounts, nor the Filer on their behalf, will be permitted to engage in In Specie Transactions on the basis described herein.

Decision

Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemption Sought is granted provided that:

1. in connection with an In Specie Transaction where a Managed Account acquires securities of a Fund:

a) the Discretionary Management Agreement or other documentation in respect of the Managed Account contains the authorization of the Client for the Filer to engage in the In Specie Transactions and such authorization has not been revoked;

b) the Fund would, at the time of payment, be permitted to purchase the portfolio securities held by the Managed Account;

c) the portfolio securities are acceptable to the Filer, acting as portfolio manager of the Fund and meet the investment objectives of the Fund;

d) the value of the portfolio securities is at least equal to the issue price of the securities of the Fund for which they are used as payment, valued as if the portfolio securities were portfolio assets of that Fund;

e) none of the portfolio securities which will be the subject of an In Specie Transaction shall be the securities of a related issuer of the Filer;

f) none of the securities which will be the subject of an In Specie Transaction shall be "illiquid assets" as such expression is defined in National Instrument 81-102 – *Investment Funds* (**NI 81-102**);

g) the client of the Managed Account has not provided notice to terminate its Discretionary Management Agreement with the Filer;

h) the account statement next prepared for the Managed Account will describe the portfolio securities delivered to the Fund and the value assigned to such portfolio securities; and

i) the Filer will keep written records of each In Specie Transaction in a financial year of the Fund, reflecting details of the portfolio securities delivered to the Fund and the value assigned to such portfolio securities, for five years after the end of the financial year, the most recent two years in a reasonably accessible place;

2. in connection with an In Specie Transaction where a Managed Account redeems securities of a Fund:

a) the Discretionary Management Agreement or other documentation in respect of the Managed Account contains the authorization of the Client for the Filer to engage in the In Specie Transactions and such authorization has not been revoked;

b) the portfolio securities are acceptable to the Filer as portfolio manager of the Managed Account and meet the investment objectives of the Managed Account acquiring the portfolio securities;

c) the value of the portfolio securities is at least equal to the amount at which those portfolio securities were valued by the Fund in calculating the net asset value per security of the Fund used to establish the redemption price;

d) the client of the Managed Account has not provided notice to terminate its Discretionary Management Agreement with the Filer;

e) none of the portfolio securities which will be the subject of an In Specie Transaction shall be the securities of a related issuer of the Filer;

f) none of the securities which will be the subject of an In Specie Transaction shall be "illiquid assets" as such expression is defined in NI 81-102;

g) the account statement next prepared for the Managed Account will describe the portfolio securities received from the Fund and the value assigned to such portfolio securities; and

h) the Filer will keep written records of each In Specie Transaction in a financial year of the Fund, reflecting details of the portfolio securities delivered by the Fund and the value assigned to such portfolio securities, for five years after the end of the financial year, the most recent two years in a reasonably accessible place;

3. in connection with an In Specie Transaction where a Fund acquires portfolio securities of another Fund:

a) the Fund acquiring the portfolio securities would, at the time of payment, be permitted to purchase the portfolio securities;

b) the portfolio securities are acceptable to the Filer, acting as portfolio manager of the Fund acquiring the portfolio securities and meet the investment objective of such Fund;

c) the value of the portfolio securities is at least equal to the issue price of the securities of the Fund issuing the securities for which they are used as payment, valued as if the portfolio securities were portfolio assets of that Fund;

d) none of the portfolio securities which will be the subject of an In Specie Transaction shall be the securities of a related issuer of the Filer;

e) none of the securities which will be the subject of an In Specie Transaction shall be "illiquid assets" as such expression is defined in NI 81-102; and

f) each of the Funds will keep written records of each In Specie Transaction in a financial year of the Fund, reflecting details of the portfolio securities delivered to the Fund and the value assigned to such portfolio securities, for five years after the end of the financial year, the most recent two years in a reasonably accessible place;

4. in connection with an In Specie Transaction where a Fund redeems securities of a Fund:

a) the portfolio securities are acceptable to the portfolio manager of the Fund and are consistent with the investment objective of the Fund acquiring the portfolio securities;

b) the value of the portfolio securities is at least equal to the amount at which those securities were valued by the Fund in calculating the net asset value per security of the Fund used to establish the redemption price;

c) none of the securities which will be the subject of an In Specie Transaction shall be the securities of a related issuer of the Filer;

d) none of the securities which will be the subject of an In Specie Transaction shall be "illiquid assets" as such expression is defined in NI 81-102; and

e) the Fund will keep written records of each In Specie Transaction in a financial year of the Fund, reflecting details of the portfolio securities delivered by the Fund and the value assigned to such portfolio securities, for five years after the end of the financial year, the most recent two years in a reasonably accessible place;

5. the Filer does not receive any compensation in respect of any In Specie Transaction and, in respect of any delivery of portfolio securities further to an In Specie Transaction, the only charges paid by the Managed Account or the applicable Fund is the commission charged by the dealer executing the trade (if any) and/or any administrative charges levied by the custodian.

"Frédéric Pérodeau"
Surintendant de l'assistance aux clienteles et de l'encadrement de la distribution

2.1.5 TD Asset Management Inc. et al.

Headnote

National Policy 11-203 Process For Exemptive Relief Applications in Multiple Jurisdictions -approval of investment fund mergers – approval required because mergers do not meet the criteria for pre-approved reorganizations and transfers in National Instrument 81-102 Investment Funds – Terminating Funds and Continuing Funds do not have substantially similar fundamental investment objectives – a portion of the Terminating Funds are not acceptable to the portfolio advisers – certain Terminating Funds and Continuing Funds do not have substantially similar fee structures – mergers to otherwise comply with pre-approval criteria, including securityholder vote, IRC approval – securityholders provided with timely and adequate disclosure regarding the mergers.

Applicable Legislative Provisions

National Instrument 81-102 Investment Funds, ss. 5.5(1)(b), 5.7(1)(b) and 19.1(2).

August 16, 2019

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
TD ASSET MANAGEMENT INC.
(the Manager)

AND

TD BALANCED INCOME FUND,
TD ADVANTAGE BALANCED INCOME PORTFOLIO,
TD ADVANTAGE BALANCED PORTFOLIO
(each, a Terminating Fund, and collectively,
the Terminating Funds, and together with
the Manager on behalf of the Terminating Funds,
the Filers)

DECISION

BACKGROUND

The principal regulator in the Jurisdiction has received an application (the **Application**) from the Filers, for a decision under the securities legislation of the jurisdiction of the principal regulator (the **Legislation**) approving the mergers of each of the Terminating Funds into the Continuing Fund (as defined below) (the **Mergers**), pursuant to paragraph 5.5(1)(b) of National Instrument 81-102 – *Investment Funds* (**NI 81-102**) (the **Approval Sought**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

(a) the Ontario Securities Commission is the principal regulator for this application; and

(b) the Filers have provided notice that section 4.7(1) of Multilateral Instrument 11- 102 *Passport System* (**MI 11-102**) is intended to be relied upon in each of the other provinces and territories of Canada (the **Other Jurisdictions** and collectively with Ontario, the **Jurisdictions**).

INTERPRETATION

Terms defined in NI 81-102, National Instrument 14-101 *Definitions*, and MI 11-102 have the same meaning if used in this decision, unless otherwise defined. The following additional terms (in alphabetical order) have the following meanings:

Circular means the management information circular provided by the Manager in connection with the Mergers.

Continuing Funds means TD Diversified Monthly Income Fund, TD Managed Income Portfolio, and TD Managed Income & Moderate Growth Portfolio.

Funds mean collectively, the Terminating Funds and the Continuing Funds.

IRC means the independent review committee of the Funds.

Merger Effective Date means on or about October 25, 2019 – the expected date for effecting the Mergers.

Tax Act means the *Income Tax Act* (Canada).

TD AIF refers to the TD Mutual Funds' annual information form dated July 25, 2019.

TD MAP AIF refers to the TD Managed Assets Program Portfolios' annual information form dated October 25, 2018, as amended.

TD MAP Funds refers to TD Managed Income Portfolio and TD Managed Income & Moderate Growth Portfolio.

TD MAP SP refers to the TD Managed Assets Program Portfolios' simplified prospectus dated October 25, 2018, as amended.

TD SP refers to the TD Mutual Funds' simplified prospectus dated July 25, 2019.

