ANDY MITCHELL
President and CEO *Président et chef de la direction*
amitchell@sima-amvi.ca 416 309 2300

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Delivered By Email

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: (416) 593-2318
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
Fax: (514) 864-8381
Email: consultation-en-cours@lautorite.qc.ca

Dear Sirs and Mesdames:

RE: CSA Consultation – Principal Distributor Model

The Securities and Investment Management Association (SIMA) appreciates the opportunity to comment on 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**).

SIMA empowers Canada's investment industry. The association, formerly the Investment Funds Institute of Canada (IFIC), is now the leading voice for the securities and investment management industry, which oversees approximately $4 trillion in assets for over 20 million investors and the Canadian capital markets. Our members—including investment fund managers, investment and mutual fund dealers, capital markets participants, and professional service providers—are committed to creating a resilient, innovative investment sector that fuels long-term economic growth and creates opportunities for all Canadians.

We operate in a governance framework in which we gather input from our member working groups. The recommendations of these working groups are submitted to the SIMA board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of SIMA members.

Summary

SIMA supports some of the amendments in the Consultation which aim to enhance investor protection, increase transparency, and ensure fair practices in the mutual funds industry. However, we have concerns with the introduction of the disclosure measure proposed for NI 31-103 for the Annual Report on Charges and other Compensation (**ARCC**). We also recommend a two-year transition period for the proposed amendments to NI 81-101 considering the varying prospectus-renewal schedules of mutual funds and the regulatory permissibility of filing prospectus renewals every two years.

Comments on Proposed Amendments

Areas of Agreement

Proposed Amendments to NI 81-101

We support the new disclosure obligations for the benefit of investors regarding the specific arrangements between a mutual fund and a principal distributor in NI 81-101 for *Part A of Form 81-101F1 Contents of Simplified Prospectus* and *Part II of Form 81-101F3 Contents of Fund Facts Document*.

We recommend a transition period of two years given that prospectuses may now be updated every two years. Mutual funds have different renewal schedules during the year. A maximum two-year transition period would help a mutual fund manager who has renewed a prospectus right before the publication of the final rule.

Proposed Amendments to NI 81-102 and CP 81-102

We support the proposed amendments to NI 81-102 to ensure that the deferred sales charge (DSC) option is not available to clients purchasing mutual fund securities distributed by principal distributors, as principal distributors are carved out of the NI 81-105 provisions that ban the DSC option for participating dealers. This closes a gap and ensures that fund managers are prohibited from charging a fee to clients upon the redemption of mutual fund securities sold under a DSC option.

We also support the proposed amendments to CP 81-102 as formulated in Annex E of the Consultation.

Proposed Amendments to NI 81-105 and CP 81-105

We support the addition of subsection (0.1) to section 4.2 of NI 81-105 to ensure that a principal distributor does not provide an incentive to its representatives to recommend one mutual fund over another mutual fund that is in the same mutual fund family.

We also support repealing section 7.1 of NI 81-105 and section 9.1 of *Companion Policy 81-105 Mutual Fund Sales Practices* (CP 81-105).

Area of Concern

Proposed Amendments to NI 31-103 and CP 31-103

The Consultation includes two proposed disclosure changes relating to the principal distributor model. In principle, SIMA supports the objectives of the proposed disclosure amendments. However, SIMA has significant concerns with the addition of the proposed relationship disclosure about principal distributors and fund managers in new paragraph (v) in subsection 14.17(1) to NI 31-103 to be added to the ARCC. The proposed disclosure is misaligned with the objectives of the ARCC and could lead to investor confusion. Behavioural economics has noted that adding incremental disclosure to substantially complicated disclosure in the ARCC introduces a significant possibility of investor confusion which can lead to poor investor outcomes. Instead, SIMA supports the second proposal that would include such relationship

disclosure in the Simplified Prospectus and Fund Facts, as proposed in the Consultation. SIMA is open to discussions with the CSA about the placement of this disclosure.

A goal of the ARCC is to provide clients with clear information about the fees and compensation they pay, directly or indirectly, to registered firms for their securities investments, including investment funds. As outlined in CP 31-103 regarding section 14.17, "Registered firms must provide clients with an annual report on the firm's charges and other compensation received by the firm **in connection with their investments**."

The proposed paragraph (v) does not relate to fees paid, directly or indirectly, by a client "in connection with their investments." Further, the proposed percentage fee disclosure does not reflect a client-level cost attributable to a client's investments. It aims to disclose the nature of the relationship between the principal distributor and the fund manager as well as the maximum percentage of the fund's management fee that is paid by the fund manager to the principal distributor for its services. The latter is a cost that is incurred by the manager and not clients. The manager is giving up a share of its revenue with the principal distributor for its services. This payment. like many other payments made by investment fund managers, comes with no cost to investors nor is it "received by the firm in connection with a client's investments." As a result, the proposed disclosure in paragraph (v) does not fit CSA's own objectives for the ARCC. Moreover, referencing any fee that is paid by the fund manager offers the possibility of it being double counted by clients, thereby impairing the efficacy of the ARCC. The CSA has gone to significant and appropriate lengths to ensure this does not happen in the case of trailing commissions. The proposed paragraph 14.17 (v) is incompatible with the objective of the ARCC and contains information that could create investor confusion without a corresponding benefit.

The key question is where to disclose the relationship between the principal distributor and the mutual fund manager. SIMA suggests that the ARCC is not the right place for that relationship/conflict disclosure. A substantially similar disclosure as the proposed paragraph 14.17 (v) for NI 31-103 is proposed in the Consultation for the Simplified Prospectus and the Fund Facts Document under proposed amendments to NI 81-101. As outlined above, we agree with the latter proposed amendments since they provide valuable information to clients at the critical time of making an investment decision and are well placed in the appropriate documents. The nature of the relationship between the principal distributor and the mutual fund manager may also be disclosed in the client account-opening relationship-disclosure information, and potentially in the conflicts-of-interest disclosure document.

As indicated above, SIMA is open to discussions with the CSA about the placement of the relationship disclosure.

The proposed paragraph 14.17 (v) would also significantly disrupt registered firms' ARCC implementation timelines for the total cost reporting requirements and presents compliance risk by creating uncertainty for registered firms due to not knowing whether they will need to add an additional notification to the ARCC. The uncertainty remains for an indefinite period depending on the final principal-distributor model amendments. Creating uncertainty for registered firms' timing to finalize the development of their ARCC disclosure is not justified, especially since the proposed notification disclosure is unrelated to the benefit of clients in understanding the total costs of their investments. The added uncertainty this presents for ARCC compliance is further exacerbated by the need for the Canadian Investment Regulatory Organization (CIRO) to go through the steps of publishing their own consultation and obtaining final rule approval for the same proposed changes to the ARCC, which at this point, to our awareness, has not been started.

As result, SIMA recommends that the CSA does not proceed with the proposed amendment to NI 31-103 and to CP 31-103 as set out in the Consultation.

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Conclusion

SIMA is pleased to have had this opportunity to provide our comments on the Consultation. Please feel free to contact me by email at amitchell@sima-amvi.ca. I would be happy to provide further information or answer any questions you may have.

Yours sincerely,

THE SECURITIES AND INVESTMENT MANAGEMENT ASSOCIATION

By: Andy Mitchell
President and CEO