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Financial and Consumer Affairs Authority of Saskatchewan
Manitoba 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
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April 28, 2025

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

PFSL Investments Canada Ltd. (PFSL, we or our) is pleased to respond to the Canadian Securities Administrators' (CSA) proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103), National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (NI 81-101), National Instrument 81-102 *Investment Funds* (NI 81-102) and National Instrument 81-105 *Mutual Fund Sales Practices* (NI 81-105) and Proposed Changes to Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations,* (CP 31-103), Companion Policy NI 81-102 *Investment Funds* (CP 81-102) and Companion Policy 81-105 *Mutual Fund Sales Practices* (CP 81-105) published on November 28, 2024 (Consultation).

We have been using the Principal Distributor model that is under consideration in the Consultation successfully for the benefit of investors for almost three years. In this letter we will specifically address the principal distributorship arrangements that we initiated in July 2022, and have been operating in accordance with current regulation successfully for the benefit of our client base and the market we serve. The existing regulations do not require amendment and function well with appropriate checks and balances. They provide the necessary regulatory guidance and conditions, allow for appropriate and responsible innovation, and are beneficial for consumers as they enable dealers to effectively serve them.

Attached at Appendix A is our response to the five specific questions asked in Annex H of the CSA consultation document.

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About Primerica

Primerica Financial Services (Canada) Ltd. is a leading distributor of basic financial savings and protection products to middle-income households throughout Canada, serving the Canadian public since 1986. Our Canadian corporate group includes our mutual fund dealer, PFSL Investments Canada Ltd. and our life insurance company, Primerica Life Insurance Company of Canada ("PLICC"). PLICC is represented by more than 10,000 licensed life insurance agents across the country and 6,800 of our life insurance agents are dually registered as mutual fund representatives.

Our products and personal advice help middle-income Canadians establish and maintain long-term financial goals. Our representatives guide their clients at life's critical points, helping them avoid common pitfalls to gaining financial independence: higher cost and lower face value insurance that does not protect adequately, starting to save too late, not saving enough and neglecting tax-advantaged savings opportunities, to name a few. They take a holistic approach with their clients and offer our digital Financial Needs Analysis, which provides clients with a snapshot of their financial situation and a road map to achieve their financial goals. We use an educational approach to empower Canadians to make informed financial choices on the road to achieving those goals.

We have an exclusive sales force of representatives, which allows us to put highly effective supervision, monitoring, controls, and restrictions in place based on trends and risks we identify. We pride ourselves on our high customer satisfaction and retention, our regulatory collaboration, and on our positive compliance record. We believe in strong consumer protections. Primerica's people-first philosophy and our commitment to doing what's right for our clients is evidenced by the millions of families who trust Primerica to provide advice with respect to their family's financial needs across North America.

Our Place in the Market

PFSL ranks first in Canada by number of advisors, representing about 6,800 licensed representatives or roughly 24% of all advisors across the financial advice channel. Despite this, PFSL accounts for 3.7% of the industry's $622 billion in assets under management, reflecting the small account sizes of our clients. Our average advisor book size of $3.1 million remains well below the $22.7 million industry average. Our representatives do not have sales quotas to meet and our clients do not have minimum investment requirements that exceed their capacity. With as little as a $500 initial investment and a $25 a month ongoing contribution, we offer our clients a wide range of mutual funds options and a personal advisor to guide them on their purchase and other basic financial matters.

PFSL's rapid asset growth, 24.1% over the past year versus the 16.2% industry average, confirms it is meeting a rising demand, yet its overall asset footprint remains small. While we may serve some high-net-worth clients, our primary goal (or focus) is to reach and provide advice to segments underrepresented by traditional models.

PFSL is also helping reverse an industry-wide contraction in advisor headcount. Since 2019, the MFDA channel has lost over 4,200 advisors, a 15% drop, even as industry assets have grown nearly 16%. While many firms consolidate around higher-net-worth books, PFSL continues to grow its advisor base, creating entry points for individuals interested in building a career in the profession.

Given these dynamics, any significant regulatory changes that will disproportionately impact our business model will risk reducing access for modest investors, discouraging advisor entrants, and disrupting a model that poses minimal systemic risk. A more tailored, evidence-based approach is essential to uphold both market integrity and inclusive service delivery.

The Changing Economics of Serving Middle-Income Investors

Over the past two decades, serving middle-income investors has become increasingly difficult due to rising regulatory complexity and cost. Mutual funds initially expanded access to capital markets for Canadians with modest savings, but over time, structural changes have made it harder to sustain service for these clients. The establishment of the Mutual Fund Dealers Association (MFDA) in 2002 professionalized oversight but also introduced substantial compliance obligations. Smaller dealers, many of whom specialized in lower-balance clients, found it increasingly difficult to absorb these compliance driven costs, leading to consolidation or market exit.

Concurrently, tighter restrictions on compensation structures and a narrowing of revenue models made it economically unsustainable to serve smaller accounts. These investors still require key financial services - goal setting, needs assessments, product suitability reviews, and ongoing service - but generate lower margins to support them. As a result, many firms shifted their focus toward higher-net-worth clients or introduced account minimums, creating a growing access gap.

