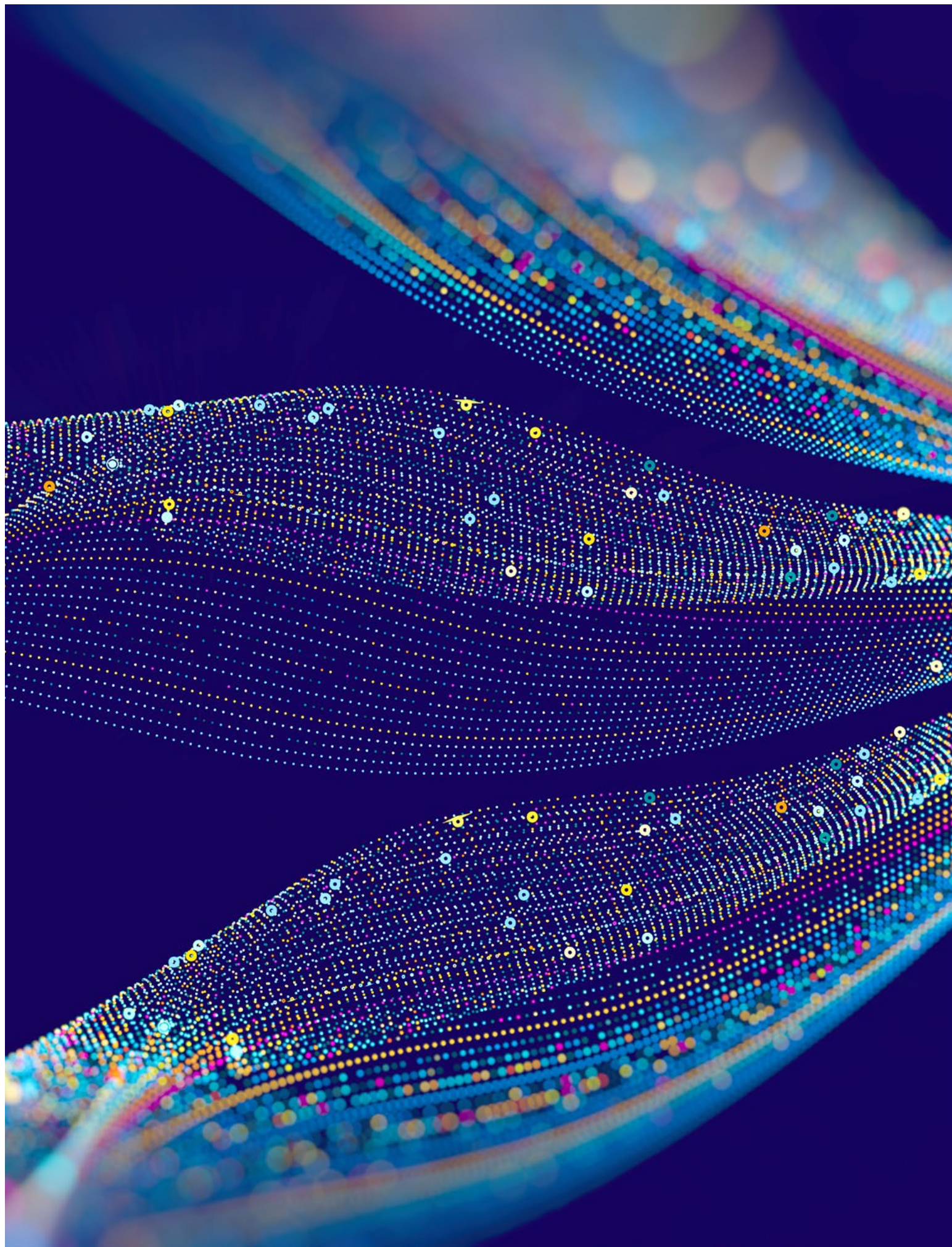


ENHANCED TRANSPARENCY:

PREPARING FOR TOTAL COST REPORTING REGULATORY REQUIREMENTS

MAY 2025







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As Vice President, Head of Segment Solutions and Canadian ETF Services, Ron leads a team responsible for developing products and solutions that meet the sophisticated and evolving needs of CIBC Mellon's clients.

