Chapter 1

Notices

1.1 Notices

1.1.1 OSC Notice of Local Amendments to National Instrument 81-105 Mutual Fund Sales Practices, Local Changes to Companion Policy 81-105 Mutual Fund Sales Practices and Related Consequential Local Amendments and Changes – Prohibition of Deferred Sales Charges for Mutual Funds

OSC NOTICE OF
LOCAL AMENDMENTS TO NATIONAL INSTRUMENT 81-105 *MUTUAL FUND SALES PRACTICES*,
LOCAL CHANGES TO COMPANION POLICY 81-105 *MUTUAL FUND SALES PRACTICES*
AND
RELATED CONSEQUENTIAL LOCAL AMENDMENTS AND CHANGES

PROHIBITION OF DEFERRED SALES CHARGES FOR MUTUAL FUNDS

June 3, 2021

Introduction

The Ontario Securities Commission (the **OSC** or **we**) is adopting:

- local amendments to National Instrument 81-105 *Mutual Fund Sales Practices* (**NI 81-105**),
- local changes to Companion Policy 81-105 *Mutual Fund Sales Practices* (**81-105CP**),
- related consequential local amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**) and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**), and
- related consequential local changes to Companion Policy 81-101 *Mutual Fund Prospectus Disclosure* (**81-101CP**) and Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**31-103CP**)

in Ontario (collectively, the **Amendments**).

The Amendments prohibit the payment by fund organizations (as defined below) of upfront sales commissions to dealers, which will result in the discontinuation of all forms of the deferred sales charge option (collectively, the **DSC option**).[1]

Prior to finalizing the Amendments, we explored two separate proposals aimed at addressing the investor protection issues arising from the use of the DSC option in the sale of mutual fund securities. The first proposal, the Proposed Amendments (as defined below), sought to ban the DSC option, while the second proposal, the Proposed OSC Rule 81-502 (as defined below), sought to impose restrictions on the use of the DSC option that were designed to mitigate potential negative investor outcomes associated with the DSC option.

After carefully considering the comments received in response to both options, which overwhelmingly expressed support for a harmonized Canada-wide ban on the DSC option, we have concluded that an outright ban on the DSC option is the best path forward. In particular, investors will no longer be subject to the "lock-in"[2] effect associated with the DSC option and the potential for mis-selling will be reduced. We also note that industry innovation over the past few years has opened significant new avenues for investors with smaller accounts at an affordable cost.

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1 Under the traditional deferred sales charge option, the investor does not pay an initial sales charge for fund securities purchased, but may have to pay a redemption fee to the investment fund manager (i.e. a deferred sales charge) if the securities are sold before a predetermined period of typically 5 to 7 years from the date of purchase. Redemption fees decline according to a redemption fee schedule that is based on the length of time the investor holds the securities. While the investor does not pay a sales charge to the dealer, the investment fund manager pays the dealer an upfront commission (typically equivalent to 5% of the purchase amount). The investment fund manager may finance the payment of the upfront commission and accordingly incur financing costs that are included in the ongoing management fees charged to the fund. The low-load purchase option is a type of deferred sales charge option but has a shorter redemption fee schedule (usually 2 to 4 years). The upfront commission paid by the investment fund manager and redemption fees paid by investors are correspondingly lower than the traditional deferred sales charge option.

2 The "lock-in" feature refers to the redemption fee schedule associated with the DSC option which has the potential to deter investors from redeeming an investment or changing their asset allocation, even in the face of consistently poor fund performance, unforeseen liquidity events, or changes in their financial circumstances.

Ministerial approval is required for the implementation of the Amendments. The Amendments, as well as other required materials, will be delivered to the Minister of Finance on or about June 3, 2021. The Minister may approve or reject these Amendments or return them for further consideration. If the Minister approves the Amendments or does not take any further action, the Amendments will come into force in Ontario on June 1, 2022.

The text of the Amendments is contained in Annexes C, D, E, F, G and H of this notice and will also be available on websites of the OSC at www.osc.ca.

Substance and Purpose

The Amendments, together with the enhanced conflict of interest mitigation framework for dealers and representatives under detailed reforms to NI 31-103 (the **Client Focused Reforms**) published on October 3, 2019, comprise the OSC's policy response to the investor protection and market efficiency issues we have identified with the use of the DSC option. The Amendments restrict the compensation that members of the organization of publicly-offered mutual funds (**fund organizations**) may pay to participating dealers, and that participating dealers may solicit and accept in connection with the distribution of mutual fund securities.

The Amendments address the conflict of interest that arises from the payment of the upfront sales commission by fund organizations to dealers for mutual fund sales made under the DSC option that can incentivize dealers and their representatives to make self-interested investment recommendations to the detriment of investor interests.

More specifically, by prohibiting fund organizations from paying upfront sales commissions to participating dealers, the Amendments will correspondingly eliminate the need for fund organizations to finance the cost of these commissions, which we expect will in turn eliminate the need for the following two features of the DSC option:

(a) the redemption fee schedule, representing the period of time the fund organization requires the investor to remain invested in the mutual fund in order to recoup its financing costs (through management fees charged to the fund), and

(b) the redemption fee, which essentially functions as a default penalty allowing the investment fund manager to recoup its financing costs in the event the investor redeems from the mutual fund prior to the end of the redemption fee schedule.

Background

The Amendments were developed over the course of an extensive consultation process.

CSA Consultation Paper 81-408

On January 10, 2017, the Canadian Securities Administrators (**CSA**) published for comment CSA Consultation Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*[3] (the **Consultation Paper**), which identified and discussed key investor protection and market efficiency issues arising from mutual fund embedded commissions.[4] The Consultation Paper sought specific feedback, including evidence-based and data-driven analysis and perspectives, on the option of discontinuing embedded commissions as a regulatory response to the identified issues and on the potential impacts to both market participants and investors of such a change, to enable the CSA to make an informed policy decision on whether to pursue this option or consider alternative policy changes.

