

Draft Regulations

Securities Act

(chapter V-1.1, s. 274, s. 331.1, pars (1), (8) and (16), and s. 331.2)

Regulation to amend Regulation 81-105 respecting Mutual Fund Sales Practices and concordant regulations – Amendments regarding the Prohibition of Deferred Sales Charges for Investment Funds

Notice is hereby given by the *Autorité des marchés financiers* (the "Authority") that, in accordance with section 331.2 of the *Securities Act*, chapter V-1.1, the following Regulations, the texts of which are published hereunder, may be made by the Authority and subsequently submitted to the Minister of Finance for approval, with or without amendment, after 30 days have elapsed since their publication in the Bulletin of the Authority:

- *Regulation to amend Regulation 81-105 respecting Mutual Fund Sales Practices;*
- *Regulation to amend Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations;*
- *Regulation to amend Regulation 81-101 respecting Mutual Fund Prospectus Disclosure.*

The following draft amendments to policy statements are also published hereunder:

- *Amendments to Companion Policy 81-105: Mutual Fund Sales Practices;*
- *Amendments to Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations;*
- *Amendments to Policy Statement to Regulation 81-101 respecting Mutual Fund Prospectus Disclosure.*

(Collectively, the **Draft Amendments**).

The purpose of the Draft Amendments is to effect certain consequential amendments to remove the Ontario references and the DSC references, as defined below.

Background

On February 20, 2020, the CSA, with the exception of Ontario, published CSA Multilateral Notice of Publication Amendments relating to Prohibition of Deferred Sales Charges for Investment Funds - Regulation to amend Regulation 81-105 respecting Mutual Fund Sales Practices - Amendments to Companion Policy 81-105: Mutual Fund Sales Practices - Amendments to Policy Statement to Regulation 81-101 respecting Mutual Fund Prospectus Disclosure¹ (the **Multilateral CSA Notice**). The amendments published in the Multilateral CSA Notice prohibit the payment by fund organizations of upfront sales commissions to dealers, which results in the discontinuation of all forms of the deferred sales charge option, including low-load options² (collectively, the **DSC option**) (the **Multilateral DSC Ban**). The

¹ <https://lautorite.qc.ca/fileadmin/lautorite/reglementation/valeurs-mobilieres/81-105/2020-02-20/2020fev20-81-105-avis-publ-en.pdf>

² Under the traditional deferred sales charge option, the investor does not pay an initial sales charge for fund securities purchased, but may have to pay a redemption fee to the investment fund manager (i.e. a deferred sales charge) if the securities are sold before a predetermined period of typically 5 to 7 years from the date of purchase. Redemption fees decline according to a redemption fee schedule that is based on the length of time the investor holds the securities. While the investor does not pay a sales charge to the dealer, the investment fund manager pays the dealer an upfront commission (typically equivalent to 5% of the purchase amount). The investment fund manager may finance the payment of the upfront commission and accordingly incur financing costs that are included in the ongoing management fees charged to the fund. The low-load purchase option is a type of deferred sales charge option but has

Multilateral DSC Ban comes into force on June 1, 2022 (the **Effective Date**) in all CSA jurisdictions, except in Ontario.

On June 3, 2021, the Ontario Securities Commission published *OSC Notice of Local Amendments to National Instrument 81-105 Mutual Fund Sales Practices, Local Changes to Companion Policy 81-105 Mutual Fund Sales Practices and Related Consequential Local Amendments and Changes – Prohibition of Deferred Sales Charges for Mutual Funds*³ (the **OSC Notice**). The amendments published in the OSC Notice also prohibit the payment by fund organizations of upfront sales commissions to dealers, which results in the discontinuation of all forms of the DSC option, including low-load options (the **OSC DSC Ban**). The OSC DSC Ban comes into force on June 1, 2022, to coincide with the Effective Date of the Multilateral DSC Ban.

As the Multilateral DSC Ban did not include Ontario, the amendments published in the Multilateral CSA Notice included certain provisions relating to Ontario (the **Ontario references**) in *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* and in the *Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Further to amendments published in the OSC Notice, the Ontario References are no longer applicable.

Once the Multilateral DSC Ban and the OSC DSC Ban come into effect on the Effective Date, the provisions requiring disclosure of the DSC option in the simplified prospectus, the fund facts document and pre-trade disclosure will no longer be applicable as the DSC option will no longer be offered (the **DSC references**). The OSC Notice published related consequential local amendments and changes in Ontario to remove DSC References as of the Effective Date.

The AMF is publishing for comment the Draft Amendments to remove the Ontario references and the DSC references as of the Effective Date.

Next Steps

The AMF anticipates that the Draft Amendments will be published in final form by the CSA, with the exception of Ontario, in 2022, with the aim of harmonizing applicable regulation in all CSA jurisdictions.

Request for comment

Comments regarding the above may be made in writing by **November 20, 2021**, to the following:

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a shorter redemption fee schedule (usually 2 to 4 years). The upfront commission paid by the investment fund manager and redemption fees paid by investors are correspondingly lower than the traditional deferred sales charge option.

³ https://www.osc.ca/sites/default/files/2021-06/ni_20210603_81-105_mutual-fund-sales-practices.pdf

Further information

Further information is available from:

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