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<u>RE: Proposed Ontario Securities Commission Rule 81-502 Restrictions on the Use of the Deferred Sales Charge Option for Mutual Funds (the Proposed Rule),</u>

Introduction

Libro is the largest credit union in southwestern Ontario with over 5 billion in assets under administration and over one hundred thousand members. As a co-operative financial institution with more than 70 years of history, Libro supports the well-being of people, businesses and communities by providing high-quality financial coaching, community support, grants, donations and profit sharing.

As a provider of mutual funds and wealth planning services we are happy to comment on the proposed Ontario Securities Commission Rule 81-502 "Restrictions on the Use of the Deferred Sales Charge (DSC) Option for Mutual Funds (the Proposed Rule)." We will not be responding to other items beyond DSC during our response.

Libro Recommendation

Libro believes that the proposed rule does not go far enough in its attempt to limit the use of DSC options for mutual funds. We believe that now is the time to move towards a full ban on the use of DSC options in Ontario.

Changing Investor Landscape

International and national trends relating to the use of DSC options have shifted over the past twelve years since the 2008 financial crisis. Today no-load fund options have close to a 70% market share of the Canadian mutual fund market.[1] This is not surprising as measures including CRM-2, transition of large firms, banks and credit unions, along with the shift to online no fee services prompted advisors to move away from DSC options. This has benefited the consumer as it has been researched and confirmed that funds with enhanced fees, front load options or DSC options have not performed as well over an extended period using net performance.[2] At Libro we replicate a no load model by only offering Front

[1] Investor Economics: Insight Gisted Canada, March 2020. Page 3, Figure 1.
[2] Weinstein, Edward. OSC – Mutual Fund Research Report (Spring 2015). Page 16.

End $0 funds as we believe this is the right thing to do for our Owners/Members. The fund companies and the Advisors both need to live up to their obligations and if we are not delivering value to our investors, they should always have the freedom to seek help elsewhere. Any DSC fee impinges on the ability of the investor to change advisors, firms, and/or dealers as needed.

Libro has reviewed each policy section and rational provided in the proposed rule change and has commented on the key items we believe to be most important for the benefit of all Ontario investors:

Section	Description	Libro Commentary
Section 3(a)(i)	Maximum term of DSC redemption fee schedule limited to 3 years	Libro welcomes the reduction from current 7 years however, we recommend a complete ban that would negate this policy need. Within 3 years investors can experience significant shock and may need to access funds. This fee will hurt their net cumulative performance. This is not in the best interest of the investor.
Section 3(a)(ii)	Clients can redeem 10% of the value of their investment without redemption fees annually, on a cumulative basis.	10% will have little impact should an investor need to exit a DSC option within 1 to 3 years. A fee would apply still (per proposed section 3(a)(i)) which will negatively hurt investors net performance. This is not in the best interest of the investor.
Section 3(a)(iii)	Separate DSC series	Libro is open to this idea. Investors benefit with transparency. We believe a full ban would eliminate any confusion for investors. Education would be necessary to explain this to investors.
Section 3(b)(i)	No sales of the DSC option to clients aged 60 and over	Libro welcomes the goal trying to be achieved. You may see fund managers and dealers lock in clients just before 60 thus negating this policy. A full ban creates flexibility and transparency at any age. Frankly, why age 60? Why not 50? Or 40? If the possibility of mis-selling applies to a 61-year-old, we find it difficult to not apply the same logic to a 51-year-old, as age alone does not determine suitability, or the possibility of misuse.
Section 3(b)(ii)	Maximum client account size of $50k	This policy would be better served with an elimination of DSC fees altogether. It is often the clients with the lowest amount of money who can't afford to have fees impacting their returns. They also may require access to the funds at different times and will be penalized. Many dealers/brokers have actively moved away from accepting small accounts already, so how will this help that issue?
Section 3(b)(iii)	No sales of the DSC option to clients whose investment time horizon is shorter than the DSC schedule	Policy will be extremely difficult to implement in practice and will cause a lot of confusion and inconsistency. A single investor may have multiple time horizons - RESP account vs. RRSP account, for example. Again, a ban would be preferred and would eliminate the issue.
Section 3(b)(iv)(A)	Client cannot use borrowed money to purchase mutual funds with the DSC option	Policy may impede investors who have differing terms with their planner/dealer. This may reduce flexibility. Why is borrowing money for a DSC fund considered inherently riskier than borrowing money to purchase a no-load fund? Also appears inconsistent with Section 3(a)(i).
Section 3(b)(iv)(B)	Upfront commissions only for new contributions to a client's account	We would recommend moving away in the future from upfront commissions of any kind, beyond normal trading fees, etc. Education is required for this policy to work. May create additional confusion for those trying to make trades, or shift funds.