REPRESENTATIONS

The decision is based on the following facts represented by the Filers:

The Manager

1. TD Asset Management Inc. (**TDAM**) is a corporation amalgamated under the Business Corporations Act (Ontario) with its head office located in Toronto, Ontario.

2. TDAM is registered as (i) an investment fund manager in Ontario, Quebec and Newfoundland and Labrador, (ii) a portfolio manager and exempt market dealer in each of the provinces and territories of Canada, and (iii) a commodity trading manager in Ontario.

3. TDAM is the manager and trustee of each of the Funds.

The Funds

4. Each of the Funds is an open-ended mutual fund trust established under the laws of the province of Ontario by a declaration of trust.

5. Each of the Funds is a reporting issuer under the applicable securities legislation of each Jurisdiction.

6. Neither TDAM nor the Funds is in default of securities legislation in any jurisdiction of Canada.

7. Other than circumstances in which the securities regulatory authority of a Jurisdiction has expressly exempted a Fund therefrom, each of the Funds follows the standard investment restrictions established under NI 81-102.

8. Each of the Funds is subject to National Instrument 81-107 *Independent Review Committee for Investment Funds* (**NI 81-107**)

9. Investor Series, Advisor Series, F-Series, C-Series, O Series, H5 Series, T5 Series, FT5 Series and FT8 Series of the Funds, with the exception of the TD MAP Funds, are qualified for distribution pursuant to the TD SP and TD AIF.

10. Investor Series, Advisor Series, F-Series, H5 Series, T5 Series, FT5 Series and FT8 Series of the TD MAP Funds are qualified for distribution pursuant to the TD MAP SP and TD MAP AIF.

11. The net asset value for each series of securities of the Funds is calculated on a daily basis in accordance with the Funds' valuation policy and as described in the simplified prospectuses and annual information forms for the Funds.

Reasons for the Approval Sought

12. Regulatory approval of the Mergers is required because each merger does not satisfy all of the criteria for pre-approved reorganizations and transfers set out in section 5.6 of NI 81- 102. In particular:

    (a) the fundamental investment objectives of the Continuing Funds are not, or may be considered not to be, "substantially similar" to the investment objectives of the Terminating Funds;

    (b) a portion of the portfolio holdings of the Terminating Funds are not acceptable to the portfolio advisers of the applicable Continuing Funds into which they will be merged; and

    (c) the fee structure of certain series of the Terminating Funds are not, or may be considered not to be, "substantially similar" to the fee structure of the corresponding series of the applicable Continuing Fund.

13. Except as described in this decision, the Mergers will otherwise comply with all other criteria for pre-approved reorganizations and transfers set out in section 5.6 of NI 81-102.

The Proposed Mergers

14. Pursuant to the Mergers, unitholders of each of the Terminating Funds would become unitholders of the Continuing Funds, as follows:

Terminating Fund	Continuing Fund
TD Balanced Income Fund	TD Diversified Monthly Income Fund
TD Advantage Balanced Income Portfolio	TD Managed Income Portfolio
TD Advantage Balanced Portfolio	TD Managed Income & Moderate Growth Portfolio

15. As required by NI 81-107, TDAM presented the terms of the proposed Mergers to the IRC of the Funds for a recommendation. The IRC reviewed the proposed Mergers and provided a positive recommendation for each of the proposed Mergers on June 13, 2019, having determined that the proposed Mergers, if implemented, achieve a fair and reasonable result for each of the Terminating Funds and their respective unitholders.

16. In accordance with National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**), a press release announcing the proposed Mergers was issued on July 18, 2019. A material change report with respect to the proposed Mergers was filed on SEDAR on July 18, 2019. Furthermore, the TD SP, TD AIF and fund facts documents pertaining to the Terminating Funds, which describe each of the proposed Mergers, were filed with SEDAR on July 25, 2019.

17. TDAM has determined that the proposed Mergers will not constitute a material change for the Continuing Funds. As a result, TDAM will not be seeking the prior approval of unitholders of the Continuing Funds.

18. Unitholders of the Terminating Funds will be asked to approve the Mergers at special meetings to be held on or about September 27, 2019.

19. By way of order dated December 5, 2016, TDAM was granted exemptive relief (**Notice and Access Relief**) from the requirement set out in paragraph 12.2(2)(a) of NI 81-106 to send a printed information circular to each registered unit holder of securities of a Fund whose proxies are being solicited, and instead allow a Fund to send a Notice-and-Access Document (as defined in condition 1 of the Decision) using the Notice-and-Access Procedure (as defined in condition 2 of the Decision) (the **Decision**).

20. In accordance with TDAM's standard of care owed to the relevant Funds pursuant to applicable legislation, TDAM will only use the notice-and-access procedure for a particular meeting where it has concluded that it is appropriate and consistent to do so, also taking into account the purpose of the meeting and whether the Funds would obtain better participation rates by sending the information circular with the other proxy-related materials.

21. Pursuant to the requirements of the Notice and Access Relief, TDAM will mail a notice- and-access document, form of proxy in connection with the special meetings, and the most recent fund facts of the relevant series of the Continuing Fund, as applicable (collectively, the **Meeting Materials**) to unitholders of the Terminating Funds commencing on or

about August 23, 2019 and concurrently filed on SEDAR. The Circular, to which the notice-and-access document provides a link, will also be filed on SEDAR at the same time.

22. The tax implications of the Mergers, the differences between the investment objectives and fee structures of the Terminating Funds and the Continuing Funds, as applicable, and the IRC's recommendation of the Mergers will be described in the Meeting Materials so that unitholders of the Terminating Funds can consider this information before voting on the Mergers. The Meeting Materials will also describe the various ways in which unitholders can obtain, at no cost, a copy of the simplified prospectus, annual information form and fund facts for each Continuing Fund and its most recent interim and annual management reports of fund performance and interim unaudited and annual audited financial reports and statements.

23. Unitholders of a Terminating Fund will have the right to redeem securities of, or make switches out of, a Terminating Fund, up to the close of business on the business day immediately before the Merger Effective Date.

24. If all required approvals for the Mergers are obtained, the Mergers will be completed on or about October 25, 2019.

25. TDAM will pay for the costs of the Mergers. These costs consist mainly of brokerage charges associated with the trades that occur both before and after the date of the Mergers and legal, proxy solicitation, printing, mailing and regulatory fees. There are no charges payable by unitholders of the Terminating Funds who acquire units of the corresponding Continuing Funds as a result of the Mergers.

Procedure for the Mergers

26. If the necessary approvals are obtained, TDAM will carry out the following steps to complete the Mergers:

    (a) Each Terminating Fund will jointly elect with the applicable Continuing Fund that the Merger be a "qualifying exchange" as defined in subsection 132.2(1) of the Tax Act.

    (b) Prior to effecting the Mergers, if required, each Terminating Fund will sell any securities in its portfolio that do not meet the investment objectives and investment strategies of the Continuing Fund. As a result, the Terminating Fund and the Continuing Fund may each temporarily hold cash or money market instruments and may not be fully invested in accordance with their respective investment objectives for a brief period of time prior to, and following, the Merger. In the case of the Mergers of TD Advantage Balanced Income Portfolio and TD Advantage Balanced Portfolio, all or substantially all of the investment portfolio of the Terminating Funds will be liquidated prior to the Effective Date.

    (c) Prior to the Merger, each Terminating Fund and Continuing Fund will distribute to their respective unitholders a sufficient amount of its net income and net realized capital gains, if any, to ensure that neither of the Terminating Fund nor the Continuing Fund will be subject to tax under Part I of the Tax Act for their taxation year ending on the Effective Date.

    (d) The value of each Terminating Fund's portfolio securities and other assets will be determined at the close of business on the Effective Date of the Merger in accordance with the constating documents of each Terminating Fund.

    (e) On the Effective Date, each Terminating Fund will transfer all of its net assets to the applicable Continuing Fund in exchange for units of the Continuing Fund. Each Terminating Fund anticipates that it will have no liabilities (other than trades pending settlement) on the Effective Date. Consequently, the units of the Continuing Fund received by the Terminating Fund will have an aggregate net asset value equal to the value of the Terminating Fund's investment portfolio and other assets that the Continuing Fund is acquiring, which units will be issued at the applicable series net asset value per unit as of the close of business on the Effective Date in accordance with its declaration of trust.