In this context, alternative models were developed to preserve the ability to serve everyday Canadians. These changes reflect a response to economic reality and rising regulatory demands while carefully integrating consumer protection principles and goals.

Ensuring Advice is Accessible for Middle-Income Consumers

The importance of personal financial advice and choice for the middle-income market is crucial for fostering a healthy, robust, and competitive economy. Middle-income households often face financial challenges specific to them such as managing debt, saving for retirement, and protecting their families' financial future. However, many wealth management firms, their advisors and financial products specialize in serving high net-worth individuals, often leaving middle-income consumers overlooked. This lack of access to affordable financial advice can hinder their ability to achieve financial independence and stability.

Studies have shown[1] that individuals who work with financial advisors are more likely to achieve financial success – in wealth accumulation, stronger saving habits, behavioral discipline and better recovery after shocks, to cite a few benefits.

We believe that the CSA should seek policy outcomes that protect consumers from risk while still enabling distribution models that can reach all consumers, regardless of income level. Regulations that support a viable, diverse and innovative set of distribution models help to preserve the availability of crucially important access to financial advice and suitable products that middle income families need. It is our assertion that the proposed changes to NI 81-105 are overly restrictive and undermine this regulatory goal.

Primerica fills an important gap. Our model offers the opportunity of financial independence and success through an educational approach and through accessible products and services. Middle-income Canadians are increasingly being pushed to the periphery of financial services and are often told they should consider low-cost options such as robo-advice. They work hard, they want to save what they can, and they aspire to build a better future. And yet, they are too often told, implicitly or directly, that unless they have $100,000 or more to invest, the door to personalized advice is closed.

This is not just a market inefficiency; it is a moral and economic failing. While regulatory reform is essential to ensuring consumer protection and market integrity, it is equally important to recognize that regulation itself carries a cost, not only financial, but structural and systemic. When compliance requirements, regulatory restrictions, and procedural burdens are layered without proportionality to actual risk, they not only undermine access to financial services but also create a significant opportunity cost by excluding many modest income Canadians from participating in the savings and investment ecosystem.

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[1] **Chalmers, J., & Reuter, J. (2020).**
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Financial Advice and Resilience During Economic Shocks. Journal of Behavioral and Experimental Finance, 32, 100789., https://doi.org/10.1016/j.jbef.2024.100789

Balancing Reform and Access: What Canada Can Learn from Other Markets

The United Kingdom offers a cautionary tale. Its experience illustrates how well-intentioned but cumulative regulation can reduce access to advice when economic and operational realities are not fully considered. Following the Retail Distribution Review (RDR) in 2013 and subsequent MiFID II requirements, the number of authorized retail financial advisers in the UK declined from over 40,000 in 2011 to approximately 26,000 by 2020 - a 35% drop[2].

While the reforms aimed to improve transparency and professionalism, they also introduced compensation restrictions, mandatory fee-based models, extensive documentation requirements, and a one-size-fits-all advice delivery framework that proved too rigid to scale to modest accounts. The result? Between 2015 and 2022, the proportion of UK financial advisory firms accepting clients with less than £50,000 to invest fell from 61% to 32% - a near 50% decline over seven years[3]. Meanwhile, the average cost to onboard a new client has surpassed £1,500[4], with initial advice fees averaging £1,543 and hourly rates of £192[5].

These rising costs have made financial advice inaccessible for many. In its 2020 Evaluation Report, the FCA explicitly acknowledged the emergence of a growing "advice gap", individuals who want advice but are either unable or unwilling to pay full-cost fees [2].

Australia experienced similar outcomes. Beginning with the Future of Financial Advice (FoFA) reforms in 2012, and accelerating following the Royal Commission (2017–2019), Australia introduced not only bans on commissions and volume-based pay but also annual opt-ins for ongoing fees, expanded fiduciary obligations, and elevated education and licensing standards.

While these efforts may have elevated professional standards in theory, they also significantly increased compliance costs, discouraged firms from supporting advisors working with clients whose needs or account sizes are considered less straightforward, more resource-intensive, or less financially viable under fiduciary constraints, and introduced operational friction for both firms and consumers in the course of ongoing transactions. As a result, the number of licensed advisers plummeted from over 28,000 in 2018 to just 15,825 by early 2023 - a decline of more than 43% in under five years[6].

The cost of advice rose in parallel. A 2022 KPMG–AFR analysis found that average advice costs exceeded AUD $3,700, up from approximately AUD $2,500 in 2018[7]. In 2022, only 10% of Australians reported receiving advice, and over 50% cited cost as the primary barrier[8]. In response, the Australian Treasury's 2022 Quality of Advice Review recommended restoring scalable, affordable advice models, including simplified delivery, reduced paperwork, and reconsideration of compensation flexibility for mass-market suitability[9].