CSA Staff Notice 81-330

On June 21, 2018, the CSA published CSA Staff Notice 81-330 *Status report on Consultation on Embedded Commissions and Next Steps*[5] (**CSN 81-330**) which proposed the following policy changes:

1. to implement enhanced conflict of interest mitigation rules and guidance for dealers and representatives requiring that all existing and reasonably foreseeable conflicts of interest, including conflicts arising from the payment of embedded commissions, be addressed in the best interests of clients or avoided;

2. to prohibit all forms of the DSC option and their associated upfront commissions in respect of the purchase of securities of a prospectus qualified mutual fund; and

[3] https://www.osc.ca/sites/default/files/pdfs/irps/sn_20170110_81-408_consultation-discontinuing-embedded-commissions.pdf.

[4] The Consultation Paper followed the CSA's initial consultation on mutual fund fees under CSA Discussion Paper and Request for Comment 81-407 *Mutual Fund Fees* published on December 13, 2012, which was followed by in-person consultations in several CSA jurisdictions in 2013. The CSA published an overview of the key themes that emerged from this consultation process in CSA Staff Notice 81-323 *Status Report on Consultation under CSA Discussion Paper and Request for Comment 81-407 Mutual Fund fees*.

[5] https://www.osc.ca/sites/default/files/pdfs/irps/csa_20180621_81-330-status-report.pdf.

3. to prohibit the payment of trailing commissions to, and the solicitation and acceptance of trailing commissions by, dealers who do not make a suitability determination in connection with the distribution of securities of a prospectus qualified mutual fund.

In addition to announcing the CSA's policy decision and providing a summary of the consultation process and the feedback received, CSN 81-330 provided an overview of the regulatory concerns that the proposed policy changes aimed to address, and also discussed why CSA members were not proposing to ban all forms of embedded commissions.

The Proposed Amendments

On September 13, 2018, the CSA published proposed amendments[6] (the **Proposed Amendments**) to:

- prohibit investment fund managers from paying upfront commissions to dealers, which would result in the discontinuation of the DSC option, and

- prohibit the payment of trailing commissions to dealers who are not subject to a suitability requirement, such as dealers who do not provide investment recommendations, in connection with the distribution of prospectus qualified mutual fund securities.

The 90-day comment period ended on December 13, 2018.

CSA Staff Notice 81-332

On December 19, 2019, the CSA published CSA Staff Notice 81-332 *Next Steps on Proposals to Prohibit Certain Investment Fund Embedded Commissions*[7] (**CSN 81-332**) to announce that the CSA, with the exception of the OSC (the **Participating Jurisdictions**), would publish final amendments that would prohibit the DSC option in early 2020.

CSN 81-332 also announced that all members of the CSA will publish for adoption final amendments later in 2020 to prohibit payments of trailing commissions to dealers who do not make a suitability determination.

OSC Staff Notice 81-730

Also on December 19, 2019, the OSC published OSC Staff Notice 81-730 *Consideration of Alternative Approaches to Address Concerns Related to Deferred Sales Charges*[8] to announce that the OSC would explore alternative approaches for addressing the investor protection concerns arising from the use of the DSC option.

Multilateral CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices

On February 20, 2020, the CSA, with the exception of Ontario, published *Multilateral CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices, Changes to Companion Policy 81-105CP to National Instrument 81-105 Mutual Fund Sales Practices and Changes to Companion Policy 81-101CP to National Instrument 81-101 Mutual Fund Prospectus Disclosure relating to Prohibition of Deferred Sales Charges for Investment Funds*[9] (the **2020 Multilateral CSA Notice**). The amendments published in the 2020 Multilateral CSA Notice prohibit the payment by fund organizations of upfront sales commissions to dealers, which results in the discontinuation of all forms of the DSC option, including low-load options (the **Multilateral DSC Ban**). The Multilateral DSC Ban comes into force on June 1, 2022 in all CSA jurisdictions, except in Ontario.

Proposed OSC Rule 81-502

Also on February 20, 2020, the OSC published for comment proposed Ontario Securities Commission Rule 81-502 *Restrictions on the Use of the Deferred Sales Charge Option for Mutual Funds*[10] (the **Proposed OSC Rule 81-502**) to introduce restrictions on the use of the DSC option that are designed to mitigate potential negative investor outcomes. In particular, the restrictions are intended to address the "lock-in" effect associated with the DSC option and reduce the potential for mis-selling, while allowing dealers to offer the DSC option to clients with smaller accounts.

CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices

On September 17, 2020, the CSA published *CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Related Consequential Amendments, Prohibition of Mutual Fund Trailing Commissions Where No Suitability Determination Was Required*[11] (the **CSA Trailing Commission Ban Notice**). The amendments published in the CSA Trailing Commission Ban Notice prohibit the payment of mutual fund trailing commissions from fund organizations to dealers who are not

6 https://www.osc.ca/sites/default/files/pdfs/irps/csa_20180913_81-105_mutual-fund-sales.pdf.
7 https://www.osc.ca/sites/default/files/pdfs/irps/csa_20191219_81-332_next-steps-proposals-prohibit-certain-investment-fund-embedded-commissions.pdf.
8 https://www.osc.ca/sites/default/files/pdfs/irps/rule_20191219_81-730_consideration-alternative-approaches-address-concerns-deferred-sales-charges.pdf.
9 https://www.bcsc.bc.ca/-/media/PWS/Resources/Securities_Law/Policies/Policy8/81105-CSA-Notice-February-20-2020pdf.
10 https://www.osc.ca/sites/default/files/pdfs/irps/rule_20200220_81-502-rfc-deferred-sales-charge-option-mutual-funds.pdf.
11 https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-105/csa-notice-amendments-national-instrument-81-105.

subject to the obligation to make a suitability determination under section 13.3 of NI 31-103, or under the corresponding rules and policies of the Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**) (the **Trailing Commission Ban**). The Trailing Commission Ban comes into force on June 1, 2022 in all CSA jurisdictions.

OSC Staff Notice 81-731

On May 7, 2021, the OSC published OSC Staff Notice 81-731 *Next Steps on Deferred Sales Charges*[12] to announce that the OSC will publish for adoption final amendments to prohibit the DSC option. The OSC also announced that the DSC ban in Ontario will come into force on June 1, 2022, to coincide with the in-force date of the Multilateral DSC Ban.

Summary of Written Comments Received by the CSA on the Proposed Amendments

The CSA received 56 comment letters on the Proposed Amendments. We thank everyone who provided comments. A summary of the comments together with our responses are set out in Annex A. The names of the commenters are also set out in Annex A.