New Canadian regulatory requirements aimed at enhancing fee transparency in investment funds will be impacting Canadian investment fund managers (IFMs), specifically asset managers and insurers. These approved regulations will take effect January 1, 2026, with delivery of the Annual Report on Costs & Compensation (ARCC) that will incorporate TCR enhancements for the year ending December 31, 2026. Total Cost Reporting (TCR) information will be included on investor statements starting in 2027.

The Canadian Securities Administrators (CSA) and the Canadian Council of Insurance Regulators (CCIR) had announced in a joint notice the TCR regulation on April 20, 2023 as a CSA amendment to National Instrument (NI) 31-103. Once in effect, all investment embedded costs are to appear in investors' annual reports on charges and compensation.



EXPLORE WITH US

We would be pleased to discuss these themes further, including exploring them in the context of our ongoing Canadian and global research efforts. Please don't hesitate to contact your relationship manager to arrange a discussion.



BENEFITS OF TCR / CRM3

The TCR requirements are designed to improve transparency and investor awareness of total fees and costs paid by mutual fund and ETF investors, as well as segregated fund holders. This regulation is intended to make it easier for investors to see and understand the embedded fees that they pay on their investment funds.

TCR, also known as CRM3 (Client Relationship Model 3) enhancements, is an extension of CRM2 which is a key industry-wide initiative implemented in 2016 that was designed to enhance the transparency of investment fees and financial advice.

While CRM2 had provided disclosure on advisor compensation, TCR goes further to provide investors and policyholders with the awareness of ongoing embedded fees, including the management expense ratio (MER) and trading expense ratio (TER) that form part of the cost of holding investment funds and segregated fund contracts.

TCR REQUIREMENTS

Under TCR, starting on January 1, 2026, IFMs will be responsible to produce a calculated daily cost factor (DCF) which represents the fund expenses per fund/class/series for the day. IFMs will be required to provide a DCF to dealers for all investment funds owned by their clients during the annual reporting period. Personalized cost information will need to be provided on investor statements, directly reporting the total amount of fund expenses (in dollars) for all investment funds held during the annual reporting period.

There are a number of data points that drive the DCF calculation. One new term that has been introduced is the fund expense ratio (FER) which is the MER and TER added together – the TER being the amount of trading expenses incurred related to trading activity in the fund. By taking the FER and dividing that by 365 days (or 366 days in the case of leap years), this provides the daily percentage and that multiplied by the Net Asset Value per Share (NAVPS) produces the daily cost factor that IFMs will need to provide daily starting in 2026.

Under TCR, investment fund managers will be required to deliver a daily cost factor (DCF) to investment dealers for all investment fund securities owned by a client during the annual reporting period.

There are currently two major repositories confirmed to accept TCR data, Fundserv and Fundata, for every class and series that fall under the TCR regulation for mutual funds, segregated funds and ETFs. After dissemination to a repository, dealers will then need to ingest the data and take the DCF and multiply that by the number of units the investor holds to come up with a cost for that day and accumulate that for the year. Starting in 2027, Canadian investors will get an Annual Report on Cost and Other Compensation noting what it cost them for all funds held through the year and their FER will also be disclosed.

IMPACTED INVESTMENT FUNDS

Some examples of fund types impacted by TCR include:

**MUTUAL FUNDS
AND ETFS
OFFERED UNDER
A PROSPECTUS**

**SPLIT SHARES
FUNDS**

**CLOSED-END
FUNDS**

**SCHOLARSHIP
PLANS**

FOREIGN FUNDS

**INDIVIDUAL VARIABLE
INSURANCE CONTRACTS
(IVICS) SUCH AS
SEGREGATED FUNDS
AND GUARANTEED
INVESTMENT FUNDS**

For the full list as at February 18, 2025, please see the framework document, [Total Cost Reporting for Investment Funds & Segregated Funds: Voluntary Industry Implementation Framework for Operational & Technological Considerations](#).



Products that are not in-scope for TCR reporting include but are not limited to:

**LABOUR-
SPONSORED
INVESTMENT
FUNDS (LSIF)**

**PROSPECTUS-
EXEMPT FUNDS**



TRANSITION PERIOD, CIBC MELLON AND TCR

Preparing for TCR is a significant industry-wide effort involving market participants across Canada's financial services industry, from IFMs to the dealer-advisor side, involving mutual funds, ETFs and segregated funds. As an industry, stakeholders are working together in a coordinated effort to collectively prepare for meeting the new TCR obligations.