Section 3(b)(iv)(C)	No upfront commissions on reinvested Distributions	Agree with this policy.
Section 3(b)(v)	No redemption fees applicable to investor redemptions upon: (a) Death of client, (b) Involuntary loss of full-time employment, (c) Permanent disability, and (d) Critical illness.	A ban on DSC options would negate the requirement for this policy. However, we believe at minimum this list should be expanded to include: 1. Death of an immediate family member 2. Negative changes to employment or income 3. Hospitalization or long-term illness 4. Significant Economic Downturn or Shock (Example Covid 19 or 2008 crisis) 5. Future OSC Policy Changes 6. Dealer/Manager fee changes 7. New Dealer/Manager due to company change (I.e. due to retirement, loss of ability to send funds, or any other factor This is the opportunity within OSC policy to best support investors if we are to keep any form of a DSC option. This will provide opportunities to ensure flexibility and support for investors.

Advice Gap and Other Concerns

Libro does not believe that an advice gap will occur for investors if we were to move forward with the removal of DSC options in Ontario. Only approximately 50% of Canadian investors currently work with an actual advisor.[3] The United Kingdom and Australia present a strong case study for the conclusion that an advice gap did not occur. Studies reveal that the gap occurs for approximately 2-3 months while investors and advisors' transition to a non-DSC model. Once this has occurred the advice gap closed quickly, and investors began returning stronger net returns. Not to mention conflicts of interest and product bias declined dramatically in relation to funds sold to clients. Transparency must be the critical component to the client/advisor relationship. DSC options are counter productive towards transparency and flexibility where value is not being delivered by a fund company, advisor, and/or dealer. The lead time for transition will help ensure an advice gap would not exist if a full ban came into effect.

We work with a national dealer, and so the decision on banning the sale of DSC funds has already been made for our partner Credit Unions across the country – including Ontario – that work with our dealer. Over half of our accounts would be classified as small accounts (< $25,000) by almost any standard, suggesting our Front End $0 offer (replicating a no-load offer) has done nothing to eliminate advice and access to smaller investors.

Flexibility and Covid-19 Example

Economic downturns such as Covid-19 present a strong case study that illustrates how flexibility and transparency in the investment industry is critical to investor security and needs. DSC's limit investor flexibility. The initial pushback from the Ontario Government felt out of touch with the current climate internationally and domestically. Now is an opportunity for the Government to work with other provinces and the CSA to support investors.

[3] IAP Response to CSA Proposed Rule: Page 4.

We ask the Ontario Government to consider how many investors have not made necessary moves to their funds due to being locked into a DSC option during the Covid-19 crisis? How many of these investors would be considered financially vulnerable? These are questions that present themselves during times of economic downturn where a lack of flexibility can mean the difference between easily accessing the funds needed to make bill payments, or waiting and seeking alternative funds through various negative models such as pay day lending, or additional loans with interest payments.

Concluding Remarks

Now is the time for the Ontario Government and the OSC to produce much needed reforms for DSC's. While the policy solutions presented offer a better environment than is present today, it simply does not address the best-interest needs of investors. Libro will continue to push for the removal of both Front-End and DSC options in Ontario for any mutual fund product or service. Data and evidence across multiple studies and independent reviews continue to highlight the need for the removal of DSC options.

"*With ample evidence of investor harm, especially for the most financially vulnerable investors, and no evidence of any benefits, we see no reason to preserve the DSC option*," the CSA wrote in a February 2020 statement.

At Libro, we will continue to sell Front-End $0 funds (replicating a no-load option) as it aligns with our values of ensuring our Owners prosperity is always put at the forefront of our activities. This Government values transparency, flexibility and improving the lives of all Ontarians. Eliminating DSC options presents a clear opportunity to make the lives of Ontarians better and ensure that they are better prepared for their retirement years. The main beneficiaries in a no-load world are the unitholders.

Thank you for your review and consideration on DSC options in Ontario. We appreciate your review of our response and ask that you kindly consider a permanent ban on DSC options in Ontario.

Regards.

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