AGF Investments Inc.
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BY EMAIL: comments@osc.gov.on.ca

July 6, 2020

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario
M5H 3S8

Dear Sirs/Mesdames:

RE: OSC Proposed Rule 81-502 – DSC Restrictions for Mutual Funds

AGF Investments Inc. ("**AGF**") is writing to provide comments in respect of the Ontario Securities Commission's ("**OSC**") Proposed Rule 81-502 – *Restrictions on the Use of the Deferred Sales Charge Option for Mutual Funds* (referred to herein as the "**Proposed Rule**").

AGF provides asset management services globally to institutions and individuals. AGF's products include a diversified family of mutual funds, exchange traded funds, mutual fund wrap programs and pooled funds. AGF also manages assets on behalf of institutional investors including pension plans, foundations and endowments. AGF is registered in the categories of Investment Fund Manager, Mutual Fund Dealer, Exempt Market Dealer, Portfolio Manager, and Commodity Trading Manager.

AGF appreciates the opportunity to provide feedback to the OSC in respect of the Proposed Rule. In light of the fact that the Canadian Securities Administrators ("**CSA**") (with the exception of the OSC) has opted to ban the use of the deferred sales commission ("**DSC**") model, AGF applauds the OSC for continuing to see the value in the use of these commissions, and not following suit with the CSA's ban. Further, while AGF certainly values the CSA's, and the OSC's declarations that investor protection and fairness are of paramount concern for the regulators, AGF's general position continues to be that the current landscape with respect to the use of the DSC option does not counteract the tenets of investor protection and fairness. **Further, AGF reiterates its position as an ardent supporter of a financial industry that not only protects investors, but also upholds the principle of providing investors with options and choice based on their individual needs and circumstances. To this end, AGF is concerned with ensuring that any expected regulatory changes do not infringe on investors' access to the advice model that they may desire.**

AGF understands and appreciates the OSC's intent under the Proposed Rule to "*introduce restrictions on the use of the DSC option that are designed to mitigate potential negative investor outcomes*". There are, however, substantive comments that AGF has in relation to certain of the specific restrictions that the OSC is looking to implement.

Having considered the Proposed Rule in its totality, AGF is most concerned with the fact that certain of the restrictions under the Proposed Rule will unavoidably be misaligned with the intention to allow DSC to remain as a viable option within the mutual fund marketplace. In order to remain a viable commission structure, particularly for servicing smaller account size investors, AGF urges the OSC to reconsider the unintended consequences that certain of the DSC restrictions, as currently drafted, will inevitably have on the industry, and most importantly, investors. If the restrictions result in the "cost of doing business" being higher than the value of retaining the DSC as a viable option for investors (both from a manufacturer, and a dealer perspective), then the result will invariably be that retaining the DSC model is unsustainable, and investors relying on it as a means for investing will be negatively impacted. AGF would argue that this is clearly not aligned with the intent of the Government of Ontario, or the OSC, to preserve the DSC option in Ontario.

In addition to being generally aligned with applicable aspects of the responses to the Proposed Rule submitted by The Investment Funds Institute of Canada ("**IFIC**"), AGF echoes IFIC, and raises further comments, as follows:

Maximum Term Redemption Schedule

Under the Proposed Rule, the OSC is proposing to shorten the maximum term during which a redemption fee can be applied – to a maximum of 3 years.

From an investment fund manager standpoint, AGF currently accommodates both a 7-year redemption schedule, as well as a 3-year one. To that end, reconfiguring the term redemption schedule is not overly onerous. That said, for the OSC to decide on 3 years as being the optimal length of time for a redemption schedule appears to be somewhat arbitrary. Most importantly, AGF believes that an investor's DSC redemption schedule should align with the investor's investment time horizon – whether that is 7 years or 3 years (which have been the traditional time horizons as it relates to setting redemption schedules), or something in between.