Copies of the comment letters are posted on the website of the OSC at www.osc.ca.

Summary of Written Comments Received by the OSC on the Proposed OSC Rule 81-502

The OSC received 34 comment letters on the Proposed OSC Rule 81-502. We thank everyone who provided comments. A summary of the comments together with our responses are set out in Annex B. The names of the commenters are also set out in Annex B.

Copies of the comment letters are posted on the website of the OSC at www.osc.ca.

Adoption of the Proposed Amendments and Summary of Changes

After considering the comments received both on the Proposed Amendments and on Proposed OSC Rule 81-502, we have decided to proceed with finalizing the Proposed Amendments, which will result in a ban on the DSC option, as opposed to merely restricting the use of the DSC option, as proposed by Proposed OSC Rule 81-502. We have made some non-material changes to the Proposed Amendments. These changes are consistent with the amendments that were published as annexes to the 2020 Multilateral CSA Notice.[13] As these changes are not material, we are not republishing the Amendments for a further comment period.

The following is a summary of the key changes that we have made to the Proposed Amendments:

- **Definition of "trailing commission" in NI 81-105**

After consideration of the comments received, we have not added a definition of "trailing commission" as proposed in the Proposed Amendments, as it is not needed.

- **Section 4.1.1 of 81-105CP**

We did not add section 4.1.1 of 81-105CP as proposed in the Proposed Amendments because it is a statement regarding the operation of NI 81-105, rather than guidance, and is not necessary. We did add section 4.1.2 of 81-105CP as proposed in the Proposed Amendments as it provides clarification that the front-end load option is not impacted by the Amendments to NI 81-105. We have re-numbered section 4.1.2 of 81-105CP as section 4.1.1 and changed the sub-heading from "Means of payment" to "Front-end load sales option" for clarity.

- **Consequential Local Amendments to NI 81-101, i.e. Form 81-101F1 *Contents of Simplified Prospectus* (Form 81-101F1) and Form 81-101F3 *Contents of Fund Facts Document* (Form 81-101F3)**

Once the Amendments come into effect, the provisions requiring disclosure of the DSC option in the simplified prospectus and the fund facts document will no longer be applicable as the DSC option will no longer be offered. We have made consequential local amendments to Form 81-101F1 and Form 81-101F3 to remove references to the DSC option. These consequential local amendments were proposed in the Proposed Amendments or are otherwise considered to be non-material changes.

Any consequential amendments to Form 81-101F1 and Form 81-101F3 proposed in the Proposed Amendments which did not remove references to the DSC option are not considered to be necessary and are not included in the Amendments.

[12] https://www.osc.ca/sites/default/files/2021-05/sn_20210507_81-731_deferred-sales-charges.pdf.

[13] Further to the amendments published in 2020 Multilateral CSA Notice, the Participating Jurisdictions added subsection (2) to section 3.1 to NI 81-105. Subsection 3.1(2) of NI 81-105 in the Participating Jurisdictions has the same effect as the repeal of section 3.1 of NI 81-105 in its entirety in Ontario.

- **Consequential Local Changes to 81-101CP**

We have made non-material changes to the sample fund facts document in Appendix A of 81-101CP to remove references to the DSC option.

- **Consequential Local Amendments to NI 31-103**

We have made consequential local amendments to NI 31-103 as proposed in the Proposed Amendments but have made non-material changes to the amendments based on the most recent version of NI 31-103.

- **Consequential Local Changes to 31-103CP**

We have made non-material consequential local changes to 31-103CP to correspond with the consequential local amendments to NI 31-103.

The other CSA jurisdictions intend to publish corresponding consequential amendments to NI 81-101 and NI 31-101 and consequential changes to 81-101CP and 31-103CP in a separate publication.

Effective Date

The Amendments will take effect on June 1, 2022 (the **Effective Date**). As of the Effective Date, compliance with the new rules will immediately be expected.

Discontinuation of DSC option:

We anticipate that the period between the publication of this notice and the Effective Date will provide sufficient time for dealer firms and representatives who currently make use of the DSC option to transition their practices and operational systems and processes. For some dealer firms, this may also require a reassessment of their internal compensation arrangements. We believe this should also give investment fund managers enough time to revise their mutual funds' simplified prospectuses and fund facts documents to reflect the discontinuation of the DSC option in the Ontario. Further to the publication of the 2020 Multilateral CSA Notice, affected dealer firms and investment fund managers are already moving towards the implementation of a Multilateral DSC Ban.

Mutual fund investments purchased under the DSC option prior to the Effective Date will not have to be converted to the front-end load option or other sales charge option. Instead, the redemption schedules on those existing DSC holdings as of the Effective Date will be allowed to run their course until their scheduled expiry. Fund organizations will therefore be allowed to charge redemption fees on those existing holdings that are redeemed prior to the expiry of the applicable redemption schedule. Any new mutual fund purchases made as of the Effective Date, however, will need to be made in compliance with the new rules.

In the case of a prospectus that is receipted prior to the Effective Date and lapses after the Effective Date, OSC staff take the view that the discontinuance of the DSC option, effective on the Effective Date, would constitute a material change as defined in National Instrument 81-106 *Investment Fund Continuous Disclosure*. Accordingly, amendments would be required to both the simplified prospectus and fund facts documents to remove the applicability of any references to the DSC option and any commissions associated with the DSC option in Ontario. In lieu of such amendments, for prospectuses that are receipted prior to the Effective Date, the simplified prospectus and the fund facts documents may provide disclosure to state that the DSC option will not be available as of the Effective Date in Ontario. Such disclosure can be provided under the heading, "Fees and Expenses" in the simplified prospectus, and in a textbox before the heading "Quick Facts" in the fund facts document.

Client Focused Reforms:

The elimination of the DSC option will take effect on June 1, 2022. The Client Focused Reforms' enhanced conflicts of interest provisions come into effect on June 30, 2021. As a result, there will be an overlap period of approximately 11 months between the effective date of the Client Focused Reforms' enhanced conflicts of interest provisions and the effective date of the DSC ban. There will also be a five month overlap period between the effective date of the DSC ban and the Client Focused Reforms' enhanced suitability provisions, including the requirement to put the client's interest first, which come into effect on December 31, 2021.