    (f) Immediately thereafter, each Terminating Fund will redeem all of its outstanding units and will distribute to its unitholders, the units of the Continuing Fund received by it on a dollar-for-dollar and series-by-series basis in exchange for their units in the Terminating Fund.

    (g) As soon as reasonably possible following each Merger, and in any case within 60 days following the Effective Date of the Merger, the applicable Terminating Fund will be wound up.

Merger Benefits

27. The Manager believes that the Mergers are beneficial to unitholders of the Terminating Funds and Continuing Funds for the following reasons:

    (a) the Continuing Funds into which the Terminating Funds will be merged into are larger and offer the potential for greater portfolio diversification and, accordingly, greater potential for investment returns and risk reduction;

    (b) unitholders in each Continuing Fund, as a result of its greater size, may benefit from its larger profile in the marketplace;

    (c) the management expense ratios of each of TD Managed Income Portfolio and TD Managed Income & Moderate Growth Portfolio are lower than those of the corresponding Terminating Fund;

    (d) the Continuing Funds have generally delivered better long-term performance than the applicable Terminating Funds; and

    (e) the Proposed Mergers will result in a more streamlined and simplified product line-up that is easier for investors to understand.

DECISION

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

The decision of the principal regulator under the Legislation is that the Approval Sought is granted, provided that the Filers obtain the prior approval of the unitholders of the Terminating Funds for the Mergers at a special meeting held for that purpose.

"Darren McKall"
Investment Funds and Structured Products Branch
Ontario Securities Commission

2.1.6 Friedberg Mercantile Group Ltd.

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Application by Filer for relief from prospectus requirement in connection with distribution by Filer of "contracts for difference" and over-the-counter (OTC) foreign exchange contracts (collectively, CFDs) to investors resident in Applicable Jurisdictions, subject to terms and conditions – Filer is registered in Ontario as investment dealer and a member of the Investment Industry Regulatory Organization of Canada (IIROC) – Applicant seeking relief to permit Applicant to offer CFDs to investors in Applicable Jurisdictions, including relief permitting Applicants to distribute CFDs on the basis of clear and plain language risk disclosure document rather than a prospectus – risk disclosure document contains disclosure substantially similar to risk disclosure document required for recognized options in OSC Rule 91-502 Trades in Recognized Options, the regime for OTC derivatives contemplated by former proposed OSC Rule 91-504 OTC Derivatives (which was not adopted) and the Quebec Derivatives Act – Relief consistent with relief contemplated by OSC Staff Notice 91-702 Offerings of contracts for difference and foreign exchange contracts to investors in Ontario (OSC SN 91-702) – Relief granted, subject to terms and conditions as described in OSC SN 91-702 including four-year sunset clause.

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 53 and 74(1).

OSC Rule 91-502 Trades in Recognized Options.

OSC Rule 91-503 Trades in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges Situate Outside of Ontario.

Proposed OSC Rule 91-504 OTC Derivatives (not adopted)

August 12, 2019

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
FRIEDBERG MERCANTILE GROUP LTD.
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction has received an application (the **Application**) from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) that the Filer and its officers, directors and representatives be exempt from the prospectus requirement in respect of the distribution of contracts for difference and over-the-counter (**OTC**) foreign exchange contracts (collectively, **CFDs**) to investors resident in the Applicable Jurisdictions (as defined below), subject to the terms and conditions below (the **Requested Relief**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

(a) the Ontario Securities Commission is the principal regulator for this application (the **Principal Regulator**); and

(b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon in each of the other provinces and territories of Canada, other than the provinces of Québec and Alberta, (the **Non-Principal Jurisdictions**, and, together with the Jurisdiction, the **Applicable Jurisdictions**).

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this Decision, unless otherwise defined.

Representations

This Decision is based on the following facts represented by the Filer:

The Filer

1. The Filer is a corporation existing under the *Canada Business Corporations Act*, with its only office in Toronto, Ontario.

2. The Filer is registered as a dealer in the category of investment dealer in each of the provinces and territories of Canada, and is a member of the Investment Industry Regulatory Organization of Canada (**IIROC**).

3. The Filer does not have any securities listed or quoted on an exchange or marketplace in any jurisdiction inside or outside of Canada.

4. The Filer is not in default of applicable securities legislation in any province or territory of Canada, or IIROC Rules or IIROC Acceptable Practices (each, as defined below).

5. The Filer has previously been granted exemptive relief substantially identical to the Requested Relief by Decision dated October 7, 2015 (the **Existing Relief**). The Filer has been offering CFDs to investors, including retail investors, on the basis of the Existing Relief and in compliance with applicable IIROC Rules and other IIROC Acceptable Practices. The Existing Relief expires on October 7, 2019. The effect of the Requested Relief is to extend the Existing Relief, on substantially the same terms and conditions, for a further interim period of up to four years (as described below).

6. The Filer wishes to continue to offer CFDs to investors in the Applicable Jurisdictions on the terms and conditions described in this Decision. For the Interim Period (as defined below), the Filer is seeking the Requested Relief in connection with this proposed continued offering of CFDs in Ontario and intends to rely on this Decision and the Passport System described in MI 11-102 to offer CFDs in the Non-Principal Jurisdictions.

7. In Québec, the Filer is qualified by the Autorite des marches financiers (the **AMF**) pursuant to section 82 of the *Derivatives Act* (Quebec) (the **QDA**) and authorized to market certain forward contracts and CFDs offered to the public subject to the terms and conditions of its qualification decision and related provisions of the QDA.

8. The Filer understands that staff of the Alberta Securities Commission have public interest concerns with CFD trading by retail clients and, accordingly, unless otherwise permitted in the future, the Filer intends to only offer CFDs to investors in Alberta in reliance upon available exemptions in National Instrument 45-106 *Prospectus Exemptions*. The Filer undertakes not to give notice that subsection 4.7(1) of MI 11-102 is intended to be relied upon in Alberta.

9. As a member of IIROC, the Filer is only permitted to enter into CFDs pursuant to the rules and regulations of IIROC (the **IIROC Rules**).

10. In addition, IIROC has communicated to its members certain additional expectations as to acceptable business practices (**IIROC Acceptable Practices)** as articulated in IIROC's paper "Regulatory Analysis of Contracts for Differences (CFDs)" published by IIROC on June 6, 2007, as amended on September 12, 2007, for any IIROC member proposing to offer CFDs to investors. The Filer is in compliance with IIROC Acceptable Practices in offering CFDs. The Filer will continue to offer CFDs in accordance with IIROC Acceptable Practices as may be established from time to time, and will not offer CFDs linked to bitcoin, cryptocurrencies or other novel of emerging asset classes to investors in the Applicable Jurisdictions without the prior written consent of IIROC.

11. The Filer is required by IIROC to maintain a certain level of capital to address the business risks associated with its activities. The capital reporting required by IIROC (as per the calculation in the Form 1 and the Monthly Financial Reports to IIROC) is based predominantly on the generation of financial statements and calculations so as to ensure capital adequacy. The Filer, as an IIROC member, is required to have a specified minimum capital which includes having any additional capital required with regards to margin requirements and other risks. This risk calculation is summarized as a risk adjusted capital calculation which is submitted in the Filer's Form 1 and required to be kept positive at all times.

Online Trading Platform

12. The Filer has an execution-only division operating under the name "Friedberg Direct" (the **Execution Only Division**), and it is through this division that the Filer offers CFDs.

13. The Filer has licensed on-line trading platform technology for CFD products and trading services that have certain imbedded "client protection mechanisms" and provide transparency of price to clients. These on-line trading platforms (the **Trading Platforms**) are a key component in a comprehensive risk management strategy which helps the Filer's clients and the Filer to manage the risk associated with leveraged products. This risk management system has evolved over many years with the objective of meeting the mutual interests of all relevant parties (including, in particular, clients). These attributes and services are described in more detail below:

    a. *Real-time client reporting.* Clients are provided with a real-time view of their account status. This includes how tick-by-tick price movements affect their account balances and required margins. Clients can view this information at any time by logging into their account. Clients can also set up alerts that instruct the Trading Platform to automatically send an email, text or notice within the Trading Platform notifying them of key identified levels being hit in the market.

    b. *Fully automated risk management system.* Clients are instructed that they must maintain the required margin against their position(s). If a client's funds drop below the required margin, margin calls are regularly issued via email (as frequently as hourly), alerting the client to the fact that the client is required to either deposit more funds to maintain the position or close/reduce it voluntarily. Where possible, daily telephone margin calls are provided as a supporting communication for clients. However, if a client fails to deposit more funds, where possible, the client's position is automatically liquidated. This liquidation procedure is intended to act as a mechanism to help reduce the risk of losses being greater than the amount deposited.

    c. *Wide range of order types.* The Trading Platforms also provide risk management tools such as stop loss orders, limit orders and contingent orders. Although not available on all products, these tools are designed to help reduce the risk of loss.