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[2] Financial Conduct Authority (FCA). (2020). *Evaluation of the Impact of the Retail Distribution Review and the Financial Advice Market Review*. Link
[3] Schroders. (2022). *UK Financial Adviser Annual Survey Report*. Link
[4] NextWealth. (2022). *Financial Advice Business Benchmarks Report*. Link
[5] VouchedFor. (2022). *The Cost of Advice Report*. Link
[6] Australian Securities and Investments Commission (ASIC). (2023). *Financial Adviser Register Snapshot*. Link
[7] KPMG & Australian Financial Review. (2022). *Advice Cost Benchmarking Survey*. (Referenced in AFR, June 2022) Link
[8] ASIC. (2022). *Australian Financial Capability Survey – Advice Access Snapshot*. Link
[9] Treasury of Australia. (2022). *Quality of Advice Review – Final Report*, Michelle Levy. Link

The Value of Advice and Its Measurable Impact

We aren't just delivering products; we are changing behaviour and building a savings culture by empowering our clients with the knowledge and access to advice and products that they need. The case for advice is not abstract - it is proven:

Households with financial advisors hold up to 131% more in assets than those without[10].
Over just four years, advised households experience 79% greater asset growth than their unadvised peers [10].

Clients who maintain their relationships with advisors weather market storms and make better decisions: staying invested, planning ahead, and protecting their families. Households that dropped their advisor between 2010–2012 had only 1.7% asset growth vs.16.4% for those who stayed advised [10].

Further, advisors provide more than advice on mutual fund placement. According to our most recent public survey, 56% of mutual fund owners who purchased through an advisor received two or more types of advice, 34% received three or more types of advice, such as budgeting, retirement planning and dealing with debt. At Primerica, we see this transformation firsthand. Satisfaction surveys of our mutual fund clients show a 92% satisfaction rate. These are not just metrics we pride ourselves in - they represent lives changed, goals reached, kids educated, and retirements secured.

Perhaps the most powerful impact is behavioural: advice gives people the confidence to act, the discipline to save, and the belief that financial independence is achievable, even on modest incomes.

Policy Implications of Restricting Access

Thoughtful, well-designed regulation is the foundation of a strong investment environment**.** It safeguards consumers, reinforces market integrity, and builds long-term trust. But regulation must do more than prohibit, it must also empower. When rules unintentionally raise barriers that prevent firms and advisors from supporting everyday families, especially those with modest means, the cost is not theoretical. It is real, and it is borne by the very Canadians we aim to protect. When the cost of delivering advice becomes unsustainable, modest investors are left behind—not due to bad intentions, but because of a system rooted more in theory than in practical, inclusive solutions. The consequences of this are real:

The UK Financial Services Consumer Panel has noted similar concerns, warning over a rising population of "orphaned" clients as regulatory changes mentioned previously narrows the pool of available, affordable advice providers.[11]

- The advice gap widens, pushing people into DIY strategies, unregulated products, or financial inertia. Canadian researchers have flagged that compensation restrictions risk creating a deepened advice gap, especially for less wealthy investors who lack alternatives. [12]

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[10] Montmarquette, C., & Viennot-Briot, N. (2020). *Econometric Models on the Value of Financial Advice.* CIRANO – Centre Interuniversitaire de Recherche en Analyse des Organisations. Link
[11] Financial Services Consumer Panel. (2012). *Researching the 'Advice Gap'*. Financial Conduct Authority. https://www.fca.org.uk/panels/consumer-panel/publication/advice-gap.pdf
[12] Lortie, P. (2016). *A Major Setback for Retirement Savings: Changing How Financial Advisers Are Compensated Could Hurt Less-than-Wealthy Investors Most*. SPP Research Paper. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2804696

- Advisor recruitment slows, which is especially problematic as the majority of Canadian advisors are pushing retirement age, and the next generation is just beginning their journey.

This mirrors the Australian experience, where regulatory tightening mentioned previously led to a 45% reduction in the advisor population over five years, with the industry now facing a “demographic cliff” due to lagging recruitment.[13] We fully support effective regulation and share our regulators’ commitment to consumer protection and positive client outcomes. But access must remain a pillar of good policy.

Canada must chart a balanced course: one that supports consumer protection without eroding access. This means embracing diverse distribution models, protecting scalable compensation frameworks, and recognizing that middle-income Canadians deserve the same access to advice as everyone else.

Challenges Serving those with Relatively Small Amounts to Invest

While the importance of access to personal financial advice for middle-income Canadians is well-supported by research, that access is becoming more and more limited. This is a result of the economics of serving these investors becoming increasingly challenging. Downward competitive pressure on fee revenue, increasing costs of regulation and compliance, and increasing costs generally, along with the limitations on what middle-income Canadians are able to pay for advice and financial products, has meant that serving these clients is no longer viable for many firms and advisors. While the cost of regulation is increasing, the appetite to pay an upfront fee to cover these costs is not there. 49% of modest-income Canadians report an unwillingness to pay any upfront fee for financial advice, instead favouring embedded or commission-based compensation based on a national survey we conducted. This situation has become increasingly challenging over the past 20 years.

The financial inclusion statistics are equally troublesome. Just 22.9% of eligible Canadians contributed to an RRSP in 2022, down from 25.2% in 2021, according to data from Statistics Canada (*RRSP Contributions, 2022*). At the same time, Canadians who have a TFSA account, have utilized on average only 41.7% of their available TFSA contribution room. These are signs of apathy and indicators of a lack of access to the financial system. Together, these data points underline the urgent need for flexible compensation and business models that can ensure affordability, advisor sustainability, and client inclusion.

