E-MAIL: comments@osc.gov.on.ca

July 6, 2020

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

Re: Ontario Securities Commission ("OSC") Notice and Request for Comment: Proposed OSC Rule 81-502 *Restrictions on the use of the Deferred Sales Charge Option for Mutual Funds* (the "Proposed OSC Rule")

We are pleased to provide comments on behalf of Mackenzie Financial Corporation ("Mackenzie Investments") on the Proposed OSC Rule.

Mackenzie Investments was founded in 1967 and is a leading investment management firm providing investment advisory and related services to retail and institutional clients. We are registered as a portfolio manager and investment fund manager with total assets under management as at May 31, 2020 of approximately $138 billion. Mackenzie Investments primarily distributes its retail investment products through third-party financial advisors. Our sales teams work with approximately 175 dealers across Canada and many of the more than 30,000 independent financial advisors to distribute our products to over 1 million Canadian clients.

We are a wholly owned subsidiary of IGM Financial Inc., which in turn is a member of the Power Financial Corporation group of companies.

Comments on the Proposed OSC Rule

At Mackenzie Investments, we believe that Canadians should have choice in how they compensate their dealers and advisors. We have expressed this view to the CSA throughout its consultations on embedded commission fee models in Canada, consistently stressing that fewer choices in compensation models may limit access to advice and result in higher overall costs, particularly for households with more modest investment levels.[1] We are therefore supportive of the decision to retain the deferred sales charge ("DSC Option") in Ontario for those dealers, advisors and clients who favour this option. However, given the existing regulatory framework and recent adoption of the Client Focused Reforms[2], we question the need for the Proposed OSC Rule.

[1] Please see, for example, our comment letter dated June 9, 2017 regarding CSA Consultation Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*, as well as our comment letter dated December 13, 2018 regarding CSA Notice & Request for Comment dated September 13, 2018 Proposed Amendments to National Instrument 81-105 *Mutual Fund Sales Practices.*

[2] Reforms to Enhance the Client-Registrant Relationship, Notice of Amendments to National Instrument 31-103 and Companion Policy 31-103CP, dated October 3, 2019.

While we acknowledge that the DSC Option can, like all other types of fee arrangements, give rise to a conflict of interest, we believe the potential for misuse can be mitigated within the current regulatory framework. Existing guidance by the Mutual Fund Dealers Association, for example, offers clear direction on the suitability of the DSC Option with regard to factors such as investor age and time horizon.[3] This guidance, when coupled with the Client Focused Reforms – particularly the aspects that require registrants to prioritize client interests and to specifically consider the potential and actual impact of costs on the client's return – will create a strong framework to ensure that the DSC Option is used only where it is suitable for an investor *and* in their best interest. In our view, this framework makes several of the requirements of the Proposed OSC Rule unnecessary.

With the strong protections afforded to investors by the Client Focused Reforms, and given the current emphasis by both the Ontario government and OSC to reduce regulatory burden[4], we are concerned that the costs of implementation of the Proposed OSC Rule on dealers and investment fund managers ("IFMs") will be significant without incremental benefit to investors. For IFMs, the cost of system enhancements needed to make the 10% free redemption amount cumulative, for example, will be considerable. There will also be cost in separating the DSC Option into its own series. Equally important, this requirement will lead to significantly increased fund shelf complexity, resulting in an additional 240 series at Mackenzie. Based on feedback we received from dealers, we understand that the systems development costs needed to facilitate compliance with the proposals will also be significant.

Conclusion

We believe the DSC Option can be a suitable choice for certain investors, and that the existing regulatory framework supported by the Client Focused Reforms will address the issues initially identified with the DSC Option. Accordingly, we encourage the OSC to reconsider the need for the Proposed OSC Rule.

Thank you for the opportunity to provide comments on the Proposed OSC Rule. We would be pleased to engage with you further on this topic.

Yours Truly,

MACKENZIE FINANCIAL CORPORATION

Barry S. McInerney
President and Chief Executive Officer

[3] Please see, for example, MFDA Bulletin #0670-C, 2015 DSC Sweep Report *Supervision, Suitability and Disclosure of Funds with Sales Charges* dated December 18, 2015.
[4] Please see, for example, Reducing Regulatory Burden in Ontario's Capital Markets.