14. The Trading Platforms are proprietary and fully automated internet-based trading platforms.

15. The Filer utilizes the Trading Platforms to process CFD transactions under software license and services agreements with Forex Capital Markets Limited and AVA Trade EU Ltd. (together, the **Platform Providers**), leading global providers of private and white label CFD trading solutions. In the future, the Filer may provide clients the option to enter into CFDs for which the Filer acts as counterparty that utilizes other third-party trading platforms and have substantially similar attributes and services as the Trading Platforms as described above.

16. Clients conduct CFD transactions through the Trading Platforms. The Trading Platforms are similar to those developed for on-line brokerages in that the client trades without other communication with, or advice from, the dealer. The Trading Platforms are not a "marketplace" as defined in National Instrument 21-101 *Marketplace Operation* since a marketplace is any facility that brings together multiple buyers and sellers by matching orders in fungible contracts in a nondiscretionary manner. The Trading Platforms do not bring together multiple buyers and sellers; rather they offer clients direct access to interbank prices.

17. The Filer is the counterparty to its clients' CFD trades. It does not act as an intermediary, broker or trustee in respect of the CFD transactions. The Execution Only Division does not manage any discretionary accounts, nor does it provide any trading advice or recommendations.

18. The Filer manages the risk in its client positions by simultaneously placing the identical CFD on a back-to-back basis with a Platform Provider or an affiliate, each of which will be at all times an "acceptable counterparty" or a "regulated entity" (as those terms are defined in the Form 1) (the **Acceptable/Regulated Counterparty**). The Acceptable/Regulated Counterparty will, in turn, automatically offset each position against other client positions on a second-by-second basis, and either "hedges" its net exposure by trading with liquidity providers (banks or large investment banks) or using its equity capital, or both. By virtue of this risk management functionality inherent in the Trading Platforms, the Filer minimizes counterparty risk. This also means that the Filer does not have an inherent conflict of interest with its clients, since it does not profit on a position if the client loses on that position, and *vice versa*.

19. The CFDs are OTC contracts and are not transferable.

20. The ability to lever an investment is one of the principal features of CFDs. Leverage allows clients to magnify investment returns (or losses) by reducing the initial capital outlay required to achieve the same market exposure that would be obtained by investing directly in the underlying currency or instrument.

21. IIROC Rules and IIROC Acceptable Practices set out detailed requirements and expectations relating to leverage and margin for offerings of CFDs. The degree of leverage may be amended in accordance with IIROC Rules and IIROC Acceptable Practices as may be established from time to time.

22. Pursuant to Section 13.12 *Restriction on lending to clients* of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**), only those firms that are registered as investment dealers (a condition of which is to be a member of IIROC) may lend money, extend credit or provide margin to a client.

Structure of CFDs

23. A CFD is a derivative product that allows clients to obtain economic exposure to the price movement of an underlying instrument, such as a share, index, market sector, currency pair, treasury or commodity, without the need for ownership and physical settlement of the underlying instrument. Unlike certain other OTC derivatives, such as forward contracts, CFDs do not require or oblige either the principal counterparty (being the Filer for the purposes of the Requested Relief) nor any agent (also being the Filer for the purposes of the Requested Relief) to deliver the underlying instrument.

24. CFDs offered by the Filer do not confer the right or obligation to acquire or deliver the underlying security or instrument itself, and do not confer any other rights of holders of the underlying security or instrument, such as voting rights. Rather, a CFD is a derivative instrument which is represented by an agreement between a counterparty and a client to exchange the difference between the opening price of a CFD position and the price of the CFD at the closing of the position. The value of the CFD is generally reflective of the movement in prices at which the underlying instrument is traded at the time of opening and closing the position in the CFD.

25. CFDs allow clients to take a long or short position on an underlying instrument but, unlike futures contracts, they have no fixed expiry date or standard contract size or an obligation for physical delivery of the underlying instrument.

26. CFDs allow clients to obtain exposure to markets and instruments that may not be available directly, or may not be available in a cost-effective manner. To the extent that clients are able to obtain long or short positions in an underlying instrument, CFDs can also serve as a tool for hedging this direct exposure.

CFDs Distributed in the Applicable Jurisdictions

27. Certain types of CFDs, such as CFDs where the underlying instrument is a security, may be considered to be "securities" under the securities legislation of the Applicable Jurisdictions.

28. Investors wishing to enter into CFD transactions must open an account with the Execution Only Division.

29. Prior to a client's first CFD transaction and as part of the account opening process, the Filer provides the client with a separate risk disclosure document that clearly explains, in plain language, the transaction and the risks associated with the transaction (the **Risk Disclosure Document**). The Risk Disclosure Document includes the required risk disclosure set forth in Schedule A to the Regulations to the QDA and leverage risk disclosure required under IIROC Rules. The Risk Disclosure Document contains disclosure that is substantially similar to the risk disclosure statement required for recognized options in OSC Rule 91-502 *Trades in Recognized Options* (which provides both registration and prospectus exemptions) (**OSC Rule 91-502**) and the regime for OTC derivatives contemplated by OSC Staff Notice 91-702 *Offerings of Contracts for Difference* (**OSC SN 91-702**) and proposed OSC Rule 91-504 *OTC Derivatives* (which was not adopted) (**Proposed Rule 91-504**). Prior to a client's first trade in a CFD transaction, a complete copy of the Risk Disclosure Document is provided to the client has been delivered, or has previously been delivered, to the Principal Regulator.

30. Prior to the client's first CFD transaction and as part of the account opening process, the Filer obtains a written or electronic acknowledgement from the client confirming that the client has received, read and understood the Risk Disclosure Document. Such acknowledgment is separate and prominent from other acknowledgements provided by the client as part of the account opening process.

31. As customary in the industry, and due to the fact that this information is subject to factors beyond the control of the Filer (such as changes in IIROC Rules), information such as the underlying instrument listing and associated margin rates are not disclosed in the Risk Disclosure Document but are part of a client's account opening package and are available on both the Execution Only Division's website and the Trading Platforms.

Satisfaction of the Registration Requirement

32. The role of the Filer (through the Execution Only Division) as it relates to the offering of CFDs (other than it being the principal under the CFDs) is limited to acting as an execution-only dealer. In this role, the Filer is, among other things, responsible to approve all marketing, for holding of clients funds, and for client approval (including the review of know-your-client (**KYC**) due diligence and account opening suitability assessments) pursuant to NI 31-103. Although the inputting of client information and trading orders is through, and client information and trading records are maintained in,

the relevant Platform Provider's systems which are linked to its Trading Platform, the Filer has full and instantaneous access to all such information and records and, as described above, client approvals and holding of clients funds are solely under the Filer's control.

33. IIROC Rules exempt member firms that provide execution-only services such as discount brokerage from the obligation to determine whether each trade is suitable for a client. However, IIROC has exercised its discretion to impose additional requirements on IIROC members proposing to trade in CFDs (the **IIROC CFD Requirements**) and requires, among other things, that:

    a. applicable risk disclosure documents and client suitability waivers be provided in a form acceptable to IIROC;

    b. the firm's policies and procedures, amongst other things, require the Filer to assess whether CFD trading is appropriate for a client before an account is approved to be opened. This account opening suitability process includes an assessment of the client's investment knowledge and trading experience, client identification, screening applicants and customers against lists of prohibited/blocked persons, and detecting and reporting suspicious trading and potential terrorist financing and money laundering activities to applicable enforcement authorities;

    c. the Filer's registered salespeople who conduct the KYC and initial product suitability analysis meet, or are exempted from, proficiency requirements for futures trading, and are registered with IIROC as Investment Representative (**IR**) for retail customers in the product category of Futures Contract and Futures Contract Options. The course proficiency requirements for an IR include the completion of the Canadian Securities Course, Conduct and Practices Handbook, the Derivatives Fundamental Course and Futures Licensing Course. In addition, the Filer must have a fully qualified Designated Registered Futures and Options Principal; and

    d. cumulative loss limits for each client's account are established (this is a measure normally used by IIROC in connection with futures trading accounts).

