Understanding investment costs

Enhanced transparency allows you to assess the value of advice

Canadian financial advisors are closely governed by a high standard of regulation. It's part of what makes the Canadian financial system one of the most respected in the world.

In 2013, the Canadian Securities Administrators (CSA) introduced additional regulations governing the relationship between you and your advisor. These reforms ensure you receive comprehensive information on both the performance of your investments and the costs associated with them.

This enhanced disclosure will help you better understand your financial position and the value of the financial advice you receive. These reforms are being phased in over four years, with final regulations coming into force on July 15, 2016.

July 15
2013

Expanded relationship disclosure

Notice of new operating charges: At least 60 days written notice of any new or increasing operating charges, including those related to the operation, transfer or termination of a client's account, and any federal, provincial or territorial sales taxes.

July 15
2014

Pre-trade disclosure of charges

Prior to the acceptance of any buy or sell instructions for a security, clients must be informed of:

- the management fee
- if deferred charges apply, and the cost of selling the security in the future
- any trailing commission or other embedded fees
- any front-end load options
- any switch or change fees

For mutual funds, much of this information is already covered in the Fund Facts document.

Expanded relationship disclosure

Clients must be provided a general explanation of benchmarks and whether the registered firm offers any options for benchmark reporting to clients.

July 15
2015

Additional statements

Dealers must deliver quarterly statements related to securities held by a third party if:

- the dealer has trading authority over the security or the account in which it is held
- the dealer receives continuing payments related to the client's ownership of the security

Among other details, these statements must: provide the name of the party that holds or controls each security and a description of the way it is held; explain whether the securities are covered by a regulator-approved investor protection fund; and which of the securities might be subject to a deferred sales charge if they are sold.

Position cost information

Dealers must provide position cost information for each security position. This may appear in the account statement, the additional statement, or in a separate document.

July 15
2016

Report on charges and other compensation

Clients must be provided an annual summary of all charges incurred, including all trailing commissions, referral fees and other compensation received by the dealer that relates to the client's account.

Investment performance report

An annual account performance report, which will include the annualized total percentage return for the client's account, with text, tables, charts, explanatory notes and a definition of total percentage return.

More on reverse

Fee glossary

When it comes to your finances, it's important to understand the costs associated with investing. Generally speaking, there are two kinds of costs: embedded costs and those paid directly by the investor.

Embedded costs

Most of the costs associated with investing in a mutual fund are paid through the fund itself. These costs are expressed as a percentage of the fund's assets, known as the management expense ratio (MER).

Q: How is the MER calculated?

A: In general, the MER represents certain costs associated with the management of the fund, divided by its average daily assets. For example, if a series of a fund with $500 million in assets incurred $10 million in MER-related costs over the course of the year, the MER would be 2.0% (i.e., 10 million ÷ 500 million = 2.0%).

Q: Why does the MER change from period to period?

A: Some of a fund's operating expenses consist of fixed costs, with little variance from year to year. Other costs can fluctuate depending on the number of investors, the assets under management and the number of transactions that are processed during a given period. These variables can affect the overall MER.

Note: The MER does not include brokerage commissions or portfolio transaction costs.

Q: What costs are included in the MER?

A: Some of the costs that make up a fund's MER include:

- Dealer/advisor compensation: Your advisor is compensated for the services he or she provides to you, such as financial planning, estate planning and tax advice. The dealer is compensated for the services it provides to your advisor, such as administration, trade processing and regulatory compliance
- Investment management costs: These include the cost of investment research, portfolio management and marketing
- Administrative costs: These include regulatory costs, transaction processing, annual reports, client reporting, and audit and legal fees
- GST/HST: Applicable to all of the above costs

Direct costs

Not all investment costs are embedded within the fund's MER, however. The following are some costs that may or may not be charged directly to the investor:

Fee	When it applies	Amount	Rationale
Sales charges or front-end load sales commissions	At time of purchase, for some series of mutual funds.	Negotiated with advisor, they can range from 0% to 5%.	Provides flexibility to redeem as needed, compared to other sales options (e.g., DSC).
Switch fees	Dealers may charge a fee to switch between funds.	Variable, between 0% and 2%.	Covers the costs associated with changing your investments when needed.
Early redemption fees	If you cash out of funds purchased under DSC, LL or LL4 options, before the redemption schedule expires.	Variable, based on how many years remain on redemption schedule.	This sales option allows investors to avoid front-end sales commissions. It also helps them to maintain their investment discipline throughout a market cycle by discouraging emotional decisions.
Short-term trading fees	May be charged if you switch or sell a mutual fund within 90 days of purchase.	Generally 2%.	Short-term trading of mutual funds can drive up costs of managing the fund. It would be unfair to burden long-term investors with these costs, so they are charged to short-term traders.
RRSP/RRIF/RESP administration fee	Usually charged annually.	Variable. Often a $100 flat rate, which is occasionally waived.	This fee covers the administrative and management costs associated with servicing an RRSP, RRIF or RESP.

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