MACKENZIE Investments | CONFIDENCE IN A CHANGING WORLD

E-MAIL:
comments@osc.gov.on.ca; consultation-en-cours@lautorite.qc.ca

December 13, 2018

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario
M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec
H4Z 1G3

Re: Canadian Securities Administrators ("CSA") Notice and Request for Comment dated September 13, 2018 – Proposed Amendments to National Instrument 81-105 *Mutual Fund Sales Practices* and Related Consequential Amendments (the "Proposed Amendments")

We are pleased to provide comments on behalf of Mackenzie Financial Corporation ("Mackenzie Investments") on the Proposed Amendments.

180 Queen Street West, Toronto, ON M5V 3K1 T 416-922-5322 1-888-653-7070 E service@mackenzieinvestments.com
mackenzieinvestments.com

Mackenzie Investments was founded in 1967 and is a leading investment management firm providing investment advisory and related services to retail and institutional clients. We are registered as a portfolio manager and investment fund manager with total assets under management as at September 30, 2018 of approximately $141 billion, including investment fund assets under management of approximately $62 billion. Mackenzie Investments primarily distributes its retail investment products through third-party financial advisors. Our sales teams work with approximately 175 dealers across Canada and many of the more than 30,000 independent financial advisors to distribute our products to over 1 million Canadian clients.

We are a wholly owned subsidiary of IGM Financial Inc., which in turn is a member of the Power Financial Corporation group of companies.

General Comments

At Mackenzie Investments, we strongly believe in the value of the advice and services provided to our investors by the dealers and financial advisors with whom we partner. As the regulatory landscape and financial services industry continues to evolve in Canada, it is crucial that the CSA's regulatory proposals provide Canadians with choice in how they compensate their dealers and advisors – which should include allowing Canadians to continue to choose the deferred sales purchase option.

We previously expressed this view to the CSA in our comment letter dated June 9, 2017 regarding CSA Consultation Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions* (the "Fees Consultation"). Our comment letter on the Fees Consultation stressed the importance of retaining choice for investors, noting that fewer choices of compensation models can limit access to advice and result in higher overall costs, particularly for households with more modest investment levels. We also put forth several alternative solutions to address the issues identified in the Fees Consultation that benefit Canadian investors, while limiting the significant unintended consequences of the proposal contemplated in the Fees Consultation. We refer the CSA to our previous comment letter.

It is from this viewpoint – specifically the importance of providing choice to Canadians in compensation models – that we provide our feedback on the Proposed Amendments. Much of our feedback is based on the discussions and insights we have gained through our engagement with the dealers and financial advisors with whom we partner.

Specific Comments on the Proposed Amendments

Prohibition of the Deferred Sales Charge Purchase Option

DSC Option should be maintained to provide choice to Canadian investors

The deferred sales purchase option, including the low-load purchase option (collectively, the "DSC Option"), can be an important purchase option for certain investors. Specifically, this option can allow investors to forego an up-front sales commission and put the entirety of their funds toward their investment from day one. While we acknowledge that the DSC Option can, like all other types of fee arrangements, give rise to a conflict of interest, we believe that the potential conflict can be controlled. In our view, the proposals outlined in the Notice and Request for Comment Dated June 21, 2018 *Reforms to Enhance the Client-Registrant Relationship* (the "Client Focused Reforms"), will create a strong framework to support the continued use of the DSC Option in the appropriate circumstances.

In addition, existing market forces are also driving changes independent of regulation, and are prompting a shift in the use of the DSC Option. As the CSA noted in the Fees Consultation, use of the DSC Option has been declining in terms of market share. Recent industry wide data suggests that this trend is continuing and our experience at Mackenzie is consistent with this trend. We expect that the industry wide decline in the use of the DSC Option will continue, and that this trend coupled with the Client Focused Reforms, will significantly address the issues identified by the CSA with respect to the DSC Option, while retaining the choice of the option for Canadian investors where appropriate.

The importance of retaining the DSC Option in Registered Disability Savings Plans

Should the CSA pursue a prohibition of the DSC Option, we strongly urge the CSA to nonetheless continue to allow the DSC Option for mutual fund purchases made in Registered Disability Savings Plan ("RDSP") accounts.

RDSP accounts align with the use of the DSC Option, especially in an account's initial stages, because withdrawals will trigger the repayment to the government of all or part of the grants and bonds that have been in the RDSP account for less than 10 years. These penalties significantly reduce an investor's incentive to withdraw from the account in a timeframe that extends beyond the typical DSC Option redemption schedule. The use of the DSC Option in an RDSP account allows the investor's funds to be fully invested from day one without incurring a direct sales charge, and since the grants and bonds are based on contributions to the account, this in turn can maximize grants and bonds that can be provided to the investor.

In the absence of the DSC Option, we are concerned that the costs of servicing these types of accounts may rise, which will directly impact the investors who make use of this account.

Transition Timing for the Proposed Amendments

Should the CSA not be persuaded by our arguments to retain choice for Canadian investors by retaining the DSC Option, we encourage the CSA to reconsider the proposed one year transition timeline. The Proposed Amendments will necessitate changes to impacted dealers' and advisors' business models to accommodate alternative compensation arrangements. We expect that it will be a significant undertaking for registrants to undergo such a change in a one year period. We are also concerned that dealers and advisors may be faced with this challenge while transitioning towards the Client Focused Reforms (a transition which the CSA has acknowledged will be significant). To minimize disruption to all dealers, advisors and their clients, we recommend a transition period of no less than two years.

Conclusion

We agree with the statement by Ontario's Ministry of Finance that the DSC Option has enabled investors to save towards retirement and other financial goals. We believe the DSC Option can be a suitable choice for certain investors, and for the reasons outlined in our response letter, encourage the CSA to consider retaining this purchase option.

We thank you for the opportunity to provide comments on the Proposed Amendments. We would be pleased to engage with you further on this topic.

Yours Truly,

MACKENZIE FINANCIAL CORPORATION

[redacted]

Barry S. McInerney
President and Chief Executive Officer