In order to address any issues raised by the overlapping periods between the implementation of the enhanced conflicts of interest and "client first" suitability requirements of the Client Focused Reforms and the implementation of the DSC ban, the CSA jurisdictions (other than Ontario) have decided to grant relief from these enhanced standards in respect of sales of DSC products during the DSC transition period. To the extent that the final amendments to NI 81-105 to prohibit the DSC option in Ontario are approved in Ontario, the OSC is also supportive of similar blanket exemptive relief.

Contents of Annexes

The text of the Amendments is contained in the following annexes to this notice and is available on the websites of OSC at www.osc.ca:

Annex A: Summary of Comments and Responses on the Proposed Amendments to National Instrument *Mutual Fund Sales Practices* and Related Consequential Amendments (September 13, 2018)

Annex B: Summary of Comments and Responses on the Proposed Ontario Securities Commission Rule 81-502 *Restrictions on the Use of the Deferred Sales Charge Option for Mutual Funds* (February 20, 2020)

Annex C: Local Amendments to National Instrument 81-105 *Mutual Fund Sales Practices* in Ontario

Annex D: Local Changes to Companion Policy 81-105 *Mutual Fund Sales Practices* in Ontario

Annex E: Local Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* in Ontario

Annex F: Local Changes to Companion Policy 81-101 *Mutual Fund Prospectus Disclosure* in Ontario

Annex G: Local Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* in Ontario

Annex H: Local Changes to Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* in Ontario

Questions

Please refer your questions to any of the following:

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ANNEX A

SUMMARY OF COMMENTS AND RESPONSES ON THE PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 81-105 *MUTUAL FUND SALES PRACTICES* AND RELATED CONSEQUENTIAL AMENDMENTS

(SEPTEMBER 13, 2018)

Table of Contents

Part 1 – Background

Summary of Comments

On September 13, 2018, the Canadian Securities Administrators (the **CSA**) published for comment proposed amendments to NI 81-105 *Mutual Fund Sales Practices* (**NI 81-105**) and Companion Policy 81-105 *Mutual Fund Sales Practices* (**81-105CP**) and proposed consequential amendments to National Instrument 81-*101 Mutual Fund Prospectus Disclosure*, including Form 81-101F1 *Contents of Simplified Prospectus* and Form 81-101F3 *Contents of Fund Facts Document*, and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (collectively, the **Proposed Amendments**). The purpose of the Proposed Amendments is to implement the CSA's policy response to the investor protection and market efficiency issues arising from the prevailing practice of investment fund managers remunerating dealers and their representatives for mutual fund sales through commissions, including sales and trailing commissions (embedded commissions). The Proposed Amendments:

- prohibit investment fund managers from paying upfront commissions to dealers, which results in the discontinuation of the DSC option (the **DSC ban**), and
- prohibit the payment of trailing commissions to dealers who are not subject to a suitability requirement, such as dealers who do not provide investment recommendations, in connection with the distribution of prospectus qualified mutual fund securities (the **OEO trailing commission ban**).

On February 20, 2020, the Ontario Securities Commission (the **OSC** or **we**) published *Ontario Securities Commission Notice and Request for Comment, 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 **Proposed Rule**).

Also on February 20, 2020, the CSA, with the exception of Ontario, published *Multilateral CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices, Changes to Companion Policy 81-105CP to National Instrument 81-105 Mutual Fund Sales Practices and Changes to Companion Policy 81-101CP to National Instrument 81-101 Mutual Fund Prospectus Disclosure relating to Prohibition of Deferred Sales Charges for Investment Funds* (the **2020 Multilateral CSA Notice**)[1]. The amendments published in the 2020 Multilateral CSA Notice prohibit the payment by fund organizations of upfront sales commissions to dealers, which results in the discontinuation of all forms of the DSC option, including low-load options (the **Multilateral DSC Ban**). The Multilateral DSC Ban comes into force on June 1, 2022 in all CSA jurisdictions, except in Ontario.

[1] https://www.bcsc.bc.ca/-/media/PWS/Resources/Securities_Law/Policies/Policy8/81105-CSA-Notice-February-20-2020pdf.

On May 7, 2021, the OSC published OSC Staff Notice 81-731 *Next Steps on Deferred Sales Charges* to announce that the OSC will publish for adoption final amendments to prohibit the DSC option. The OSC also announced that the DSC ban in Ontario will come into force on June 1, 2022, to coincide with the in-force date of the Multilateral DSC Ban.

We received 56 comment letters on the Proposed Amendments for a DSC ban and the commenters are listed in Part 8. We thank everyone who took the time to prepare and submit comment letters. This document contains a summary of the comments we received on the Proposed Amendments and our responses. We have considered the comments received, and in response to the comments, we have made some amendments (the **Amendments**) to the Proposed Amendments.

With respect to the Proposed Rule, a summary of the comments and responses are provided in Annex B.

With respect to the Proposed Amendments for an OEO trailing commission ban, a summary of the comments and the CSA's responses were provided in the September 17, 2020 publication, *CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Related Consequential Amendments, Prohibition on Mutual Fund Trailing Commissions Where No Suitability Determination Was Required.* [2]

Part 2 – General Comments

Issue	**Comments**	**Responses**
DSC ban	**Investors and Investor Advocates** Investors and investor advocates overwhelmingly support the immediate implementation of a DSC ban and rebut many of the industry stakeholder comments. Their key comments are: • ***The DSC option is harmful to investors and should be eliminated:*** Many investors and investor advocates submit that the DSC option benefits only the interests of investment fund managers and dealers at the expense of investor interests. The upfront commission payable on mutual fund sales made under the DSC option incents advisors to place investors in funds not based on performance or "fit" but rather based on anticipated compensation needs of the dealer/representative. The DSC option also allows investment fund managers to increase and/or maintain assets on which to charge a management fee. This increases the revenues to both dealers/representatives and investment fund manager to the detriment of investor outcomes; • ***The current use of the DSC option is not driven by investor choice but by dealer preference:*** Investor advocates submit that the current use of the DSC option is not driven by investor choice but by dealer/representative preference or acquired dependency on the upfront commission payment that DSC sales provide to finance their operations and grow a book of business. They submit that investors are generally not informed or not given a choice of several purchase options by their dealer/representative, but rather	We appreciate the support from the commenters. We continue to be of the view that the upfront sales commission payable by mutual fund organizations to dealers for mutual fund sales under the DSC option gives rise to a conflict of interest that can incentivize dealers and their representatives to make self-interested investment recommendations to the detriment of investor interests.

