ADVISOR INSIGHTS

Benchmarks Disclosure

Effective July 15, 2014, dealers must provide a general description of benchmarks to their clients. This requirement is part of the new rules prescribed by the Canadian Securities Administrators (CSA). The rules are often referred to as CRM2, which stands for Client Relationship Model, Phase 2.

What CRM2 means for mutual funds is that investors will receive timely, easy-to-understand, detailed information about the cost and performance of their funds. In the first phase, effective July 15, 2014, the industry must provide a description of benchmarks, and pre-trade disclosure of costs. More information on pre-trade cost disclosure is provided in a separate issue of Advisor Insights.

The benchmarks requirement can be met by adding a description of benchmarks in the Relationship Disclosure Document. The description should be written in plain language so that consumers at all levels of financial knowledge will understand the concept.

On page 2 is a description (also available in French) of benchmarks that IFIC has prepared to assist you in updating your Relationship Disclosure Document and discussing benchmarks with clients.

What's ahead?

CRM2 is being phased in over three years. By July 2016, investors will begin to receive statements showing, in dollar amounts, the costs associated with each of their products. A separate statement will tell investors how well their investments have performed in dollar terms and percentage terms over several time periods.

The mutual funds industry supports CRM2 and believes the changes will allow investors to make better informed decisions about their investments. Informed investors are more committed to saving and creating a more secure financial future for themselves and their families.

Information to share with your clients

What is a benchmark?

A benchmark is information that helps you compare performance.

Students compare their marks to the class average to understand how well they did. In the same way, an "investment benchmark" helps you understand how well your investments performed.

Choosing the right benchmark

You would not compare your math mark to the class average on an English test. In the same way, you must not compare your equity fund to a benchmark for bond funds.

There are many different benchmarks and it is important to use the right one. Some funds do not use benchmarks. A fund that uses a benchmark will list it in its Management Report of Fund Performance. You can get this report online. You can also ask your advisor for this information.

Important notes for clients

Investment benchmarks are usually a group of securities known as a "market index". One common example is the S&P/TSX Composite Index.

A market index provides good historic information but it isn't a perfect comparison to your investment for three reasons:

1. A market index does not reflect the costs of managing and operating a mutual fund. To compare your mutual fund to a benchmark, subtract the fund costs from the benchmark.
2. A market index measures performance over a specific time period. If you held the mutual fund over a different time period, it will not be a perfect match.
3. Benchmarks use a "time-weighted" formula to calculate performance. The statement that you will receive after 2016 will use a "money-weighted" formula to calculate your return.

For these reasons, your return might not mirror the benchmark for the fund.

If you have questions, speak to your investment advisor or visit www.ific.ca/investor-centre.

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