April 7, 2025

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

Attn: The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Email: comments@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Email: consultation-en-cours@lautorite.qc.ca

Re: Proposed Amendments to the Principal Distributor Model in the Distribution of Mutual Fund Securities

FAIR Canada is pleased to provide comments in response to the above-referenced Consultation.

FAIR Canada is a national, independent, non-profit organization known for balanced and thoughtful commentary on public policy matters. Our work includes advancing the rights of investors and financial consumers in Canada through:

- Informed policy submissions to governments and regulators
- Relevant research focused on retail investors
- Public outreach, collaboration, and education
- Proactive identification of emerging issues.[1]

[1] Visit www.faircanada.ca for more information.

A. Overview

We appreciate the Canadian Securities Administrators (CSA) consulting on the principal distributor (PD) model for mutual funds to improve investor protection and maintain confidence in Canada's capital markets. Our comments focus on three issues in the Consultation. Specifically, they support:

- prohibiting PDs from offering the deferred sales charge (DSC) option to investors purchasing mutual funds;
- requiring PD compensation disclosure; and
- banning advisor chargebacks (ACBs).

Below, we expand on each topic.

B. Prohibit Deferred Sales Charges

FAIR Canada supports the proposed amendments to National Instrument (NI) 81-102 and its Companion Policy prohibiting managers from charging investors a fee when they redeem mutual fund securities.

These changes make the DSC option unavailable to investors who buy mutual funds from PDs. They align with the CSA's June 2022 ban on DSCs. DSCs create a conflict between the interests of the advisor recommending the product and the investor, which could lead to poor outcomes.

The DSC ban does not technically apply to PDs because they are excluded from the NI 81-105 provisions that apply to participating dealers. The proposed amendments close this gap, ensuring that PDs cannot offer DSCs and enhancing investor protection.

C. Require Principal Distributor Compensation Disclosure

We are pleased the Consultation proposes greater transparency regarding PD compensation. We support the changes to NI 31-103 requiring PDs to disclose in the report on compensation and other charges (the Report) the maximum percentage of the management fee they receive from an investment fund manager for PD services. Transparency helps investors make more informed investment decisions, boosting investor confidence and trust in financial markets.

The proposed disclosure would appear in a footnote. The CSA should consider making this information more prominent, perhaps in the body of the Report. Additionally, we recommend testing the disclosure on retail investors to ensure clarity.

D. Ban Advisor Chargebacks

Question 5 in the Consultation seeks feedback on ACBs, a compensation model in which an advisor receives an upfront commission for selling securities, but must repay it if the client redeems early.

FAIR Canada has been a staunch advocate for banning ACBs.[2] Although ACBs are structured differently than DSCs, they pose similar and potentially more serious conflicts of interest. These conflicts cannot be effectively managed through standard regulatory methods. They risk distorting the advice process at the point of sale and during the chargeback period.

At the point of sale, some advisors may recommend products with ACBs that pay high upfront commissions rather than cheaper, suitable ones without ACBs. As a result, customers could pay more for products that may not best suit their needs.

During the chargeback period, ACBs place the interests of the advisor and the client in direct opposition. If the client wants or needs to redeem their investment early, the interests of the client (who wants to sell) and the advisor (who does not want to repay the commission) conflict. The prospect of paying the chargeback could lead the advisor to discourage the client from selling early, even if exiting may be best for the client. Internal control or policies cannot eliminate this serious, irresolvable conflict.

The potential harm ACBs pose to clients and market integrity warrants a similar regulatory response to DSCs – ACBs should be banned.

****

Thank you for considering our comments on this important issue. We welcome any further opportunities to advance efforts that improve outcomes for investors. We intend to post our submission on the FAIR Canada website and have no concerns with the CSA or its members publishing it on their websites. We would be pleased to discuss our submission with you. Please contact Jean-Paul Bureaud, Executive Director, at [redacted] or Tasmin Waley, Policy Counsel, at [redacted]

Sincerely,

[redacted]

Jean-Paul Bureaud
President, CEO and Executive Director
FAIR Canada | Canadian Foundation for Advancement of Investor Rights

[2] FAIR Canada raised concerns about ACBs in our comment letter to the Canadian Council of Insurance Regulators (CCIR) dated November 7, 2022, our comment letter to the Financial Services Regulatory Authority of Ontario dated June 30, 2023, and our comment letter to CCIR and the Canadian Insurance Services Regulatory Organizations dated April 2, 2025.