PFSL has successfully served Canadian middle-income investors for almost 40 years with personal financial advice provided by its representatives. One of our core values is serving this market and we believe it is more important than ever to do so. We are, however, faced with economic realities like every business. The ever-increasing complexity and volume of regulation, has led to increased costs of compliance, distribution, and technology, which, along with restrictions on compensation models, have made it uneconomical for traditional business models to serve those with smaller amounts to invest. Faced with this, our commitment to serving the middle-income market with personal advice and access to high quality fund managers resulted in us exploring opportunities for a way to work within the regulations with an innovative approach to continue to serve our market.

A New Model

As part of our commitment and responsibility to serving the middle market and our 340,000 clients, which requires the ongoing operation and financial viability of our dealer, we considered many options.

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[13] ASIC. (2023). *Financial Adviser Register – Yearly Snapshot*. Retrieved from https://asic.gov.au

This process led us to pursue a Principal Distributor (PD) relationship, a model that offered a compelling and compliant path forward.

Unlike most PD arrangements that involve affiliated or proprietary fund managers, our structure is based on an arm's-length relationship between the PD and the fund manager. While there were examples of these independent relationships existing in the market, we took it a step further by entering into PD relationships with two independent fund managers. These independent relationships reduce conflicts of interest inherent in a proprietary model. They are compliant with current regulation. It was important to us to have relationships that are independent in order to have fund managers that focus on investment outcomes. Our innovative arrangement with a second fund manager improves choice for investors and has other benefits which are described later in our letter.

Although PD relationships fall outside the scope of certain NI 81-105 sales practice restrictions, they are fully permitted under existing rules and allow for more flexible revenue arrangements. This structure has provided us with the opportunity to develop an independent, exclusive product shelf tailored to the needs of our client base, while enabling the dealer to direct its operating resources toward supporting households with smaller account balances - a segment increasingly at risk of exclusion under more restrictive regulatory frameworks. By aligning product and service delivery within the PD framework, we have maintained access for modest-income investors as well as the ability to offer reasonable representative compensation.

In arriving at our model, we worked with two of our existing fund manager partners with which we had a participating dealer relationship. The resulting shelf provides choice beyond what may initially be perceived. Prior to the launch of our PD model, we had participating dealer relationships with several fund managers. These managers had equal access to our agents across Canada, and were, of course, required to comply with sales practices rules. Despite this, the majority of sales and assets were through three or four fund managers, those that took the time and made the effort to support our agents and their clients.

The results of our new model are described below.

Development Principles

As we moved past the initial analysis that a PD structure involving non-arms-length fund managers could provide us with the economics to enable us to continue to serve investors with smaller amounts to invest, we also recognized that we had the opportunity to improve upon the structure to the benefit of investors and better meet certain objectives of regulators such as addressing conflicts of interest, providing transparent fee disclosure, facilitating representative product knowledge, and providing product choice, all of which we fully support and have implemented. This led to several principles that focused the development work of the structure we sought to put in place. They were:

- Access to independent, high quality fund managers;
- Product choice for investors;
- Fund manager accountability;
- Maintain reasonable and transparent fees; and
- No compensation or incentive conflicts for agents.

Each of these is expanded upon below.

Access to independent, high quality fund managers

While the majority of PD relationships in the industry are for proprietary funds offered by a non-arm's length fund managers, it was important and beneficial to our clients to move to a more independent, arm's length business relationship with our fund manager partners. The fund managers remain free to focus on what they do best: asset management, product development, service and support. As a principal distributor we support our representatives, to help them focus on what they do best: providing ongoing, independent advice to our clients, not just on fund recommendations, but on many aspects of the financial matters that impact them. We also advocate for our clients helping ensure they have optimal investment options. Independence is an aspect of our model that distinguishes us from other financial services companies serving not only our market, but the market at all levels, and one which is becoming increasingly integrated.

Product Choice for Investors

As mentioned above, a reasonable range of product choices was a goal of ours from the outset. It led to the decision to enter into PD relationships with two completely independent fund managers, a first in the industry. It provided for the potential for increased diversification opportunities and allows clients the flexibility to strategically move assets from one fund manager to another as the need arises. It would have been much easier, less complex, and, frankly, less controversial to enter into a PD relationship with one fund manager. However, it would not provide as broad a choice or the potential for as positive outcomes for investors.

PD rules require that the arrangement provides a feature that gives or is intended to give the person or company a material competitive advantage over others in the distribution of the fund. To satisfy the PD rules, we required the fund managers to develop a new series of funds that would be exclusive to PFSL (the "PD Funds"). We worked closely for months with the fund managers with this development by first examining our shelf, the characteristics of the funds our clients have historically invested in and considering what was most important to the majority of our clients in selecting the funds they held. This work resulted in the initial establishment prior to launch of over 40 unique funds across all major asset categories. Each fund manager established a series of funds that covered in excess of 90% of the assets in fund categories on our available product shelf prior to July 2022.

There is another unique aspect underlying the product choices and product shelf breadth that we developed that is not overtly evident from our decision to limit the PD relationships to two fund managers: the use of sub-advisors. In discussing shelf construction with the fund managers, they provided the idea of further diversifying asset management through the use of sub-advisors. This resulted in several of the funds on our shelf having the additional benefit of being sub-advised by top-quality portfolio managers.

