



April 28, 2025

Delivered via email

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
Register of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Re: CSA Proposed Changes to the Principal Distributor Model (the “Proposal”)

We are pleased to provide comments on behalf of Mackenzie Investments (“Mackenzie”) in response to the request for comments by the Canadian Securities Administrators (“CSA”) on proposed amendments to various National Instruments relating to the principal distributor model in the distribution of mutual fund securities.

Mackenzie is a leading investment management firm providing investment advisory and related services to retail and institutional clients. Mackenzie primarily distributes its retail investment products through approximately 175 dealers and more than 30,000 independent financial advisors across Canada. The parent company of Mackenzie is IGM Financial Inc., a member of the Power Corporation of Canada group of companies.

Overarching Comments

Mackenzie offers a unique and important perspective to the discussion of the principal distributor model, with a long history of being a mutual fund manufacturer for dealers (both



affiliated and non-affiliated) who have contracted with us to distribute exclusive “in-house” mutual funds, manufactured and managed by Mackenzie, as principal distributor. As we further discuss below, we strongly urge the CSA to continue to allow for innovation and flexibility in the distribution of mutual funds, inclusive of not restricting the principal distributor model in the ways described in the Proposal. This includes allowing dealers to have multiple principal distributor relationships if they deem appropriate, to meet the needs of their client-base. This is particularly important to ensure we foster fair and competitive capital markets that provide retail investors choice among a broad range of distribution models.

We submit that National Instrument 81-105 *Mutual Fund Sales Practices* (“NI 81-105”), together with the more recent Client Focused Reforms (“CFRs”) in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”) and the CSA’s long-standing disclosure regime for mutual funds, creates a robust regulatory framework that requires dealers to address sales practices and conflicts of interest in the best interests of their clients (including providing full, true and plain disclosure about such relationships), while also recognizing and allowing for a variety of distribution models, including offering proprietary funds. If compliance with securities laws and particularly the CFRs can be demonstrated, consistent with other distribution models, we believe a principal distributor model that allows dealers to offer retail investors the choice of mutual funds managed by two or more mutual fund families by way of multiple principal distributor relationships does not give rise to investor protection concerns and should be permitted. We further submit that this innovative dealer model is a competitive and suitable alternative for some dealers and retail investors, particularly in comparison to today’s concentrated bank-owned branch distribution channel.

It is from this viewpoint that we provide our feedback, with responses to the specific consultation questions captured thematically below.

Preserving competitive and innovative capital markets

We encourage the CSA to continue to support innovative distribution models that can create heightened competition in the capital markets and provide greater choice for retail investors. This is particularly important for independent as well as small dealers servicing mass-market households, given the dominance of bank-owned dealers in the distribution of mutual funds in Canada. We believe this can best be achieved not by amendments that seek to codify only the business models that existed at the time NI 81-105 was first implemented, but by having regard for the regulatory framework that has subsequently been put in place, particularly with the CFRs and the enhanced disclosure regime. Providing flexibility in the proposed amendments is critical to allow for the adaptation of evolving and innovative distribution models, including



principal distributor. We are certain this can be achieved while upholding the underlying policy principles of investor protection and fair, efficient and competitive capital markets.

As noted in the Proposal, today's principal distributor models are not limited to dealers that are affiliated with fund managers. For a dealer who either does not have the desire or capability to develop and maintain the necessary in-house infrastructure and portfolio management expertise to be a mutual fund manager, a principal distributor relationship with an unaffiliated leading fund manager who has such capabilities and expertise has been a competitive way to offer exclusive mutual funds designed to meet the specific needs of the dealer's client-base, while allowing the firm to focus on its role as dealer. While we recognize that the use of a non-affiliate fund manager in a principal distributor relationship may not have been the original "premise" for the principal distributor carve out in NI 81-105, it now serves as an important alternative to today's dealer proprietary models, creating further choice in the market for investors. We submit that a multiple principal distributor model should be similarly viewed as another iteration of a well-established distribution option that can provide additional benefits for retail investors, providing them with more choice than if the dealer only offered funds manufactured by one manager. With this model, there can be an increased breadth of complementary products that can be exclusively offered by the dealer (acting as principal distributor), making the best use of each fund manager's capabilities and investment strengths, while also fostering competitive pricing and performance on the product shelf.

Permitting a multiple principal distributor model

A principal distributor should be able to act in that capacity with more than one mutual fund family, if the dealer can demonstrate compliance with securities laws, and particularly the CFRs, consistent with other distribution models permitted today.

a. Duties and Responsibilities

In our view, the use of a multiple principal distributor model, particularly with non-affiliate fund managers, will be limited due to the dedicated resources, costs and infrastructure needed by the fund manager and dealer to fulfil the obligations inherent in a principal distributor relationship.