34. The CFDs offered in Canada are offered in compliance with applicable IIROC Rules and other IIROC Acceptable Practices.

35. IIROC limits the underlying instruments in respect of which a member firm may offer CFDs since only certain securities are eligible for reduced margin rates. For example, underlying equity securities must be listed or quoted on certain "recognized exchanges" (as that term is defined in IIROC Rules) such as the Toronto Stock Exchange or the New York Stock Exchange. The purpose of these limits is to ensure that CFDs offered in Canada will only be available in respect of underlying instruments that are traded in well-regulated markets, in significant enough volumes and with adequate publicly available information, so that clients can form a sufficient understanding of the exposure represented by a given CFD.

36. IIROC Rules prohibit the margining of CFDs where the underlying instrument is a synthetic product (single U.S. sector or "mini-indices"). For example, sector CFDs (i.e., basket of equities for the financial institutions industry) may be offered to non-Canadian clients; however, this is not permissible under IIROC Rules.

37. IIROC members seeking to trade CFDs are generally precluded, by virtue of the nature of the contracts, from distributing CFDs that confer the right or obligation to acquire or deliver the underlying security or instrument itself (convertible CFDs), or that confer any other rights of holders of the underlying security or instrument, such as voting rights.

38. The Requested Relief, if granted, would (and the Existing Relief does) substantially harmonize the position of the regulators in the Applicable Jurisdictions (together, the **Commissions**) on the offering of CFDs to investors in the Applicable Jurisdictions with how those products are offered to investors in Québec under the QDA. The QDA provides a legislative framework to govern derivatives activities within Quebec. Among other things, the QDA requires such products to be offered to investors through an IIROC member and the distribution of a standardized risk disclosure document rather than a prospectus in order to distribute such contracts to investors resident in Québec.

39. The Requested Relief, if granted, would be (and the Existing Relief is) consistent with the guidelines articulated by Staff of the Principal Regulator in OSC SN 91-702. OSC SN 91-702 provides guidance with regards to the distributions of CFDs, foreign exchange contracts and similar OTC derivative products to investors in the Jurisdiction.

40. The Principal Regulator has previously recognized that the prospectus requirement may not be well suited for the distribution of certain derivative products to investors in the Jurisdiction, and that alternative requirements, including requirements based on clear and plain language risk disclosure, may be better suited for certain derivatives.

41. In the Jurisdiction, both OSC Rule 91-502 and OSC Rule 91-503 *Trades in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges Situate Outside of Ontario* (**OSC Rule 91-503**) provide for a prospectus exemption for the trading of derivative products to clients. The Requested Relief is consistent with the principles and requirements of OSC Rule 91-502, OSC Rule 91-503 and Proposed Rule 91-504.

42. The Filer submits that the Requested Relief, if granted, would (and the Existing Relief does) harmonize the Principal Regulator's position on the offering of CFDs with certain other foreign jurisdictions that have concluded that a clear, plain language risk disclosure document is appropriate for retail clients seeking to trade in foreign exchange contracts.

43. The Filer is of the view that requiring compliance with the prospectus requirement in order to enter into CFDs with retail clients would not be appropriate since the disclosure of a great deal of the information required under a prospectus and under the reporting issuer regime is not material to a client seeking to enter into a CFD transaction. The information to be given to such a client should principally focus on enhancing the client's appreciation of product risk including counterparty risk. In addition, most CFD transactions are of short duration (positions are generally opened and closed on the same day) and are in any event marked to market and cash settled daily.

44. The Filer is regulated by IIROC, which has a robust compliance regime including specific requirements to address market, capital and operational risks.

45. The Filer submits that the regulatory regimes developed by the AMF and IIROC for CFDs adequately address issues relating to the potential risk to the clients of the Filer acting as counterparty. In view of these regulatory regimes, investors would receive little or no additional benefit from requiring the Filer to also comply with the prospectus requirement.

46. The Requested Relief in respect of each Applicable Jurisdiction is conditional on the Filer being registered as an investment dealer with the Commission in such Applicable Jurisdiction and maintaining its membership with IIROC and that all CFD transactions be conducted pursuant to IIROC Rules and in accordance with IIROC Acceptable Practices.

Decision

The Principal Regulator is satisfied that the test set out in the Legislation to make the Decision is met.

The Decision of the Principal Regulator is that the Requested Relief is granted provided that:

a. all CFD transactions with residents in the Applicable Jurisdictions shall be executed through the Execution Only Division of the Filer;

b. with respect to residents of an Applicable Jurisdiction, the Filer remains registered as a dealer in the category of investment dealer with the Principal Regulator and the Commission in such Applicable Jurisdiction and a member of IIROC;

c. all CFD transactions with clients resident in the Applicable Jurisdictions shall be conducted pursuant to IIROC Rules imposed on members seeking to trade in CFDs and in accordance with IIROC Acceptable Practices, as amended from time to time;

d. all CFD transactions with clients resident in the Applicable Jurisdictions be conducted pursuant to the rules and regulations of the QDA and the AMF, as amended from time to time, unless and to the extent there is a conflict between i) the rules and regulations of the QDA and the AMF and ii) the requirements of the securities laws of the Applicable Jurisdictions, the IIROC Rules and IIROC Acceptable Practices, in which case the latter shall prevail;

e. prior to a client first entering into a CFD transaction, the Filer has provided to the client the Risk Disclosure Document and has delivered, or has previously delivered, a copy of the Risk Disclosure Document provided to that client to the Principal Regulator;

f. prior to the client's first CFD transaction and as part of the account opening process, the Filer has obtained a written or electronic acknowledgement from the client, as described in paragraph 30, confirming that the client has received, read and understood the Risk Disclosure Document;

g. the Filer has furnished to the Principal Regulator the name and principal occupation of its officers and directors, together with either the personal information form and authorization of indirect collection, use and disclosure of personal information provided for in National Instrument 41-101 *General Prospectus Requirements* or the registration information form for an individual provided for in Form 33-109F4 of National Instrument 33-109 *Registration Information Requirements* completed by any officer or director;

h. the Filer shall promptly inform the Principal Regulator in writing of any material change affecting the Filer, being any change in the business, activities, operations or financial results or condition of the Filer that may reasonably be perceived by a counterparty to a derivative to be material;

i. the Filer shall promptly inform the Principal Regulator in writing if a self-regulatory organization or any other regulatory authority or organization initiates proceedings or renders a judgment related to disciplinary matters against the Filer concerning the conduct of activities with respect to CFDs;

j. within 90 days following the end of its financial year, the Filer shall submit to the Principal Regulator the audited annual financial statements of the Filer; and

k. the Requested Relief shall immediately expire upon the earliest of

i. four years from the date that this Decision is issued;

ii. in respect of a subject Applicable Jurisdiction or Québec, the issuance of an order or decision by a court, the Commission in such Applicable Jurisdiction, the AMF (in respect of Québec) or other similar regulatory body that suspends or terminates the ability of the Filer to offer CFDs to clients in such Applicable Jurisdiction or Québec; and

iii. with respect to an Applicable Jurisdiction, the coming into force of legislation or a rule by its Commission regarding the distribution of CFDs to investors in such Applicable Jurisdiction

(the **Interim Period**).

It is further the Decision of the Principal Regulator that the Existing Relief is hereby revoked.

"Craig Hayman"
Commissioner
Ontario Securities Commission

"Garnet W. Fenn"
Commissioner
Ontario Securities Commission

2.2 Orders

2.2.1 Sean Daley et al. – ss. 127(1), 127(8)

FILE NO.: 2019-28

IN THE MATTER OF
SEAN DALEY; and
SEAN DALEY carrying on business as
the ASCENSION FOUNDATION,
OTO.Money,
SilentVault, and
CryptoWealth;
WEALTH DISTRIBUTED CORP.;
CYBERVISION MMX INC.;
KEVIN WILKERSON; and
AUG ENTERPRISES INC.

