The Secretary
Ontario Securities Commission
20 Queen Street West 22nd Floor Toronto, Ontario M5H 3S8
Fax: (416) 593-2318
comments@osc.gov.on.ca

March 4, 2020

ONTARIO SECURITIES COMMISSION NOTICE AND REQUEST FOR COMMENT RESTRICTIONS ON THE USE OF THE DEFERRED SALES CHARGE OPTION FOR MUTUAL FUNDS :PROPOSED ONTARIO SECURITIES COMMISSION RULE 81-502

As someone who has personally felt the sting of early redemption penalties I appreciate the opportunity to comment on the OSC proposals to retain the DSC as a choice for retail investors.

Let's summarize what we know about the DSC sold mutual fund.

- We know that DSC is primarily sold by salespersons just starting their careers
- We know that the majority of DSC fund salespersons are not full time and/or may be selling other financial products such as insurance on the side
- We know that companies that favour DSC sold mutual funds utilize the upfront 5% commission from mutual fund companies as salesperson compensation in lieu of paying their representatives a base salary
- We know that the primary target clients have been those with small amounts to invest, unsophisticated investors and seniors
- We know that the outsized upfront payment influences the recommendations made by salespersons
- We know that there are hundreds ,if not thousands, of cheaper ,better performing investment funds that do not lock investors in for up to seven years
- We know that early redemption penalty fees impair performance and savings
- We know that the vast majority of actively- managed mutual funds underperform a passive index and that the higher the cost of the mutual fund, the greater the likelihood of underperformance.
- We know that retail investors suffer from loss aversion which suggests that they are likely to hold onto a losing mutual fund longer than they should
- We know from empirical research that salespersons are more influenced by compensation than by fund performance when making recommendations and that the large DSC upfront payment is highly valued by non-professional "advisors"

And yet here we are consulting on the sale of DSC mutual funds to retail investors.

The OSC, unlike the rest of Canada, is proposing a number of measures intended to mitigate the well-known harms the DSC sold mutual fund is famous for. The rest of Canada has wisely decided that the DSC mutual fund has no place in the portfolio of Canadians saving for retirement, their children's education or other financial goals.

I obviously disagree with the OSC decision and the associated burden of responding to this consultation. As I understand it, even the OSC's own investor advisory panel is against the continued sale of the DSC mutual funds

Anyways, as I examine all the proposed constraints on the sale of mutual funds and the fact there will be a separate series of funds for DSC sold mutual funds eliminating the cross subsidization, I feel that the potential harm to investors has been largely dealt with. Only the most greedy unsupervised salespersons will attempt to sell such a toxic product under the proposed constraints. And even for these cases, retail investors will be able to file their complaints of mis- selling through the ombudsman for banking services and investments and get their hard earned money back.

The OSC proposals do a fairly good job of corralling in the worst offenses. My only additional suggestions for improving investor protection would be to increase the level of fines for unsuitable DSC sales, improve retail investor education materials, accelerate the implementation date, apply the same criteria to DSC sold segregated funds and make a formal commitment to review the decision not later than two years after the implementation date.

It is fine to publish this Comment letter on the web.

Sincerely,
Arthur Ross