For instance, fund managers must have the capacity to design, manage and provide on-going support for a suite of exclusive products, as well as to create customized marketing, a designated website and educational materials for both the principal distributor's advisors and investors. Fund manufacturers may also work collaboratively with the dealer to develop and implement training programs and materials for the products. For the principal distributor, their



obligations not only include participating with the fund manager in the design of the products that best meet their clients' specific needs (including certifying the prospectus and sharing liability for that disclosure), but also in the on-going supervision of, and engagement with, the activities of the manufacturer (i.e. marketing, educational materials, training). This is in addition to the dealer's own obligations under securities laws and particularly the CFRs, including with respect to monitoring product shelf performance, costs and significant changes to ensure their product shelf remains competitive relative to the broader market. We would also expect the principal distributor to meet regularly with the fund managers to discuss fund performance, new product launches and the on-going costs of ownership for investors (among other topics) to ensure the dealer's product shelf continues to meet the needs of their client-base. Given these significant obligations, we do not envision a dealer having the capability to have a principal distributor relationship with more than two or three unaffiliated fund managers, nor do we expect many independent fund managers would be able to make the commitment necessary to support an exclusive product shelf for a principal distributor. Of course, we note that dealers may also choose to offer a broad shelf of mutual funds from unaffiliated fund managers, and hence be a "participating dealer" under NI 81-105 and other applicable securities laws. We submit either option is the business decision of the dealer, having regard to the model that will best meets the needs of their client-base.

In our view, the distribution models and obligations associated with participating dealers and principal distributors are very distinct. The disclosure that exists today in NI 31-103 and in the Proposal further conveys these differences. Accordingly, we do not believe limiting the principal distributor model to a single principal distributor relationship serves to "level the playing field" for participating dealers; nor do we have any concern that the lines between these different distribution models are or will become "blurred".

b. Compensation Arrangements

We do not believe it is necessary in a multiple principal distributor relationship for compensation between the principal distributor and the fund managers to be the same or substantially similar. The fees associated with a principal distribution arrangement are commercially negotiated between a fund manager and a principal distributor dealing with each other at arms' length and reflect the services provided under the contract. It would be very unusual, in our view, for the CSA to intervene in such commercially negotiated relationships.

We would highlight that dealers and advisors already have an obligation under the CFRs to address conflicts of interest in the best interests of the client (i.e. not favour one mutual fund family over another). This is generally achieved by having a compensation structure for advisors that is neutral with respect to the sale of like-products, regardless of fund manager and does



not offer any incentive or compensation that would cause advisors to prefer one fund family over another, ensuring that recommendations are made on the merits of the funds and the specific needs of the client. We submit in a multiple principal distributor model this can be further emphasized by a contractual term which specifies that the dealer will not institute any compensation or other incentive program that would cause its advisors to favour one fund manager over another. We believe these controls, and the existing regulatory regime, effectively mitigate any potential conflict of interest at the dealer and advisor level.

c. Other Considerations and Transition Period

We support the Proposal's change to update NI 81-105 to replicate the prohibition on providing incentives to representatives to recommend mutual funds of one fund family over another that currently applies to participating dealers to also apply to principal distributors. We believe this mirrors the existing requirement under the CFRs. We further support the Proposal's disclosure changes. If the Proposal is revised to continue to allow for a multiple principal distributor model as we believe it should, we recommend the CSA consider as part of this multiple PD model having Parts 2, 3, 5 and 7 of NI 81-105 apply, as if the principal distributor were a participating dealer. In our view, this would reduce any lingering concern of the perception of an "uneven" playing field between a multiple principal distributor model and a participating dealer model.

Finally, given the above submissions, absent a significant compliance deficiency under securities laws and particularly the CFRs, if the CSA decides to proceed with the Proposal, we respectfully request the CSA further consider grandfathering existing principal distributor models with multiple fund families. Grandfathering existing structures and products is not unusual with rulemaking and we believe it is appropriate in this instance, particularly given the very small number of existing principal distributors who will be impacted. Alternatively, we appreciate the comments of staff of the Ontario Securities Commission in Annex I who note that they are prepared to consider requests for exemptive relief from the proposed prohibition where it can be demonstrated any potential investor protection concerns can be adequately addressed. We ask that the CSA, absent moving forward with a grandfathering section if the Proposal is implemented, similarly articulate a willingness to consider exemptive relief in the next publication.

The mutual fund industry and the corresponding regulatory regime has matured significantly since the time NI 81-105 was first implemented in 1998. We urge the CSA to recognize this and not prevent innovations in distribution models, such as multiple principal distributor

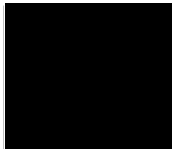


relationships, designed to meet the needs of a dealer's client-base and offer retail investors with further choice.

We appreciate the opportunity to provide you with our comments. We look forward to continuing to engage with you further on this topic.

Yours truly,

on behalf of **Mackenzie Investments**



Luke Gould
President and Chief Executive Officer
Mackenzie Investments