The new set of 40 funds have performed well since their introduction, demonstrating competitive results across a variety of market conditions. While we recognize that past returns are not a guarantee of future results, we are encouraged by this early performance. Our focus remains on ensuring that these funds are accessible, suitable, and aligned with the long-term needs of the middle-income market, regardless of short-term performance metrics.

Fund Manager Accountability

As a PD with added responsibility for the funds that were developed for us, and with a narrower shelf, we took an active role in the development and oversight of the funds. Prior to launch, we analyzed our shelf and the funds most held by our clients and looked at the characteristics of our market. We provided this information to our fund manager partners who used this information to develop the funds for our model. To provide input on an ongoing basis, we established Joint Product Committees with each fund manager that meet regularly to review and discuss matters such as performance, manager changes, and new funds. These committees are for sharing information and making recommendations, not for making decisions. Fund Managers continue to have the ultimate decision-making authority over the management of their funds in accordance with their statutory fiduciary duty. However, these are forums to help hold the fund managers accountable.

Maintain Reasonable and Transparent Fees

The arrangements with our fund manager partners enabled us to negotiate the fees paid to us, as the distributor, separate from the fund management and administration fees. Our dealer service fees are now dis-embedded and are therefore fully transparent to investors. The fund managers, of course, were always free to set their own management and administration fees. For comparison to other funds, we aggregated the fees to ensure that overall, our fees are reasonable compared to the market.

No Compensation or Incentive Conflicts for Agents

While fair compensation for the work performed is a necessary and appropriate part of providing advice and service to investors, one of our primary objectives was to ensure that compensation or other incentives did not influence representative recommendations to clients when comparing the two fund managers. Having more than one fund manager partner with a single PD introduces the potential for a conflict situation to favour one fund manager over another. We have managed this with controls that have been introduced by us. It was important for the compensation to representatives to be fund and fund manager agnostic. Recommendations should be in the best interests of investors, based on investment objectives of investors, risk tolerance, risk capacity, time horizon, fund performance, fund manager service, and fees, among other things. The ability for us to set our fees enabled us to standardize them for the two fund managers and for the individual funds so that compensation paid by clients and in turn a portion to our representatives did not vary by fund, removing any incentive to recommend some funds over others or one fund family over another. The PD funds of both fund manager partners are available for purchase through our proprietary account opening, trading and suitability technology platform.

With respect to incentives other than compensation, PDs are expressly exempted from the 81-105 sales practices rules. However, early in the development of the model, we as the prospective PD voluntarily adopted the sales practices rules (other than receiving compensation from the fund managers) to, again, help ensure that the recommendations are made in the best interests of investors, free of inducements or non-financial incentive conflicts wherever possible. These sales practices rules were adopted by the two fund managers and us. Limits on incentives are in place consistent with the expectations of the provincial securities regulators.

As a final point on ensuring equal treatment of fund managers, the fund managers are provided with equal opportunities to participate in company-organized meetings, training and other events and we proactively ensure equal access by both fund managers to our representatives. There is no preferential treatment afforded to either fund manager by us.

Our Experience with the Model

In the time since we launched our PD model in July 2022, we observed several benefits to clients that were both expected and unexpected. These benefits often resulted naturally from the competitive environment arising from having two fiercely proud, experienced and competitive fund managers.

The Funds

- As mentioned previously, the fund shelves were developed by the fund managers with significant input from us. This ensured good coverage of the asset classes and risk spectrum that our clients expect, and features of funds tailored to our market.

- The PD is required to sign the prospectuses. We perform due diligence of these documents through reviews by PD business staff, PD internal counsel, and external counsel.

- We set up a Joint Product Committee with each fund manager to review the funds on an ongoing basis. The committees meet quarterly and cover matters such as performance, fees, fund line up and outlook. Portfolio managers and sub-advisors regularly attend these meetings. While decision making remains solely with the fund managers (as it should), we have the ability to raise, discuss and challenge the managers on important issues facing the funds. This level of access and engagement was not available or present in participating dealer arrangements.

- There have been two fee reductions since the launch of the PD funds, driven by fee comparisons between the fund managers.

- Since the initial rollout of our PD model, four new funds have been launched in response to client requests, further expanding client options. The creation and development of these funds followed requests from our clients communicated to us through our representatives.

As we mentioned, one area of possible concern we identified prior to launch was the potential for agents to be influenced by differing levels of compensation provided to the PD by the fund managers. Some may suggest that a representative may be motivated to recommend the funds of one manager over the other, not for personal financial gain, but because of the perception that there would be a benefit to the PD. No such concern is present in our PD model as our relationships with the fund managers are currently structured, while not identical, created no material difference in the compensation from the fund managers to us. The basis of the calculation may be different between the two fund managers given how they calculate their management fees, for example and is the case in our situation. However, the fee arrangements with the fund managers are not made available to our representatives and top tier of revenue share is the same across both fund manager partners, removing the potential for differences in revenue arrangements to influence behaviour.

We understand the need for the disclosure that we are receiving compensation from the fund managers. Disclosing the top tier of compensation achieves the disclosure necessary to inform investors while maintaining confidentiality of commercially sensitive information for competitive reasons. In addition, officers and employees of the PD signed non-disclosure agreements with respect to fee arrangements with the fund managers.

