

William S. Rice, Q.C., CSA Chair, Chair & Chief Executive Officer, Alberta Securities Commission, responded as follows on behalf of the CSA to letters received by the CSA after publication of the Client Relationship Model Phase 2 amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (the CRM2 Amendments) concerning the provision in the CRM2 Amendments that requires registered dealers and advisers to provide their clients with an annual performance report calculated using a Money Weighted Rate of Return (MWRR):

As you are aware, the CRM2 Amendments, including the performance reporting methodology, were the subject of a lengthy consultation and comment period and CSA staff carefully considered all of the comments received in developing the final amendments. These amendments are now final and came into effect on July 15, 2013. While the public comment period has ended, we have considered your concerns and I am responding on behalf of the Canadian Securities Administrators (CSA).

The substance and purpose of the final CRM2 Amendments was to ensure that clients of all registered dealers and advisers receive clear and complete disclosure of all costs and registrant compensation associated with their account and meaningful reporting on how their investments have performed.

Your concerns have focused on the methodology that the CSA selected for annual investment performance reports to clients. The CSA focused on selecting a methodology that best helps investors to assess how they are progressing toward their investment goals. MWRR was selected as this method calculates the investment return using the deposits and withdrawals within a specific account. We are aware that the Time Weighted Rate of Return (TWRR) is more generally used by industry and that this methodology assists investors to assess the value added by their advisor and does this by excluding the effects of cash deposits and withdrawals within the account. Neither performance calculation method provides reporting that achieves both of these objectives and the differences in the calculated rates of return can be material.

The CFA Institute states in its recent paper "Principles for Investment Reporting" that there is no globally accepted standard for reporting of returns to existing clients that is comparable to the Global Investment Performance Standard (GIPS) for presentation of composite returns to prospective clients. It is noteworthy that the CFA Institute raises the question as to whether current reporting practices adequately address the client perspective, in particular, when TWRR is presented on its own without MWRR.

As we indicated in the notice of publication of the CRM2 Amendments, the CSA chose to require the use of MWRR because we concluded it is the better choice for investors. Performance reporting using MWRR shows the investor's actual personal rate of return. Research points strongly toward the value of measures that retail investors can relate directly to their own experience. The impact of their choices about money flows into and out of the account will be more apparent to the investor with MWRR, and registrants can use this information to educate their clients about the effects of these decisions, which are so important to long-term investment results.

Firms that feel it would be to the advantage of their clients to also receive performance reports using TWRR may choose to provide reports that include both calculations. We understand that some have already decided to do so.

For those registrants that already provide performance reports on a voluntary basis and use TWRR, we note that the burden of moving to MWRR was seriously considered throughout the consultation and is mitigated by the three year transition period for the introduction of the performance reporting requirement. We believe that this lengthy transition period will allow registrants to make the necessary systems changes and to communicate with their clients about how the changes will impact their performance reporting.

We also note that the CSA expects the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada to adopt member rules that are consistent with the CRM2 Amendments.

The letter from the Investment Funds Institute of Canada (IFIC) to the Commission also included a request for the CSA to permit the use of approximation methods including Modified Dietz. In addition to the response above, Mr. Rice's letter to IFIC included the following:

The CRM2 Amendments specify MWRR and not an approximation method such as Modified Dietz. As noted in your letter, this is specifically addressed in the notice of publication. Approximations can produce misleading results compared to MWRR and advances in computing power make it unnecessary to use them.