CARP

Via email

April 25, 2020

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

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

CARP strongly opposes the use of deferred sales charges (DSCs) and urges Ontario to ban them with immediate effect.

The Canadian Securities Administrators adopted rules, effective Feb 20, 2020, that would lead to the end of deferred sales charges (DSC) on mutual funds, as of June 1, 2022. It is telling that every province and territory, except Ontario, has moved to adopt these rules.

When a DSC fund is sold, the mutual fund provider pays approximately a 5% commission to the firm making the sale. This up-front commission creates a significant conflict of interest between the compensation of advisors and the interests of their clients. Moreover, DSCs are a particularly poor choice for older Canadians as they have significant redemption penalties, payable up to seven years after purchase, which deter seniors from redeeming poor performing investments, changing their asset allocations or even withdrawing funds needed for living expenses.

We note that other investor advocates, including FAIR Canada, SIPA and Kenmar Associates support a full ban on DSCs.

CARP members consistently report that they are concerned about financial security. In a September 2018 survey, an overwhelming 95% of member respondents indicated that they had serious concerns about making ends meet in retirement. Particularly in the era of COVID-19, many seniors are focused on cutting down debt, sticking to a budget, building up an emergency fund and having a liquid, low cost investment portfolio, in case there is a need for unplanned medical or other expenses.

As we understand it, if approved, the OSC rule would prohibit the sale of mutual funds with the DSC option to clients aged 60 and over, or who have an investment time horizon that is shorter than the DSC schedule – which typically is between three to seven years. CARP agrees with this. We also agree with the proposed rule change that would prohibit sales to clients who intend to use borrowed money to finance their purchase and would impose a maximum account size of $50,000 for all DSC investors.

Shortening the maximum term of the DSC schedule to three years, compared to current industry practice of up to seven years, will reduce but not eliminate harm to older investors. We support the proposal where clients would be able to redeem 10% of the value of their investment without redemption fees annually, on a cumulative basis.

Finally, CARP supports a penalty-free exception for investors during financial hardship circumstances, such as critical illness, involuntary loss of full-time employment or permanent disability. Events such as COVID-19 make such a provision a necessity.

CARP encourages the OSC to ban DSCs with immediate effect. In the absence of a total ban, the proposals reduce (not eliminate) potential harm for seniors.

Thank you for your consideration.

Yours sincerely,

MLennox

Marissa Lennox
Chief Policy Officer
CARP

CARP is an approximately 350,000-member organization that advocates to improve the lives and uphold the rights of Canadians as we age. With our 26 chapters across the country CARP has a unique reach and an ability to give voice to the experiences of older adults in all jurisdictions of Canada. Our membership is active and engaged in our policy development, through consultation and survey mechanisms and 98% of all CARP members report that they vote in every election.