Relationship with the Fund Managers

The fund managers each put in place large, dedicated wholesaling teams to support our representatives. Since the launch of the program, hundreds of calls, meetings and training sessions have taken place between the fund managers and our representatives.

In order to comply with our jointly developed sales practices policy, meetings and events have substantive content and have provided practical training for our representatives. This has enabled our representatives to continue to develop their product knowledge to help them meet Know Your Product requirements under the Client Focused Reforms (CFRs) and better serve their clients. The level of interaction and engagement we have experienced the past few years did not previously occur when we operated primarily under participating dealer relationships. The commitment of and competition between the two fund managers have prompted them to be more engaged than they otherwise would have been.

As noted previously, we adopted sales practice rules jointly with the fund managers, and require that the same rules apply to both fund managers. While we complied with these rules as a participating dealer with our fund manager partners, the PD relationship enabled us to be consistent in setting limits, as all parties participated in setting them and coming to agreement on them. In the cases where an issue arises that the policy does not clearly address, the three parties meet to resolve it, always using the principles of fairness and investor best interests to avoid conflicts. This means the rules established in the sales practices policy avoid creating an incentive for our representatives to sell the funds of one fund manager over another. This, along with levelling representative compensation across products, has been effective in helping us meet the Conflict of Interest requirements under the CFRs.

Other Items

PD Arrangement Disclosure on the ARCC

We have some observations regarding the new Annual Report on Costs and Compensation (ARCC) notification requirement contemplated by 14.17(1)(v). The proposed paragraph aims to disclose the nature of the relationship between fund manager and principal distributor, providing the maximum percentage of the management fee that is paid to the principal distributor for the services provided to the funds.

First, we note that substantially similar disclosures are currently provided to clients in the Prospectus, Fund Facts, Relationship Disclosure Document, and Conflicts of Interest Disclosure. This new requirement is unnecessary, as it is duplicative of what is already provided to clients today. It would also add significant cost.

Next, the addition of the new disclosure under (v), as currently contemplated, is more operationally complex and will be more expensive to implement than the $4,092 noted in the CSA's cost / benefit assessment. In our view the CSA assessment has not taken into consideration the following non-exhaustive list:

- The costs of reprogramming dealer recordkeeping systems to separately track and identify funds held by clients during the period under each principal distributor arrangement.

- The costs of reprogramming dealer recordkeeping systems to modify annual client statement extracts to identify accounts that hold (or have held) principal distributor funds during the period.
- The costs of print vendor reprogramming of the ARCC to include (or to not include) the new disclosure. The new disclosure will be variable, depending on whether the client held a principal distributor fund, and if they did which principal distributor arrangement and fund was held.
- The internal time and effort involved in designing, managing, testing, and implementing the new disclosure requirement.

Based on our experience working with the third-party vendors that need to be involved, we estimate the additional annual cost of this disclosure will easily range between $100,000 and $250,000 - not including the internal time and effort that will be needed to design, manage, test and implement the project. In an environment where regulators are looking to industry to reduce the overall cost of investing, an expensive new disclosure - that is already provided to clients through numerous existing similar disclosures – is counterproductive and burdensome.

Next, if, despite the comments above, the CSA determines that a new disclosure in the ARCC is worthwhile from a cost/benefit perspective, we have the following observations:
The first sentence of the current disclosure contemplates situations where the principal distributor is either the sole distributor of the funds or is not the only distributor of the funds, and as a result is lengthy. The proposed wording is, *"We have an exclusive right to distribute or a material competitive advantage over others in distributing the securities of [insert name of the fund]."*

We believe the disclosure should reflect the specific nature of each arrangement. The disclosure should begin with either "*We have an exclusive right to distribute the securities of…*" or "*We have a material competitive advantage over others in distributing the securities of…*" depending on the contractual arrangement. It should not contain both phrases in the same sentence. Principal distributor contracts set the maximum payment percentages at the contract / series level, not by individual fund. The requirement under (v) would result in the same disclosure being provided to the client *for every fund* held during the period. For example, a client who holds (or has held) ten unique principal distributor funds during the period would receive the same disclosure – with the same maximum payout percentage – ten times over.

Instead of a fund-by-fund disclosure, we suggest that the disclosure should be at the principal distributor arrangement level, similar to the current wording in the Prospectus, Fund Facts, Relationship Disclosure Document, and Conflicts of Interest Disclosures.

The combined result of the two comments above would be a disclosure as follows:

For sole distributors - "We have the exclusive right to distribute the *[series or program name]* of the securities of *[Fund Manager]*. *[Fund Manager]* pays us up to a top tier of *[insert percentage of the management fee]* % of the fund's management fee for providing services as the principal distributor."
For Principal, but not sole, distributors - "We have a material competitive advantage over others in distributing the securities of *[series or program name]* of the securities of *[Fund Manager]*. *[Fund Manager]* pays us up to a top tier of *[insert percentage of the management fee]* % of the fund's management fee for providing services as the principal distributor."