[2] https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-105/csa-notice-amendments-national-instrument-81-105.

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<tr><td></td><td>have these choices limited and determined by the dealer/representative based on their revenue requirements. The DSC is an inferior choice that allows for the exploitation of less informed, less advised consumers, and that needs to be eliminated to improve the quality of advice. More choice does not necessarily mean better choice;
Concerns that a DSC ban would limit access to advice are overstated: Investor advocates remark that the DSC option was never created for any reason related to making advice available to more people, but rather was created to benefit mutual fund sellers because of investor resistance to transparent front-end commissions on mutual fund sales. Moreover, investor advocates state that industry comments regarding an advice gap for smaller investors
gloss over the fact that an advice gap already exists in Canada – i.e. many advisors are disinclined or unable to service small accounts, despite the current availability of the DSC option, and
disregard or downplay innovations that have opened significant new avenues for serving small investors (e.g. no-load funds offered by banks, low-cost/trailing commission-free funds offered by direct sellers, robo-advisors);
Good investor discipline should be encouraged through quality advice rather than hardwired in a purchase option: Investors submit that the argument that the DSC should be maintained because it keeps investors invested when markets turn is not valid. It is the role of the representative to manage investor behavior. Good counselling and a well-constructed portfolio rather than a lock-in feature built into a purchase option, are the best defense against panic behavior.</td><td></td></tr>
<tr><td>DSC ban</td><td>Industry Stakeholders

The vast majority of industry stakeholders oppose the DSC ban for the following reasons:
Concerns with the DSC can be addressed with existing tools and/or additional guidelines: Many industry stakeholders submit that the DSC option can be a viable and legitimate purchase option if used and regulated appropriately and that it has a role for certain investors, in particular those with smaller amounts to invest. They submit that regulatory</td><td>

We do not agree that the regulatory concerns related to the DSC option arise only from the suitability of the investment recommendation. For example, redemption fees can raise investor</td></tr>
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	concerns related to the DSC option arise from the suitability of the investment recommendation rather than the DSC option itself and that regulators must continue to enforce compliance with the suitability and disclosure obligations where registrants fail to comply.	protection concerns even when a proper suitability evaluation has been conducted. We refer you to CSA Notice 81-330 published on June 21, 2018 for an overview of the problematic registrant practices and investor harms we have identified in connection with the use of the DSC option.
	• ***Chargeback model:*** In addition, some industry stakeholders suggest allowing the use of the DSC option only within established guidelines and to require dealers rather than investors to pay the redemption fee;	Requiring dealers, rather than investors, to pay redemption fees under the DSC option does not eliminate the conflict of interest which stems from the payment of an upfront commission. It also gives rise to a new conflict of interest as dealers may attempt to dissuade investors from making redemptions in order to avoid paying redemption fees.
	• ***Other market and regulatory changes are likely to impact the use of the DSC option:*** Many industry stakeholders remark that market forces and disrupters (e.g. robo-advisors, digital advisory solutions for dealers, ETFs, fee-based accounts) are driving changes independent of regulation and are prompting a steady decline in the use of the DSC option, which trend is expected to continue. Furthermore, the higher conduct standards proposed under the **Client Focused Reforms**, particularly the enhanced suitability requirement and expanded conflict of interest obligations as they relate to third-party compensation, are expected, if adopted, to further accelerate the decline in the use of the DSC option. Industry stakeholders recommend that the CSA provide guidance in the Client Focused Reforms establishing a set of best practices for the continued use of the DSC option in appropriate circumstances;	We acknowledge that the use of the DSC option has been in steady decline.
	• ***DSC ban would give rise to unintended consequences:*** ○ ***Impact on investors:***	With advances in industry innovation, Ontario investors have access to affordable investment options, including no-load funds and exchange-traded

	▪ ***Reduce investor choice and access to advice:*** Many industry stakeholders submit that the DSC ban would limit choice for investors as to how they may acquire investment funds and pay for advice. Fewer choices of compensation models would limit access to financial advice, particularly for smaller investors, as it would encourage the growing tendency of dealer firms to focus on higher-net worth investors to maintain revenue levels;	funds that are available to investors of all account sizes. Ontario investors also have access to investment products and investment advice with more affordable and more transparent compensation models. We also expect that dealers will adapt their business models to continue serving the needs of a wide range of investors. We also expect that the impact of the ban on investor choice and access to advice will be limited as mutual funds with the DSC option have been in net redemptions since 2016 and had a total net outflow of $3.34 billion in Canada during 2020. During the same time, there was a total net inflow of $23 billion into mutual funds with no-load options.[4]
	▪ ***Reduce investor discipline:*** Several industry stakeholders submit that smaller mutual fund investors may be deterred from investing under the front-end option (due to the front-end commissions payable from the purchase amount), and that this may consequently reduce savings rates. They also submit that the elimination of redemption fees further to the DSC ban may reduce investors' motivation to invest for the long-term and may encourage "short-termism" and impulsive responses to market volatility;	We are of the view that redemption fees are not the only or most cost-effective way for investors to discipline themselves. Dealer representatives can use other effective ways to encourage investor discipline. We also believe that the front-end option, which is a direct fee, does not present the same investor protection concerns as the DSC option. The research we have gathered and reviewed suggests that investors are more sensitive to salient upfront fees like front-end loads and are more likely to control such visible and salient fees that they must pay directly.