D. Grant Vingoe, Vice-Chair and Chair of the Panel

August 16, 2019

ORDER
(Subsection 127(8) and 127(1) of
***Securities Act*, RSO 1990 c S.5)**

WHEREAS the Ontario Securities Commission held a hearing on August 16, 2019 to consider an application by staff of the Commission (**Staff**) to further extend a temporary order dated August 6, 2019 (the **Temporary Order**) against Sean Daley, Sean Daley carrying on business as Ascension Foundation, OTO.Money, SilentVault and Cryptowealth, Wealth Distributed Corp., Cybervision MMX Inc., Kevin Wilkerson or Aug Enterprises Inc. (together, the **Respondents**);

ON READING the application filed by Staff, and on hearing the submissions of the representatives for Staff and Sean Daley appearing on his own behalf, and no one appearing on behalf of the remaining Respondents, although properly served, and on considering the consent of Sean Daley to extend the Temporary Order;

IT IS ORDERED that:

1. the Temporary Order is extended until September 24, 2019, which states:

    a. pursuant to clause 2 of subsection 127(1) of the *Securities Act*, RSO 1990, c S.5 (the **Act**), all trading in any securities by the Respondents shall cease;

    b. pursuant to clause 2 of subsection 127(1) of the Act, all trading in 'overcome the odds' vouchers, also known as OTO Vouchers, and Lyra shall cease; and

    c. pursuant to clause 3 of subsection 127(1) of the Act, that the exemptions contained in Ontario securities law do not apply to the Respondents.

"D. Grant Vingoe"

2.2.2 BDO Canada LLP

FILE NO.: 2018-59

IN THE MATTER OF
BDO CANADA LLP

Timothy Moseley, Vice-Chair and Chair of the Panel

August 19, 2019

ORDER

WHEREAS on August 19, 2019, the Ontario Securities Commission held a hearing at 20 Queen Street West, 17th Floor, Toronto, Ontario;

ON HEARING the submissions of the representatives for Staff of the Commission (**Staff**) and for BDO Canada LLP (**BDO**);

IT IS ORDERED THAT:

1. the parties shall disclose any expert evidence according to the following schedule:
   a. Staff shall serve BDO with any expert report(s) by no later than September 13, 2019;
   b. BDO shall serve Staff with any expert response report(s) by no later than December 6, 2019; and
   c. Staff shall serve BDO with any expert reply report(s) by no later than January 17, 2020;
2. BDO shall serve Staff with further witness summaries by no later than October 11, 2019;
3. a further attendance is scheduled for January 9, 2020 at 10:00 a.m.;
4. each party shall serve the other party with a hearing brief containing copies of the documents, and identifying the other things, that the party intends to produce or enter as evidence at the merits hearing by no later than January 31, 2020;
5. the Final Interlocutory Attendance shall be heard on February 5, 2020 at 10:00 a.m.;
6. both parties shall provide to the Registrar the electronic documents that the party intends to rely on or enter as evidence at the merits hearing, along with an Index File, no later than February 18, 2020; and
7. the hearing on the merits shall commence at 10:00 a.m. on March 2, 2020 and continue on March 4-6, 9, 11, 12, 18-20, 23-27, 30; April 3, 6-9, 13, 15-17, 20-24, 27, 29, 30; May 1, 4, 6-8, 11, 13-15, 19-22, 25, 27, and 28, 2020 at 10:00 a.m. on each scheduled day, or on such other dates and times as provided by the Office of the Secretary and agreed to by the parties.

“Timothy Moseley”

2.2.3 Fiera Private Alternative Investments Inc. – s. 1(6) of the OBCA

Headnote

Applicant deemed to have ceased to be offering its securities to the public under the Business Corporations Act (Ontario).

Applicable Legislative Provisions

Business Corporations Act, R.S.O. 1990, c. B.16 as am., s. 1(6).

IN THE MATTER OF
THE BUSINESS CORPORATIONS ACT (ONTARIO)
R.S.O. 1990, c. B.16, AS AMENDED
(the OBCA)

AND

IN THE MATTER OF
FIERA PRIVATE ALTERNATIVE INVESTMENTS INC.
(the Applicant)

ORDER
(Subsection 1(6) of the OBCA)

UPON the application of the Applicant to the Ontario Securities Commission (the "**Commission**") for an order pursuant to subsection 1(6) of the OBCA to be deemed to have ceased to be offering its securities to the public;

AND UPON the Applicant representing to the Commission that:

1. The Applicant is an "offering corporation" as defined in the OBCA;

2. The Applicant has no intention to seek public financing by way of an offering of securities; and

3. On July 26, 2019, the Applicant was granted an order (the "**July 26 Order**") pursuant to subclause 1(10)(a)(ii) of the *Securities Act* (Ontario) that it is not a reporting issuer in Ontario and is not a reporting issuer or equivalent in any other jurisdiction in Canada in accordance with the simplified procedure set out in National Policy 11-206 – *Process for Cease to be a Reporting Issuer Applications*. The representations set out in the July 26 Order continue to be true.

AND UPON the Commission being satisfied that to do so would not be prejudicial to the public interest;

IT IS HEREBY ORDERED by the Commission pursuant to subsection 1(6) of the OBCA that the Applicant be deemed to have ceased to be offering its securities to the public.

DATED this 12th day of August 2019.

"Craig Hayman"
Commissioner
Ontario Securities Commission

"Garnet W. Fenn"
Commissioner
Ontario Securities Commission

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Chapter 4

Cease Trading Orders

4.1.1 Temporary, Permanent & Rescinding Issuer Cease Trading Orders

Company Name	Date of Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/Revoke
THERE IS NOTHING TO REPORT THIS WEEK.				

Failure to File Cease Trade Orders

Company Name	Date of Order	Date of Revocation
SBD Capital Corp.	02 August 2019	15 August 2019

4.2.1 Temporary, Permanent & Rescinding Management Cease Trading Orders

Company Name	Date of Order	Date of Lapse
CannTrust Holdings Inc.	15 August 2019	

4.2.2 Outstanding Management & Insider Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/ Expire	Date of Issuer Temporary Order
Performance Sports Group Ltd.	19 October 2016	31 October 2016	31 October 2016		

Company Name	Date of Order	Date of Lapse
Beleave Inc.	06 August 2019	
CannTrust Holdings Inc.	15 August 2019	
Peeks Social Ltd.	04 July 2019	
BetterU Education Corp.	02 August 2019	

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Chapter 7

Insider Reporting

This chapter is available in the print version of the OSC Bulletin, as well as as in Carswell's internet service SecuritiesSource (see www.carswell.com).

This chapter contains a weekly summary of insider transactions of Ontario reporting issuers in the System for Electronic Disclosure by Insiders (SEDI). The weekly summary contains insider transactions reported during the seven days ending Sunday at 11:59 pm.

To obtain Insider Reporting information, please visit the SEDI website (www.sedi.ca).

Chapter 11

IPOs, New Issues and Secondary Financings

INVESTMENT FUNDS

Issuer Name:
CI First Asset Gold+ Giants Covered Call ETF (formerly, CI First Asset Can-Materials Covered Call ETF)
Principal Regulator - Ontario
Type and Date:
Amendment #2 to Final Long Form Prospectus dated August 16, 2019
NP 11-202 Receipt dated August 19, 2019
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
N/A
Promoter(s):
N/A
Project #2887249

Issuer Name:
Fidelity Insights Investment Trust
Principal Regulator - Ontario
Type and Date:
Amendment #5 to Final Simplified Prospectus dated August 6, 2019
NP 11-202 Receipt dated August 14, 2019
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
Fidelity Investments Canada ULC
Fidelity Investments Canada Limited
Promoter(s):
N/A
Project #2822465

Issuer Name:
Algonquin Fixed Income 2.0 Fund
Principal Regulator – Ontario
Type and Date:
Preliminary Simplified Prospectus dated Aug 14, 2019
NP 11-202 Preliminary Receipt dated Aug 15, 2019
Offering Price and Description:
Series I Units, Series A Units, Series F Founders Units and Series F Units
Underwriter(s) or Distributor(s):
N/A
Promoter(s):
N/A
Project #2952096

Issuer Name:
NBI Unconstrained Fixed Income ETF
Principal Regulator – Quebec
Type and Date:
Preliminary Long Form Prospectus dated Aug 13, 2019
NP 11-202 Preliminary Receipt dated Aug 13, 2019
Offering Price and Description:
Units
Underwriter(s) or Distributor(s):
N/A
Promoter(s):
N/A
Project #2950846