Finally, the CSA has provided assurances to the industry that no new requirements to the Total Cost Reporting (TCR) rules were going to be implemented during the transition period. This new disclosure proposes a complex new client statement disclosure in the ARCC, on the same timeline as the TCR project. As a result, if it is determined that this new disclosure is required, we would request additional time beyond the TCR deadline to design, manage, test, and implement the new requirement.

Annex C – Mutual Fund Prospectus Disclosure

We agree with the proposals in Annex C regarding the disclosure of the fee arrangements between the fund managers and the PD. Disclosing the maximum percentage is the most useful piece of information. This strikes a balance between the need for investors to be informed about this compensation, and not disclosing commercially sensitive information.

Transition – Page 9147, Section B

The proposal for transition is that the rules will come into force 18 months after the effective date. Given that agreements will have to be renegotiated with significant changes made, and systems development work performed, we believe a minimum of two years would be required for the transition. Also, existing arrangements with our fund manager partners for existing investors would need to be grandfathered to allow for serving those investors in their best interests. Allowing them to maintain and add to their existing positions would be important for investing and tax purposes. Redeeming fund positions could have a negative impact on those investors so they would need to have their accounts continue.

Annex I, Section 4, Anticipated Costs and Benefits

As noted at the top of page 9161, an estimated cost cannot be provided by the CSA as they do not know what operational and compensation arrangements will be adopted. Similarly, it is difficult for us to make an accurate estimate without definite plans, however given our experience in establishing the model we anticipate our costs would be in the multiple millions of dollars, primarily in system development. Unwinding our model would be extremely difficult and would require the investors with funds from the PD fund manager partners to continue to be served past the end of the arrangement. Investors would be disadvantaged by a reversion back to a more restrictive model. The harm to investors would come from unwinding these arrangements and putting on future restrictions, not from allowing them to continue.

More importantly would be the loss of benefits to investors. Our experience has shown that investors benefit from choice and a competitive environment. It also shows that we are able to continue to serve those with smaller amounts to invest with personal, ongoing advice while effectively managing conflicts of interest. We believe there is tremendous value to investors from our model, which outweighs any perceived negatives that may be attributed to it.

Conclusion

Overall, our model reflects an innovative response to an evolving regulatory and economic environment. It protects consumer access, promotes transparency, and allows Primerica to continue delivering on its mission of empowering middle-income Canadians to achieve long-term financial independence, while aligning with regulatory goals. There is minimal actual risk in our model, particularly with the controls we have implemented; changes to the rules will lead to a model that is less effective in serving the middle-income market. PFSL appreciates the opportunity to provide our comments to the Canadian Investment Regulatory Organization on Principal Distributor arrangements. Investor expectations, the market, technology, and regulation are all changing at a rapid pace and the industry needs to consider and develop new and innovative and expansive (vs. restrictive) solutions to ensure the ongoing access to advice for investors. Having developed the model with a focus on the best interests of investors, we believe it is working well to help Canadians meet their investment objectives. We would welcome further dialogue on the model as we look forward to continuing our important work serving Canadian investors.

Sincerely,

[*Original Signed By*]

John A. Adams CPA, CA
Chief Executive Officer

Appendix A: Specific Consultation Questions

Question #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. Based on our experience, there are significant benefits to investors for a dealer acting as a PD for more than one mutual fund family, as follows: • Broader choice of investments, providing improved investment options in the event of performance issues with some funds; • The ability to add funds tailored to the distributor's clients' needs – we have launched 4 new funds in the time since the commencement of our model; • More opportunities for diversification; and • Competition between fund managers provides focus on optimizing performance and maintaining downward pressure on fees – there have been two manager fee reductions. Please see the narrative in the body of our response to the Consultation for further detail.
Question #2
If your answer to question #1 was yes, please also comment on the following: ***(i) What are the specific circumstances under which a principal distributor should be allowed to act for more than one mutual fund family?*** Principal distributors should be allowed to act for more than one mutual fund family as there are proven benefits to investors, with fewer participants, arriving at common policies is more easily achieved. As a result, the parties are better able to control conflicts as compared to participating dealer arrangements with numerous fund managers; • There is increased attention and support by the fund managers than is available in a participating dealer relationship; • Competition puts pressure on portfolio managers to perform and to maintain competitive fees; • Representatives have greater opportunities to consider available alternatives in their clients' best interest;

- Provides the opportunity for more viable economics for Dealers that are servicing markets with a high cost / low revenue per account, increasing cost of compliance, supervision, technology and regulatory burden;
- Improves likelihood that clients with lower balances/contributions are able to secure personalized advice; less likelihood for abandonment of clients due to minimum account sizes;
- No material increase in cost to the client, but shifts economics/income from Fund Managers to Dealers who have the majority of compliance costs and client care responsibilities; even if cost to client is marginally higher, they are getting the benefit of personal advice and guidance that is not available in the no-advice channel.

(ii) If a principal distributor could act for more than one mutual fund family, should the compensation arrangements between the principal distributor be required to be the same or substantially similar in respect of each mutual fund family? If not, how could we ensure that any compensation arrangement differences would not influence a principal distributor to favour the mutual fund family with the most favourable compensation structure?

The market should dictate the compensation arrangements that should be in place for compensation an artificial limit should not be set. There may be factors other than direct compensation that a fund manager brings to the relationship.