4 See page 65 of the Investor Economics Insight Report January 2021.

	○ ***Impact on mutual fund dealers/advisors – impede recruitment and succession planning:*** Many industry stakeholders submit that the DSC ban would make it more difficult for new advisors to establish a book of business and may consequently impede advisor recruitment and succession planning. This is because newer advisors often rely on the upfront commissions that investment fund managers pay on DSC sales to establish themselves and afford the initial high cost of establishing a new business, whereas the more established advisors are often able to forego the upfront commission and instead live off of a steady flow of trailing commissions paid over several years;	The concern is noted. However, we expect that the DSC ban will encourage dealers to adapt their business models, which may involve establishing alternative remuneration models for new advisors.
	○ ***Impact on competition – favouring the vertical/bank channel:*** Non-deposit taker mutual fund dealer firms and investment fund managers that utilize the DSC option submit that the DSC ban would further skew the competitive balance towards the larger, vertically-integrated firms that generally do not utilize the DSC. This could encourage further industry consolidation (i.e. banks' continued acquisition of independent dealers), further consolidating market power in bank-owned entities, which would reduce choice and competition for investors;	We also expect that dealers who currently offer the DSC option will adapt their business models to continue serving the needs of a wide range of investors.
	• ***The DSC ban would not decrease management expense ratios:*** Several investment fund managers disagree with the CSA's stated expectation that the elimination of the DSC option would reduce management fees for mutual funds.[3] They submit that there is not always a direct correlation between the upfront commission paid to dealers and the management fee charged by the investment fund manager. In their view, competitive pressures are a much greater factor in an investment fund manager's decision to reduce management fees.	We expect that, since fund organizations will no longer incur the cost of financing upfront sales commissions to dealers on DSC mutual fund sales, the management fees charged to the mutual funds who previously offered the DSC option will be reduced in many cases.
	• ***Guidelines and restrictions on the sale of DSC:*** One industry commenter proposed the following guidelines and restrictions on the sale of DSC: (a) enhanced disclosure of the DSC schedule that is acknowledged by the client, (b) one	After considering the comments received to both the Proposed Amendments and the Proposed Rule to introduce restrictions on

[3] In the CSA Notice and Request for Comment for the Proposed Amendments, the CSA stated: "*We expect that, since fund organizations will no longer incur the cost of financing upfront sales commissions to dealers on DSC mutual fund sales, the management fees charged to the mutual funds who previously offered the DSC option will be correspondingly reduced.*"

		commission policy so once a DSC schedule has been completed on an account, the amount invested is not put into a new DSC schedule at the same dealer, (c) limit the use of DSC at ages which are appropriate to reduce the potential for these fees to be incurred, (d) limit the use of DSC to a client's time horizon, and (e) require advisors to ensure clients consider establishing an emergency fund that is not subject to a DSC charge. Given the Ontario government's opposition to the proposed DSC ban, one investor advocate proposed that the following interim measures that would reduce, but not eliminate, investor harm, until a full ban can be implemented: (a) require written policies by dealers to detect and prevent mis-selling and churning of DSC funds, (b) tighten up suitability guidance from MFDA and IIROC, (c) cap the DSC redemption fee rate and schedule and allow 10% free redemption annually, (d) DSC money market funds should have 0% redemption fees and no redemption fee schedule, (e) prohibit sales of DSC when using leverage, (f) prohibit DSC sales to vulnerable investors, (g) one commission policy, (h) prohibit DSC funds in RRIF accounts, (i) no redemption fees in the event of fund mergers, (j) cap dealer switch fees for DSC funds, (k) waive DSC redemption fees in event of unitholder death, (l) separate Fund Facts for DSC funds, and (m) introduce standardized DSC acknowledgement form.	the use of the DSC option that are designed to mitigate potential negative investor outcomes, we have concluded that an outright ban on the DSC option is the best path forward.
Part 3 – Comments on the Definition of "Member of the Organization"			
<u>Issue</u>	**<u>Sub-Issue</u>**	**<u>Comments</u>**	**<u>Responses</u>**
1. Under the Proposed Amendments, we propose to expand the definition of "member of the organization" in NI 81-105 to capture an "associate", as defined under securities law, of the investment fund manager, of the principal distributor or the portfolio advisor of the mutual fund.		Only one comment was received with respect to the expansion of the definition of "member of the organization". The commenter did not raise any objections.	We did expand the definition of "member of the organization" in NI 81-105 to capture an "associate", consistent with the amendments published in the 2020 Multilateral DSC Notice.
	(a) Aside from potential	One industry commenter commented that until the decision to eliminate the DSC option has	We did not to repeal paragraph (e) from the

	future modernization amendments contemplated further below, are there additional immediate changes or updates we should consider making to the definition? For example, would paragraph (e) of the definition still be relevant further to the elimination of the DSC option?	been finalized, any changes would not be recommended. The commenter did point out that paragraph (e) may be relevant should a dealer choose to pay the fund company the gross proceeds of an investor's purchase and the fund company would deduct and send back to the dealer their sales commission as directed by the dealer. Another commenter noted that with the repeal of s.3.1 of NI 81-105, it would not make sense to maintain paragraph (e) of the definition of "member of the organization" and therefore paragraph (e) should be repealed. The commenter did not find any other changes to the definition to be necessary.	definition of "member of the organization", consistent with the amendments published in the 2020 Multilateral DSC Notice.
Part 4 – Comments on Repeal of Section 3.1 of NI 81-105			
Issue	**Sub-Issue**	**Comments**	**Responses**
2. Would the proposed repeal of section 3.1 of NI 81-105 have the expected effect of eliminating all forms of the DSC option? If not, what other measures should be taken to ensure that all forms of the DSC option are eliminated?		One commenter was of the opinion that no additional changes would be required to eliminate DSC. As section 3.1 authorized payments of commissions from fund companies to dealers, the conflicting element of the DSC would be eliminated. One investor advocate recommended specifically adding: "For greater clarity, the regulatory intent of these provisions is to prohibit any form of a deferred sales charge option for a mutual fund" in the final version of the Amendments.	We are of the view that the Amendments which will prohibit investment fund managers from paying upfront commissions to dealers, will result in the discontinuation of the DSC option.
3. Would there be any sales practices and/or compensation arrangements with a redemption fee schedule and redemption fee that could exist despite the repeal of section 3.1 of NI 81-105? **If so, are rule changes required to specifically**		One industry commenter was of the view that a compensation arrangement could not continue to exist once the upfront commission was eliminated. Another commenter wrote that segregated funds would still exist with a DSC option as a compensation arrangement with a redemption fee schedule and redemption fee, despite the repeal of section 3.1 of NI 81-105. Further, regulatory arbitrage towards insurance registration is a significant risk that will negatively impact CSA registrant AUA/AUM, and financial stability.	We are of the view that the Amendments which will prohibit investment fund managers from paying upfront commissions to dealers, will result in the discontinuation of the DSC option.