CIBC MELLON CONTINUES TO LEAD AND PARTICIPATE IN WORKING GROUPS THAT ARE SHAPING AN INDUSTRY APPROACH FOR TCR. WE HAVE REPRESENTATION ON TCR INDUSTRY COMMITTEES HOSTED BY:

ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION (AIMA)

CANADIAN ETF ASSOCIATION (CETFA)

CANADIAN SECURITIES ADMINISTRATORS (CSA)

FUNDSERV

SECURITIES AND INVESTMENT MANAGEMENT ASSOCIATION (SIMA), FORMERLY KNOWN AS THE INVESTMENT FUNDS INSTITUTE OF CANADA (IFIC)

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA (PMAC)

INSOURCING OR OUTSOURCING TCR DATA

IFMs may choose to handle this new reporting internally or outsource to a service provider so they can focus on their core business. CIBC Mellon is actively working to support IFM clients in meeting their obligations under this new enhanced reporting regulatory requirement. We are developing a TCR service that will be fully operational for subscribing IFMs, going live on the first day that TCR takes effect.

CIBC Mellon's TCR service will provide the ongoing calculation and distribution of the DCF for each fund, class, and series where a FER is available and a NAVPS is calculated. Based on direction by the IFM client, we have the capability to send TCR data to Fundserv and/or Fundata and to an external recordkeeper, if applicable.

Our TCR service is intended to mitigate risk by addressing the regulatory requirements and controls in place. Further, it is intended to strengthen operational efficiency for subscribing clients and interface efficiently with the industry.

Development of our TCR service will continue through the first half of 2025, with production and client onboarding planned for the second half of 2025.

CIBC Mellon will also offer a CRM3 reporting service for IFMs impacted by TCR, who act as an exempt market dealer, as they will be required to send the enhanced Annual Report on Cost and Other Compensation to their investors.

We look forward to sharing updates with our clients as progress continues.

KEY QUESTIONS TO ASK

- ☐ HAVE YOU REVIEWED INTERNALLY TO DETERMINE WHICH OF YOUR FUNDS ARE IN-SCOPE FOR TCR?
- ☐ HOW WILL YOU CALCULATE THE DAILY COST FACTOR AND IS IT TO BE PRODUCED INTERNALLY OR THROUGH A SERVICE PROVIDER?
- ☐ WILL YOU BE DELIVERING THE DCF AND THE FER TO ONE OR MORE REPOSITORIES (E.G. FUNDSERV AND/OR FUNDATA AND TO AN EXTERNAL RECORDKEEPER)? WILL IT BE SENT DIRECTLY OR THROUGH A SERVICE PROVIDER?
- ☐ WHAT IS THE PLANNED PROCESS FOR ADJUSTMENTS?
- ☐ WHAT IS YOUR BUSINESS CONTINUITY PLAN IN THE EVENT OF A SYSTEM FAILURE?
- ☐ IS THERE A NEED FOR YOUR ORGANIZATION TO HAVE THE FER CALCULATION UPDATED MORE THAN TWICE PER YEAR?
- ☐ HOW DO IFMS EDUCATE UNDERLYING INVESTORS ON FUND REPORTING SUCH AS TCR?
- ☐ FOR IFMS THAT OFFER ETFS, HAVE YOU APPLIED TO FUNDSERV FOR YOUR UNIQUE ASSOCIATE MEMBER COMPANY CODE TO ENABLE TRANSMISSION OF TCR FILES?



While we are now just under a year away from implementation, conversations around TCR continue to develop during this transition period as the industry works towards the successful adoption of the new regulations.

We will continue to provide clients with updates as they relate to TCR and CIBC Mellon's supportive efforts. If you have any questions or would like to discuss TCR or our TCR service, please reach out to your CIBC Mellon Client Manager.

TCR TERMS

- **DCF** - Daily Cost Factor
- **FER** - Fund Expense Ratio
- **MER** - Management Expense Ratio
- **NAVPS** - Net Asset Value per Share
- **TER** - Trading Expense Ratio

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