

June 29 2020

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission
New Brunswick Superintendent of Securities
Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

RE: Proposed OSC Rule 81-502 restrictions on the use of the deferred sales charge option for mutual funds

Ladies and Gentlemen:

Morningstar Research, Inc. welcomes the opportunity to comment on the proposed OSC rule 81-502 and dated Feb. 20, 2020, its companion policy, and its related consequential amendments.

Morningstar Research, Inc. is a leading provider of independent investment research, and our mission is to create products that help investors reach their financial goals. Because we serve individual investors, professional financial advisors, and institutional clients, we benefit from a broad perspective on the impact of the proposed rule and its possible effect on the advice that investors receive. We appreciate the actions of all the Canadian securities commissions that have banned the deferred sales charge option to be made effective in June 2022. We feel wholeheartedly that the discontinued

use of the DSC option provides flexibility, greater transparency, and ultimately better odds of success for the retail investor, outlined through our comment letter dated [June 5, 2017](#), on CSA Consultation Paper 81-408 (consultation on the option of discontinuing embedded commissions).

The Ontario Securities Commission should harmonize its approach to DSCs with all the other provincial regulators. Failing to do so, as the Commission proposes, leaves a large number of investors in Ontario without the protections enjoyed by investors in other provinces. Further, the lack of harmonization will undoubtedly bring on additional administration costs for fund providers to account for different provincial regulations, which must ultimately be borne by retail investors. Morningstar's recommendation is still to ban the use of the DSC option throughout Canada, inclusive of Ontario.

The proposed limitations in OSC Rule 81-502 on the use of the DSC option certainly help to reduce conflicted sales practices and liquidity risk to investors. In particular, the creation of a separate fund series may make it easier for investors to identify funds with the embedded DSC option. This said, Morningstar believes that eliminating the DSC option will afford the most protection to retail investors, particularly newer investors with lower starting amounts who are not aware of the implications of DSCs. Isolating Ontarians from the same investor protection afforded to other Canadians is an unusual approach with which Morningstar does not agree.

A common counterargument is that low-balance investors may lose access to advice without DSCs, but we observe that these investors now have options of automated and "robo-advice" platforms from large reputable firms, as well as fee-only advice. Both options provide reasonable advice to small investors and have fees that are made transparent and are easily understood. These options are more widely available to Canadians when compared with just a few short years ago.

We continue to urge the OSC to follow suit with all other provincial regulators in regard to the DSC option such that investors can continue to benefit from having a harmonized regulation system that puts their needs first.

Very Truly Yours,

Ian Tam, CFA
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Morningstar Research Inc.

Aron Szapiro
Director of Policy Research
Morningstar, Inc.