

The Secretary
Ontario Securities Commission
comments@osc.gov.on.ca

VIA EMAIL ONLY

To Whom It May Concern:

Re: Proposed Ontario Securities Commission Rule 81-502 Restrictions on the Use of the Deferred Sales Charge Option for Mutual Funds and Proposed Companion Policy 81-502 to Ontario Securities Commission Rule 81-502 Restrictions on the Use of the Deferred Sales Charge Option for Mutual Funds and Related Consequential Amendments (the "Paper")

The Federation of Mutual Fund Dealers ("the Federation") has been, since 1996, Canada's only dedicated voice of mutual fund dealers. We currently represent dealer firms with over \$124 billion of assets under administration and 24 thousand licensed advisors that provide financial services to over 3.8 million Canadians and their families and as such we have a keen interest in all that impacts the dealer community, its advisors, and their clients.

The Federation along with many other industry members have for many years commented on the plethora of the benefits to clients and the market generally in holding deferred sales charge funds, from rebating commissions, to the tax benefits, and to market stability in a downturn. Unfortunately, in reading the Paper's Policy Rationale throughout, it is clear the OSC hasn't included these concepts. That said, with the CSA in support of a general ban on DSC, the OSC's Paper is better than nothing, and we will not reiterate past positions but will concentrate on this content.

Investment Fund Manager Restrictions

Sections 3(a)(i) and (ii): We would argue that the beneficial impact of the cumulative 10% 'free' should be applied to the current redemption schedule of up to 7 years, rather than reducing the schedule to a maximum of 3 years. 3 years negates a mutual fund's buy and hold strategy and ignores the industry practice of an advisor paying the client's redemption fee depending upon the reasons for the withdrawal.

Section 3(a)(iii): A separate DSC series would increase the overall costs incurred by the mutual fund manufacturer, and as all costs are ultimately paid by the client, we don't find the argument that this "could" result in lower management fees to be sound and should not be mandated.

Dealer Restrictions

Section 3(b)(i): While there is no set age at which a person is considered a senior in Canada, for specific purposes the age at which senior discounts start is usually 55, but for many government benefits you have to be at least 60 or 65 years of age in order to qualify. This can be very confusing for everyone involved. You have in the past referred to seniors as 65, and in this Paper as 60. Please make consistent your references to "seniors".

We believe there should be flexibility in this section for the wishes of the client. To specify "no sales" is too restrictive and exceptions, fully documented, should be allowed.

Section 3(b)(ii): Saying that a maximum account size of \$50k “limits use of the DSC option to clients with smaller accounts” is obvious but isn’t a Policy Rationale. We would like to know what the Policy Rationale is for limiting account size. We echo Advocis’ remark on the proposed limit being uneconomical.

Section 3(b)(iii): This appears to codify current suitability practices; a dealer would/should not allow a trade where the client’s time horizon is less than the DSC schedule. Is this necessary or redundant?

Section 3(b)(iv)(A): In the current interest rate environment to ban the use of borrowed money is overly restrictive and we believe there should be the ability to apply individual circumstances to a purchase.

Sections 3(b)(iv)(B), (C) and 3(b)(v): We have no objection to these proposals.

Conflict of Interest: Conflicts are an important issue to dealers and their advisors. It would be helpful if you could provide substance to the statement “We are of the view that there is an inherent conflict of interest for registrants to accept upfront commissions associated with the sale of mutual fund securities under the DSC option”. It will be difficult for registered firms to address this conflict if they do not know exactly what it is from your perspective.

We appreciate the opportunity to comment on the proposed rule for Deferred sales charges. Should you have any question do not hesitate to contact the undersigned.

Regards,



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