Issuer Name:
First Trust Cboe Vest U.S. Equity Buffer ETF - June
First Trust Cboe Vest U.S. Equity Deep Buffer ETF - June
Principal Regulator – Ontario
Type and Date:
Preliminary Long Form Prospectus dated Aug 14, 2019
NP 11-202 Final Receipt dated Aug 15, 2019
Offering Price and Description:
Hedged Units and Units
Underwriter(s) or Distributor(s):
N/A
Promoter(s):
N/A
Project #2918783

NON-INVESTMENT FUNDS

Issuer Name:
Canivate Growing Systems Ltd.
Principal Regulator - British Columbia
Type and Date:
Preliminary Long Form Prospectus dated August 14, 2019
NP 11-202 Preliminary Receipt dated August 15, 2019
Offering Price and Description:
10,633,500 Common Shares Issuable Upon the Conversion of 10,633,500 Series A Preferred Shares
10,633,500 Common Shares Issuable Upon the Exercise of 10,633,500 Warrants
Underwriter(s) or Distributor(s):
Gravitas Securities Inc.
Canaccord Genuity Corp.
Eventus Capital Corp.
Promoter(s):
-
Project #2952387

Issuer Name:
ECN Capital Corp.
Principal Regulator - Ontario
Type and Date:
Preliminary Shelf Prospectus dated August 14, 2019
NP 11-202 Preliminary Receipt dated August 14, 2019
Offering Price and Description:
C$2,000,000,000.00 - Debt Securities, Preferred Shares, Common Shares, Subscription Receipts, Warrants, Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2951653

Issuer Name:
Filo Mining Corp.
Principal Regulator - British Columbia
Type and Date:
Preliminary Short Form Prospectus dated August 16, 2019
NP 11-202 Preliminary Receipt dated August 16, 2019
Offering Price and Description:
$20,006,250.00 - 7,275,000 Common Shares
Price: C$2.75 per Offered Share
Underwriter(s) or Distributor(s):
BMO NESBITT BURNS INC.
NATIONAL BANK FINANCIAL INC.
HAYWOOD SECURITIES INC.
CORMARK SECURITIES INC.
Promoter(s):
-
Project #2950648

Issuer Name:
Fire & Flower Holdings Corp. (formerly Cinaport Acquisition Corp. II)
Principal Regulator - Ontario
Type and Date:
Preliminary Shelf Prospectus dated August 12, 2019
NP 11-202 Preliminary Receipt dated August 13, 2019
Offering Price and Description:
$200,000,000.00 - COMMON SHARES, WARRANTS, UNITS, SUBSCRIPTION RECEIPTS, DEBT SECURITIES
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2950423

Issuer Name:
Green Growth Brands Inc. (formerly Xanthic Biopharma Inc.)
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated August 15, 2019
NP 11-202 Receipt dated August 15, 2019
Offering Price and Description:
$50,225,000.00 - 20,500,000 Units
Price: C$2.45 per Offered Unit
Underwriter(s) or Distributor(s):
CANACCORD GENUITY CORP.
EIGHT CAPITAL
CORMARK SECURITIES INC.
GMP SECURITIES L.P.
PARADIGM CAPITAL INC.
BEACON SECURITIES LIMITED
HAYWOOD SECURITIES INC.
Promoter(s):
ALL JS GREENSPACE LLC
CHIRON VENTURES INC.
Project #2942612

Issuer Name:
HeyBryan Media Inc.
Principal Regulator - British Columbia
Type and Date:
Final Long Form Prospectus dated August 13, 2019
NP 11-202 Receipt dated August 15, 2019
Offering Price and Description:
Up to $3,000,000.00
Maximum 10,000,000 Units, $3,000,000.00
Minimum 8,000,000 Units, $2,400,000.00
Price: C$0.30 per Unit
Underwriter(s) or Distributor(s):
LEEDE JONES GABLE INC.
Promoter(s):
LANCE MONTGOMERY
PENNY GREEN
Project #2901700

Issuer Name:
Infuzed Brands Inc.
Principal Regulator - British Columbia
Type and Date:
Preliminary Long Form Prospectus dated August 15, 2019
Received on August 15, 2019
Offering Price and Description:
MINIMUM OFFERING: $2,500,000.00 (8,333,333 OFFERED UNITS)
MAXIMUM OFFERING: $5,000,000.00 (16,666,667 OFFERED UNITS)
Price: C$0.30 per Offered Unit
Underwriter(s) or Distributor(s):
Mackie Research Capital Corporation
Promoter(s):
Jigme Love
Project #2952641

Issuer Name:
Integra Resources Corp. (formerly, Mag Copper Limited)
Principal Regulator - British Columbia
Type and Date:
Preliminary Short Form Prospectus dated August 16, 2019
NP 11-202 Preliminary Receipt dated August 16, 2019
Offering Price and Description:
$12,461,998.56 - 14,490,696 Common Shares on exercise of 14,490,696 Special Warrants
Price: $0.86 per Special Warrant
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2952876

Issuer Name:
Morguard North American Residential Real Estate Investment Trust
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated August 14, 2019
NP 11-202 Preliminary Receipt dated August 14, 2019
Offering Price and Description:
$100,254,950.00 - 5,076,200 Units
Price: C$19.75 per Offered Unit
Underwriter(s) or Distributor(s):
RBC DOMINION SECURITIES INC.
TD SECURITIES INC.
BMO NESBITT BURNS INC.
CIBC WORLD MARKETS INC.
SCOTIA CAPITAL INC.
HSBC SECURITIES (CANADA) INC.
BFIN SECURITIES LP
LAURENTIAN BANK SECURITIES INC.
Promoter(s):
-
Project #2949522

Issuer Name:
New Gold Inc.
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated August 14, 2019
NP 11-202 Preliminary Receipt dated August 14, 2019
Offering Price and Description:
$150,000,000.00 - 3,750,000 Common Shares
Price: C$1.60 per Offered Share
Underwriter(s) or Distributor(s):
BMO NESBITT BURNS INC.
RBC DOMINION SECURITIES INC.
SCOTIA CAPITAL INC.
CIBC WORLD MARKETS INC.
TD SECURITIES INC.
J.P. MORGAN SECURITIES CANADA INC.
MERRILL LYNCH CANADA INC.
CREDIT SUISSE SECURITIES (CANADA), INC.
NATIONAL BANK FINANCIAL INC.
CANACCORD GENUITY CORP.
CORMARK SECURITIES INC.
EIGHT CAPITAL
GMP SECURITIES L.P.
LAURENTIAN BANK
SECURITIES INC.
PARADIGM CAPITAL INC.
RAYMOND JAMES LTD.
Promoter(s):
-
Project #2951650

Issuer Name:
Restaurant Brands International Inc.
Principal Regulator - Ontario
Type and Date:
Preliminary Shelf Prospectus dated August 16, 2019
NP 11-202 Preliminary Receipt dated August 16, 2019
Offering Price and Description:
$500,000,000.00 - Common Shares, Debt Securities, Warrants
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2952772

Issuer Name:
Rubicon Organics Inc.
Principal Regulator - British Columbia
Type and Date:
Final Short Form Prospectus dated August 16, 2019
NP 11-202 Receipt dated August 16, 2019
Offering Price and Description:
$8,505,000.00 - 3,150,000 Units
$2.70 per Unit
Underwriter(s) or Distributor(s):
DESJARDINS SECURITIES INC.
CANACCORD GENUITY CORP.
PI FINANCIAL CORP.
MACKIE RESEARCH CAPITAL CORPORATION
Promoter(s):
-
Project #2945913

Issuer Name:
Talon Metals Corp.
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated August 13, 2019
NP 11-202 Preliminary Receipt dated August 13, 2019
Offering Price and Description:
* Common Shares
Price: $0.17 per Offered Share
Underwriter(s) or Distributor(s):
PARADIGM CAPITAL INC.
CANACCORD GENUITY CORP.
LEEDE JONES GABLE INC.
Promoter(s):
-
Project #2950896

Issuer Name:
Talon Metals Corp.
Principal Regulator - Ontario
Type and Date:
Amended and Restated Preliminary Short Form dated August 14, 2019
NP 11-202 Preliminary Receipt dated August 14, 2019
Offering Price and Description:
$10,000,000.00 - 58,823,530 Common Shares
Price: C$0.17 per Offered Share
Underwriter(s) or Distributor(s):
PARADIGM CAPITAL INC.
CANACCORD GENUITY CORP.
LEEDE JONES GABLE INC.
Promoter(s):
-
Project #2950896