There are a number of controls that can be put in place to ensure a PD does not favour one mutual fund family over another:

- No compensation or other incentives that would result in recommendations being made for one fund or fund manager over another
- The same sales practices limits for all fund manager partners
- Equal access to PD meetings for all fund manager partners
- Undertakings by PD officers not to favour one fund manager over the others
- Not disclosing specific compensation arrangements to eliminate the possibility of influencing representative recommendations

(iii) ***What factors and considerations would be relevant to determining the appropriate number of mutual fund families for which a dealer should act as principal distributor? Explain how the distinction between principal distributors and participating dealers does not become blurred as the number of mutual fund families distributed by the same principal distributor increase.***

While we are working with two independent fund managers, the possible number of fund managers will be limited by market economics, and the time and effort of the PD. Entering into these arrangements requires considerable time and resources of fund managers, with costs in the millions of dollars in initial investment and ongoing costs. Not only is there the fee to PDs, the fund managers have to establish exclusive funds at considerable cost, invest in support to representatives and spend time and effort supporting the model. They will not do this if there are numerous fund managers participating as the cost and effort will be diluted and not worthwhile. Only certain fund managers would be willing to make the required investment.

From the PDs perspective, it takes far more time and effort to manage the relationships with the fund manager partners on an ongoing basis. Investment committee meetings, prospectus reviews, issues around sales practices, and specific system development, are some examples of the work that is required.

The arrangement would not be viable with a large number of fund manager partners. Having said that, there should not be a prescribed limit on the number of partners. Distributors must demonstrate that they put in place the appropriate controls and oversight to ensure the arrangements are structured to achieve outcomes that are in the best interest of clients.

(iv) ***Should there be minimum duties and obligations owed by the principal distributor in respect of each principal distributor relationship? Should those obligations be the same across all mutual fund families for which the dealer acts as principal distributor?***

Yes, we believe there should be. We have provided examples in our response, and should be the same to ensure fund managers receive equal treatment by the PD.

(v) ***Should mutual funds that have a principal distributor be exclusively distributed by the principal distributor and not be distributed by other principal distributors or participating dealers?***

We do not believe they should be allowed to be distributed by other PDs or participating dealers. The PD has a unique relationship with the fund managers they work with. The PDs must sign the fund prospectus and perform certain due diligence in performing the duties leading up to this. In our case the funds were developed for us with input by us based on the experience with clients in our market.

Question #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?

Our experience with the model has shown that having multiple fund managers in a PD relationship provide substantive benefits to investors. We put a number of controls and procedures in place focused on ensuring recommendations are made in the best interests of clients. We described several of these in our response, and based on our experience to this point, we are doing what is needed for us to effectively manage the conflicts of interest and act in the interests of our clients. We do not see the need for more prescriptive rules or bans on certain models. With multiple fund manager partners, the structure provides the potential for PDs and representatives to act in the best interests of investors.

Question #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 do not believe this would be sufficient time for a transition. Given that agreements will have to be renegotiated and likely significant changes made, and systems development work performed, be believe a minimum of two years would be required for the transition. Also, existing arrangements would need to be grandfathered to allow for serving investors in their best interests. Allowing them to maintain and add to their existing positions would be important for investing and tax purposes.
Question #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. The insurance industry has successfully used an advance and chargeback model for many years and continues to do so, with the advance being provided by the insurance company product manufactures. In the investments industry, some dealers had been providing an up-front "draw" which was worked off over time. In our case with the implementation of the DSC ban, in implementing an advance and chargeback model we were solving for three issues: the immediate and significant reduction in cash flow to our representatives and providing some up-front cash flow for smaller accounts and new industry entrants building a book of business. Note that unlike the DSC model where investors were potentially subject to a sales charge, the ultimate risk of the chargeback rests with the PD. On a $10,000 trade, very typical in our dealer, the standard ongoing trailer fee is $100 per annum, paid out over 12 months. This split between the writing representative, the branch manager supervisor, and the dealer head office operations. This is not sufficient to service this size of an accounts. This recognized the significant work necessary at the start of a relationship with an investor, or when recommendations are being made. With us as the PD making the advance, a chargeback is only triggered when the investor left PD, not when they switched funds between our fund manager partners. The concern was raised that chargebacks may result in a conflict where it is in the interest for an investor to redeem, but the representative does not make the recommendation as they would be subject to a chargeback. While we understand the concern, we do not believe it is significant, as: • There is no evidence from the insurance industry that this has been an issue; • The conflict already exists due to the asset-based fees; and

We have established a number of controls to minimize the chargeback risk such as:

- allowing an advance only with the investor's time horizon exceeds the chargeback period;
- setting a maximum advance per trade;
- having a portion of every trade free of an advance so that it could be redeemed without a chargeback;
- setting a maximum advance balance per client;
- setting a maximum advance balance per representative;
- establishing a protection fund for advisors should there be excessive chargebacks.

While it is difficult to identify something that didn't happen that otherwise should have, we instituted a client survey of all our investors in PD funds to help identify such situations. The survey did not identify any concerns with investors not being able to redeem their funds when they wished to do so, nor have we received any complaints with respect to this.

We see benefits to investors of being able to continue the use of this compensation model under limited circumstances and proper controls.