CSA Consultation - The Principal Distributor Model

April 28, 2025

Submission to the Canadian Securities Administrators (**CSA**)

ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

The Canadian Bankers Association (**CBA**)[1] appreciates the opportunity to provide input on the *CSA Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, National Instrument 81-101 Mutual Fund Prospectus Disclosure, National Instrument 81-102 Investment Funds and National Instrument 81-105 Mutual Fund Sales Practices and Proposed Changes to Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, Companion Policy 81-102 Investment Funds* and *Companion Policy 81-105 Mutual Fund Sales Practices – The Principal Distributor Model* (**Proposed Amendments**).

CSA Consultation Questions

1. **The Proposed Amendments clarify that a principal distributor cannot have multiple principal distributor relationships except where it acts as principal distributor for mutual funds in the same mutual fund family. Are there any circumstances under which a dealer should be permitted to act as a principal distributor for more than one mutual fund family? In responding, please explain the advantages and disadvantages of such a model as compared to a participating dealer model for both investors and market participants. In particular, please outline the specific benefits for investors as they pertain to competition, cost and investor choice. Please provide quantitative data, where relevant, to support your answer.**

We are supportive of the Proposed Amendments that clarify that a principal distributor may only distribute mutual fund securities in the same mutual fund family. Allowing dealers to act as principal distributor for more than one family gives rise to greater conflicts of interest and blurs the distinction between principal and participating distributors. Given our response to this question, Question 2 in the CSA Notice and Request for Comment is not applicable to our submission and has been omitted.

[1] The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals.

3. **Do the Proposed Amendments fully address potential investor protection concerns for existing principal distributor business models and any foreseeable new mutual fund distribution business models? Are there any other considerations, limits or factors about a principal distributor arrangement that we should consider?**

Yes, the Proposed Amendments fully address potential investor protection concerns by clarifying that a principal distributor may only act for mutual funds in the same mutual fund family, requiring disclosure of principal distributor arrangements and compensation and ensuring that the deferred sales charge (**DSC**) option is not available to investors purchasing mutual fund securities distributed by principal distributors.

That being said, the Proposed Amendments' requirement to disclose principal distributor arrangements and compensation in the annual report on charges and other compensation (**ARCC**) adds unnecessary duplication and regulatory burden, since this disclosure will also be required in the Simplified Prospectus and Fund Facts documents, both of which are readily available to investors. Requiring this information to be further reported in the ARCC does not provide any "new" disclosure to investors, may cause investor confusion, adds additional development costs, and further reduces the already limited space on the ARCC with repetitive disclosure. Moreover, development changes to the ARCC required to accommodate the Total Cost Reporting (**TCR**) framework[2] are already underway but may be set-back if further changes to the ARCC were to be required under the Proposed Amendments.

If the principal distributor is ultimately required to add the new disclosure to the ARCC, as contemplated in the Proposed Amendments, we recommend at a minimum that the proposed effective date of January 1, 2026 for National Instrument 31-103 amendments be modified to align with the ARCC modifications required in the TCR framework. Specifically, the first new ARCC report required by TCR is for the year ending December 31, 2026, which is provided to clients in early 2027. To avoid investor confusion and increase efficiency, changes to the ARCC

[2] CSA and CCIR Notice of Publication – CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance and Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations – Total Cost Reporting (TCR) for Investment Funds and Segregated Funds (April 20. 2023).

required by TCR and by the Proposed Amendments should all be made at the same time. As such, the Proposed Amendments should be amended to explicitly state that the new disclosure in the ARCC is for the year ending December 31, 2026.

4. **The Proposed Amendments to NI 81-105 will come into force 18 months after the final publication date. Does this provide sufficient time for dealers that act as a principal distributor for more than one unaffiliated manager to transition their practice, operational model and compensation arrangements? Does this provide sufficient time for impacted investment fund managers to make alternate distribution arrangements for their mutual fund securities prior to the effective date? If not, please explain.**

We recommend adopting a transition period of at least two years after the final publication date to allow sufficient time for investment fund managers to amend the relevant documents to incorporate the required disclosures of principal distributor arrangements and compensation.

5. **Some principal distributors may currently use chargebacks. Chargebacks involve a compensation practice where a representative is paid upfront commissions and/or fees from the dealer when their client purchases securities. Chargebacks occur when investors redeem their securities before a fixed schedule as determined by the dealer, and the dealing representative is required to pay back all or part of the upfront commission/fees to the dealer. In June 2023, the CSA announced that it would be reviewing the use of chargebacks in the mutual fund industry due to concerns about potential conflicts of interest associated with this practice. The CSA is of the view that the use of chargebacks raises a significant conflict of interest for principal distributors in the distribution of mutual fund securities and we are considering the appropriate regulatory steps. We are requesting additional feedback on this practice.**

We are supportive of a prohibition on the use of chargebacks as a compensation practice. We recommend a sufficient transition period of at least two years to allow impacted dealers to unwind their current chargeback arrangements.

Proposed Amendments to NI 81-105

We note that section 4.2 of NI 81-105 is proposed to be amended by adding the following subsection:

(0.1) A principal distributor of a mutual fund that is also a principal distributor of another mutual fund that is in the same mutual fund family as the first-mentioned mutual fund shall not provide an incentive for any of its representatives to recommend a mutual fund of which it is a principal distributor over another mutual fund of which it is a principal distributor.

We recommend that the CSA give further consideration as to whether this amendment is required or should be limited to situations where there is a differential in the percentage of the MER paid to the dealer as between the different mutual funds. Since the funds would be part of the same "mutual fund family", there should be no reason to prohibit differing incentives between the funds as there would be no conflict, unless, as noted, there is a differential in the percentage of the MER paid to the dealer between the funds.

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We thank you for taking the time to consider our views regarding the Proposed Amendments and would be pleased to discuss the Proposed Amendments further at your convenience.