prohibit redemption fees that are charged for purposes other than to deter excessive or short-term trading in funds?			
4. We do not expect that the repeal of section 3.1 of NI 81-105 will have any impact on the availability and use of other sales charge options, including the front-end load option as it currently exists today.	**(a) Are there any unintended consequences on the front-end load option with the repeal of section 3.1 that we should consider?**	One industry commenter commented that if dealers are not able to access the DSC option, they may be forced to increase their use of front-end sales charges in order to be adequately compensated for the advice and services they provide to their clients. Front-end sales charges reduce the amount of initial investment into a mutual fund, which could have long-term consequences for investors in the form of less savings. DSC was originally created so that investors would not have to pay an upfront sales charge and was the main reason that front-end sales charges declined in popularity. Prohibiting DSC would be a step backwards. Another commenter could not foresee any unintended consequences given that there is no payment from the fund company to the dealer but effectively a facilitation of a payment from the client to the dealer, which is specifically contemplated in the proposed s.4.1.2 of 81-105CP. One industry commenter wrote that the use of the DSC Option in an RDSP account allows the investor's funds to be fully invested from day one without incurring a direct sales charge, and since the grants and bonds are based on contributions to the account, this in turn can maximize grants and bonds that can be provided to the investor. In the absence of the DSC Option, the costs of servicing these types of accounts may rise, which will directly impact the investors who make use of this account. Another commenter wrote that an unintended consequence on the front-end load option would be an increasing shift to the use of funds with a higher front-end load, including those with a maximum charge of 5%. An industry commenter wrote that there are three significant unintended consequences. First, it will drive customers away from the independent advice distribution channel. Eliminating this option is not in the best interest of investors. Second, overall costs to investors will increase. Rather than have the possibility of incurring a sales charge under the DSC option, investors are likely to incur such a cost where some up-front compensation is needed for the investor to receive personal financial advice. Third, the front-end load option reduces the amount available to be invested by the customer.	We added section 4.1.2 of 81-105CP as proposed in the Proposed Amendments as it provides clarification that the front-end load option is not impacted by the Amendments to NI 81-105. We have re-numbered section 4.1.2 of 81-105CP as section 4.1.1 and changed the sub-heading from “Means of payment” to “Front-end load sales option” for clarity. We consider that the front-end load option to be a sales commission paid directly by the investor and not by the fund organization, and thus is not within the scope of NI 81-105. The research we have gathered and reviewed suggests that investors are more sensitive to salient upfront fees like front-end loads and are more likely to control such visible and salient fees that they must pay directly.

	(b) Are there any other types of sales charge options that will be impacted by repealing section 3.1?	Only one comment was received. The commenter could not foresee any other types of sales charge options being impacted.	We thank the commenter for their feedback.
Part 5 – Comments on Transition Period			
Issue	**Sub-Issue**	**Comments**	**Responses**
5. A transition period of 1 year from the date of publication of the final amendments is sufficient time for registrants to operationalize the Proposed Amendments. **Are there any transitional issues for fund organizations and participating dealers with implementing the Proposed Amendments within the proposed 1-year transition period?** **If so, please provide details of the relevant operational, technological, systems, compensation arrangements or other significant business changes required, and the minimum amount of time reasonably required to operationalize those changes and comply with**		***DSC Ban*** – Many industry stakeholders submit that the 1-year transition period proposed for the implementation of the DSC ban should be extended to a minimum of 2 years, with some stakeholders proposing a transition of up to 3 years. The extra time is required to allow impacted dealers/advisors to change their business models to accommodate alternative compensation arrangements, including new internal compensation arrangements.[5]	The Amendments will come into force on June 1, 2022, to coincide with the in-force date of the Multilateral DSC Ban. We anticipate that the period between the publication of the Amendments and the Effective Date will provide sufficient time for dealer firms and representatives who currently make use of the DSC option to transition their practices and operational systems and processes. Further to the publication of the 2020 Multilateral CSA Notice, affected dealer firms and investment fund managers are already moving towards the implementation of a Multilateral DSC Ban.

[5] Independent mutual fund dealers that participated in in-person consultations held in Québec submitted that the DSC ban may lead them to change the current compensation arrangements with their senior advisors to reduce their payouts (generally around 80% of the commissions paid by the investment fund manager) in order to increase the compensation of new advisors. This would take time as it would require an important change in culture, a new way to work in a team (senior advisors and new advisors) and negotiations with the impacted senior advisors.

the Proposed Amendments.			
6. With the implementation of the Proposed Amendments, would the required changes to the disclosure in the simplified prospectus and fund facts documents within the proposed 1-year transition period necessitate amendments outside of a mutual fund's prospectus renewal period? Would these changes be considered to be material changes under NI 81-106?		One commenter expressed that the Proposed Amendments would constitute a material change for the mutual fund depending upon the specific facts applicable to each fund organization. For example, if the final rule results in the capping of, or the ceasing to offer, a specific series, it may constitute a material change. As a result, the final rule should provide a mechanism to permit revised disclosure to be included in the next prospectus renewal with a future effective date indicated. Finally, disclosure of the DSC option would have to be included in fund offering documents until the final redemption schedule runs out to address disclosure for those investors who purchased under the DSC option and switch to another fund within the same fund family. The fund offering documents would have to indicate that the DSC option is not available for new purchases. Other commenters agreed that this would necessitate amendments outside of a mutual fund's prospectus renewal period and that these changes would be considered material under NI 81-106. Making amendments outside of the prospectus renewal schedule will be expensive, with unitholders ultimately bearing that expense. Another commenter noted that there may be diverging practices in the context of the NI 81-105 amendments and it would be in the best interests of clients if the regulators state whether an amendment is required. The commenter felt that amendments should not be required and that one year would generally be sufficient to change the prospectus and Fund Facts documents.	As discussed in the accompanying OSC Notice, we take the view that the discontinuance of the DSC option would be a material change as defined in National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**). In such cases, amendments to both the simplified prospectus and fund facts documents would be required to indicate that the DSC option is no longer available. In lieu of such amendments, prospectuses and fund facts documents receipted prior to the Effective Date may provide disclosure indicating that the DSC option will not be available as of the Effective Date. The simplified prospectus form requirements require disclosure of sales options available for purchase. While fund managers may opt to continue to include disclosure about the DSC option in fund offering documents until the final redemption schedule runs out, it is not a simplified prospectus form requirement. However, fund managers may choose to include this information on their website for the benefit of investors who have previously purchased the funds under this option.
7. At this time, the CSA is allowing		Several commenters did not support requiring existing DSC holdings to be converted to the	We agree with commenters that mutual