Issuer Name:
TransCanada PipeLines Limited
Principal Regulator - Alberta
Type and Date:
Final Shelf Prospectus dated August 9, 2019
NP 11-202 Receipt dated August 9, 2019
Offering Price and Description:
$3,000,000,000.00 - Medium Term Note Debentures (Unsecured)
Underwriter(s) or Distributor(s):
BMO NESBITT BURNS INC.
CIBC WORLD MARKETS INC.
NATIONAL BANK FINANCIAL INC.
RBC DOMINION SECURITIES INC.
SCOTIA CAPITAL INC.
TD SECURITIES INC.
Promoter(s):
-
Project #2947140

Issuer Name:
Trilogy International Partners Inc.
Principal Regulator - British Columbia
Type and Date:
Preliminary Shelf Prospectus dated August 14, 2019
NP 11-202 Preliminary Receipt dated August 14, 2019
Offering Price and Description:
US$500,000,000.00 - Common Shares, Warrants, Units, Debt Securities, Subscription Receipts, Share Purchase Contracts
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2951715

Issuer Name:
Turmalina Metals Corp.
Principal Regulator - British Columbia
Type and Date:
Preliminary Long Form Prospectus dated August 13, 2019
NP 11-202 Preliminary Receipt dated August 15, 2019
Offering Price and Description:
14,000,000 Common Shares issuable upon deemed exercise of 14,000,000 outstanding Subscription Receipts
Underwriter(s) or Distributor(s):
-
Promoter(s):
Rohan Wolfe
Francisco Azvedo
Project #2951892

Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
Name Change	From: LOGiQ Asset Management Ltd. To: Flow Investment Services Corp.	Investment Fund Manager, Portfolio Manager and Exempt Market Dealer	July 11, 2019
Name Change	From: Natixis Investment Managers Canada LP/Gestionnaires De Placements Natixis S.E.C. To: Fiera Investments Limited/Fiera Investissements Limitee	Exempt Market Dealer, Investment Fund Manager, Mutual Fund Dealer and Portfolio Manager	July 4, 2019

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Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.1 SROs

13.1.1 IIROC – IIROC Dealer Member Plain Language Rule Book – Notice of Commission Approval

NOTICE OF COMMISSION APPROVAL

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

IIROC DEALER MEMBER PLAIN LANGUAGE RULE BOOK

The Ontario Securities Commission has approved IIROC's proposed Dealer Member Plain Language Rule Book (the PLR Rule Book). IIROC initiated a project in 2009 to rewrite, reformat, rationalize, and reorganize its Dealer Member Rules in plain language.

IIROC originally published for comment in a number of discrete tranches. The PLR Rule Book was compiled and published for comment on March 10, 2016, March 9, 2017 and January 18, 2018. IIROC has made non-substantive changes to the rules as published in 2018 in response to comments received. A summary of the public comments and IIROC's responses, as well as the IIROC Notice including the approved PLR Rule Book, can be found at http://www.osc.gov.on.ca.

The PLR Rule Book will be effective on June 1, 2020, except for certain sections where the implementation will be delayed to allow Dealer Members additional time to make any necessary operational adjustments.

In addition, the Alberta Securities Commission; the Autorité des marchés financiers; the British Columbia Securities Commission; the Financial and Consumer Affairs Authority of Saskatchewan; the Financial and Consumer Services Commission of New Brunswick; the Legal Registries Division, Department of Justice (Northwest Territories); the Legal Registries Division, Department of Justice (Nunavut); the Manitoba Securities Commission; the Nova Scotia Securities Commission; the Office of the Superintendent of Securities, Service Newfoundland and Labrador; the Office of the Yukon Superintendent of Securities; and the Prince Edward Island Office of the Superintendent of Securities Office have approved or not objected to the PLR Rule Book.

13.1.2 IIROC – Amendments to Client Identification and Verification Requirements – Notice of Commission Approval

NOTICE OF COMMISSION APPROVAL

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
(IIROC)

AMENDMENTS TO CLIENT IDENTIFICATION AND VERIFICATION REQUIREMENTS

The Ontario Securities Commission has approved IIROC's proposed amendments to Part A of Rule 3200 of the Dealer Member Plain Language Rule Book respecting client identification requirements (the Amendments).

IIROC originally published proposed amendments for comment on July 6, 2017. Considering the comments received, the Amendments were republished for comment on April 12, 2018. IIROC has made non-substantive changes to the Amendments as published in 2018 in response to comments received. A summary of the public comments and IIROC's responses, as well as the IIROC Notice including the Amendments, can be found at http://www.osc.gov.on.ca.

The Amendments will be effective on June 1, 2020.

In addition, the Alberta Securities Commission; the Autorité des marchés financiers; the British Columbia Securities Commission; the Financial and Consumer Affairs Authority of Saskatchewan; the Financial and Consumer Services Commission of New Brunswick; the Legal Registries Division, Department of Justice (Northwest Territories); the Legal Registries Division, Department of Justice (Nunavut); the Manitoba Securities Commission; the Nova Scotia Securities Commission; the Office of the Superintendent of Securities, Service Newfoundland and Labrador; the Office of the Yukon Superintendent of Securities; and the Prince Edward Island Office of the Superintendent of Securities Office have approved or not objected to the Amendments.

13.1.3 IIROC – Amendments to Form 1 for Use in, and Consistency with, the Dealer Member Plain Language Rule Book – Notice of Commission Approval

NOTICE OF COMMISSION APPROVAL

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

AMENDMENTS TO FORM 1 FOR USE IN, AND CONSISTENCY WITH, THE DEALER MEMBER PLAIN LANGUAGE RULE BOOK

The Ontario Securities Commission has approved IIROC's proposed amendments to Form 1 respecting defined terms for consistency with the Dealer Member Plain Language Rule Book (the Amendments).

IIROC published the Amendments for comment on February 15, 2018 and did not receive any public comment. IIROC has made non-substantive changes to the Amendments as published in 2018 in response to CSA comments received. A copy of the IIROC Notice including the Amendments can be found at http://www.osc.gov.on.ca.

The Amendments will be effective on June 1, 2020.

In addition, the Alberta Securities Commission; the Autorité des marchés financiers; the British Columbia Securities Commission; the Financial and Consumer Affairs Authority of Saskatchewan; the Financial and Consumer Services Commission of New Brunswick; the Legal Registries Division, Department of Justice (Northwest Territories); the Legal Registries Division, Department of Justice (Nunavut); the Manitoba Securities Commission; the Nova Scotia Securities Commission; the Office of the Superintendent of Securities, Service Newfoundland and Labrador; the Office of the Yukon Superintendent of Securities; and the Prince Edward Island Office of the Superintendent of Securities Office have approved or not objected to the Amendments.

13.1.4 IIROC – Amendments to Forms and Guidance Respecting Investment in a Dealer Member – Notice of Commission Approval

NOTICE OF COMMISSION APPROVAL

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

AMENDMENTS TO FORMS AND GUIDANCE RESPECTING INVESTMENT IN A DEALER MEMBER

The Ontario Securities Commission has approved IIROC's proposed amendments to Investor Application Form, Investor Notification Form and guidance (together the Forms and Guidance) respecting investment in a Dealer Member (the Amendments).

The Amendments were published for comment on March 9, 2017. IIROC has made non-substantive changes to the Forms and Guidance as published in 2017 in response to comments received. A summary of the public comments and IIROC's responses, as well as the IIROC Notice including the Amendments, can be found at http://www.osc.gov.on.ca.

The Amendments will be effective on June 1, 2020.

In addition, the Alberta Securities Commission; the Autorité des marchés financiers; the British Columbia Securities Commission; the Financial and Consumer Affairs Authority of Saskatchewan; the Financial and Consumer Services Commission of New Brunswick; the Legal Registries Division, Department of Justice (Northwest Territories); the Legal Registries Division, Department of Justice (Nunavut); the Manitoba Securities Commission; the Nova Scotia Securities Commission; the Office of the Superintendent of Securities, Service Newfoundland and Labrador; the Office of the Yukon Superintendent of Securities; and the Prince Edward Island Office of the Superintendent of Securities Office have approved or not objected to the Amendments.

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