Assuming that the OSC is intent on reducing the maximum term redemption schedule, AGF would recommend reconfiguring the traditional structure to create both a 3-year, and a 5-year option. Allowing for two redemption schedules to continue to exist (with the upper threshold being down from 7 years to 5 years) will hopefully retain the number of dealers/advisors who could/would service investors with smaller asset levels. Further, having two redemption schedule options will more adequately align with the choice usually afforded to investors to choose within "typical" investment time horizons.

Separate DSC Series

The Proposed Rule expects investment fund managers to create a separate series for the DSC option. The OSC has indicated that this will "*prevent potential for cross-subsidization by ensuring that investors who purchase on a no-load or front-end sales charge basis do not indirectly incur costs related to financing the upfront commissions typically associated with the DSC option*".

As articulated by IFIC, AGF is similarly not aware of any cross-subsidization as a result of the DSC option. Investment fund managers have priced their product offerings through management fees, and thereby finance the cost of the DSC option from earned management fee revenues. Further, as stated by IFIC, AGF agrees that the requirement to create a DSC series will undoubtedly increase the cost and regulatory burden on investment fund managers, and also create greater unnecessary challenges and confusion for investors as a result of an increase in the number of series offered. The costs could be significant enough so as to further limit the number of mutual funds under an investment fund manager's fund lineup that will offer a DSC series.

AGF submits that the concern of cross-subsidization raised by the OSC is unwarranted. Furthermore, given the potential negative unintended consequences associated with requiring this unnecessary restriction, AGF therefore strongly recommends that the requirement to create a separate DSC series be removed from the Proposed Rule.

Age Limitation

Under the Proposed Rule, the OSC has indicated that the DSC option is not to be sold to clients aged 60 and over. In effect, the OSC has indicated that this restriction is intended to "*reduce potential for mis-selling by requiring dealers to avoid use of the DSC option when making recommendations to seniors*".

Akin to IFIC's response, AGF supports the premise that age 65 is a hallmark of retirement, as it is the age at which Canadians can typically access full government retirement benefits – i.e. the generally accepted age of "seniors". Presuming that the OSC's concern is that an investor should not be subject to DSC in retirement, AGF submits that the age limitation under the Proposed Rule is too low, and should instead be changed from age 60 to 65.

Maximum Investor Account Size

Under the premise of "*limiting use of the DSC option to clients with smaller accounts*", the Proposed Rule sets out a maximum client account size of $50,000.

AGF believes that the $50,000 maximum will unduly restrict access to advice to a significant portion of investors that are seeking financial advice but may not otherwise have the means or qualify for it. As evidenced in Annex E of the Proposed Rule, the overview of investments in mutual funds indicates that "*typically the DSC purchase option* *is used by households with an account size less than $100,000*". To this end, $100,000 appears to be the more logical upward limit.

AGF is a proponent of increasing the maximum account size restriction from $50,000 to a more reasonable proxy of $100,000. This will allow more investors – including (but not limited to) those with even smaller account sizes – to benefit from the DSC option, where appropriate. As a clarifying point, we would also request that the OSC provide clarity on the precise application of the size restriction – i.e. is this restriction only meant to capture the initial lump sum purchase amount, or is it also meant to apply to changes in the account value (e.g. subsequent purchases, reinvested distributions, market fluctuations, etc.)?

Overall, we commend the OSC for upholding the Government of Ontario's stated objection of an outright DSC ban, and instead proposing guidelines under which the DSC option can continue to exist for investors to continue to access the advice model they require, or desire. That said, we urge the OSC to consider that certain of the restrictions, as currently drafted, could have negative consequences toward the broader goal of maintaining investors' investment accessibility and choice.

AGF thanks the OSC for the opportunity to raise the above issues, and we submit that the viability of retaining the DSC option will be made more sustainable if the restrictions are further refined, as per our recommendations herein. Further, assuming that the further revised rules align with our recommendations, AGF certainly agrees that the effective date of the rules would be best harmonized with the effective date for the CSA's DSC ban – i.e. June 1, 2022.

Yours very truly,

Mark Adams
Chief Legal Officer & Corporate Secretary
AGF Investments Inc.