redemption schedules on existing DSC holdings as of the effective date of the Proposed Amendments to run their course until their scheduled expiry, and fund organizations to continue charging redemption fees on those existing holdings that are redeemed prior to the expiry of the applicable redemption schedule. Should the CSA propose amendments to require existing DSC holdings as of the effective date of the Proposed Amendments to be converted to the front-end load option or other sales charge option? If so, are there any transitional issues for fund organizations and participating dealers with converting existing DSC holdings to another sales charge option? What would be an appropriate transition period?		front-end load option or sales charge option and requested that the DSC schedules of existing holdings should be allowed to run to maturity. By proposing amendments to convert DSC holdings earlier than their normal redemption schedule, the CSA would be interfering with the commercial arrangement that was established between investment fund managers, dealers and investors at the time the mutual fund units were purchased by the investor. Other commenters supported allowing redemption schedules to run their course and indicated that redemption charges should still apply even if regulations require a quicker transition out of DSC fund units. They noted that the economics of the compensation arrangement have already been agreed to and should not be changed by regulatory intervention. This would be consistent with the approach taken by the UK Financial Conduct Authority as part of its Retail Distribution Review. One commenter stated that for clients that are invested in a mutual fund with a DSC, additional time may be required for clients to complete the redemption schedule without paying the DSC charge if they were forced to switch to another purchase option due to the Proposed Amendments. The commenter felt that there should also be guidance regarding transfers-in of holdings from other dealers in the Proposed Amendments for clarity. One commenter indicated that if a switch to front-end is required immediately, it would be unfair to not permit the fund manager to charge any redemption fee. One investor advocate wrote that switching to F class (or equivalent) should take place on a no cost, tax-free basis no later than the effective date. Switching should actually take place now given the financial harm that investors are enduring. The downside of a conversion is that the fund assets would be subject to higher trailing commission after conversion, unless offset by a reduced MER.	fund investments purchased under the DSC option prior to the Effective Date will not have to be converted to the front-end load option or other sales charge option. Instead, the redemption schedules on those existing DSC holdings as of the Effective Date would be allowed to run their course until their scheduled expiry. Fund organizations would therefore be allowed to charge redemption fees on those existing holdings that are redeemed prior to the expiry of the applicable redemption schedule.

Part 6 – Comments on Regulatory Arbitrage

Issue	Comments	Responses
8. We understand that the elimination of the DSC option may give rise to the risk of regulatory arbitrage to similar	Many industry stakeholders commented that the DSC ban would encourage regulatory arbitrage to similar non-securities financial products, such	We did not receive any comments on controls and processes that

non-securities financial products, such as segregated funds, where such purchase option and its associated dealer compensation are still available. Please provide your thoughts on controls and processes that registrants may consider using, and on specific measures or initiatives that the relevant regulators should undertake, to mitigate this risk.	as segregated funds, where the DSC option is still available, and that the CSA should liaise with other financial regulators before proceeding with any policy initiative that will cause a difference in treatment among similar retail investors.	registrants may consider using, or on specific measures or initiatives that the relevant regulators should undertake, to mitigate the risk of regulatory arbitrage. Accordingly, the Amendments do not propose any specific measures or initiatives in this respect.
Part 7 – Comments on Modernization of NI 81-105		
Issue	**Comments**	**Responses**
9. CSA may consider future amendments to modernize NI 81-105, an instrument that has been in place since May 1998. Given that NI 81-105 aims to restrict compensation arrangements that can conflict with registrants' fundamental obligations to their investor clients, and given that the proposed Client Focused Reforms introduce the requirement for registrants to address conflicts of interests, including conflicts arising from third-party compensation, in the best interests of clients or avoid them, should the modernization of NI 81-105 entail a consolidation of its requirements into the registrant conduct obligations of NI 31-103?	Several commenters were of the view that although NI 81-105 should be modernized and updated, it is not necessary to consolidate it into the registrant conduct obligations of NI 31-103, as it would be potentially confusing. Some industry commenters recommended that the CSA finalize their amendments to NI 31-103 and allow this NI 81-105 consultation to run its course before entertaining any ideas of consolidation of, or further change to, the National Instruments. Industry will require time and resources to implement the final amendments and the CSA will require time to assess the efficacy of the amendments prior to undertaking another consultation of these National Instruments. A few commenters opposed the consolidation of NI 81-105 requirements into NI 31-103. One commenter indicated that NI 81-105 is designated specifically for retail-oriented mutual funds and provides simplicity by having the requirements contained in one National Instrument focused on this specific product. Given the detail and length of NI 31-103 and 31-103CP, including NI 81-105 would create undue complexity and confusion for industry participants. One commenter expressed that although the current Proposed Amendments do not affect Section 5.4, the CSA should revisit these restrictions and move away from naming specific providers (i.e., IFIC and the IDA), and requiring exemptive relief. Other commenters indicated that NI 81-105 should represent a comprehensive code for compensation arrangements, even if there is duplication of other National Instruments. Payments that are substantively similar to those that are proposed to be discontinued should also be terminated to ensure consistent and fair competitive dynamics and investor choice. In addition, the CSA should work with their	We thank commenters for their feedback. These comments will be taken in consideration should the CSA decide to modernize NI 81-105 at a future date.

	insurance and other counterparts to view segregated funds and the universal life portion of insurance policies. Regulators may also wish to examine in more detail the compensation practices and benefits provided to scholarship plan dealers. One investor advocate expressed that NI 31-103 and NI 81-105 are intertwined so a consolidation into NI 31-103 makes sense. Without consolidation, if there is a conflict between the NI 31-103 and NI 81-105, then NI 31-103 should have precedence.	
10. NI 81-105 currently applies only to the distribution of prospectus qualified mutual funds. In our view, the conflicts arising from sales practices and compensation arrangements that are addressed by the provisions in NI 81-105 are not unique to the distribution of prospectus qualified mutual funds and also arise in the distribution of other investment products, either sold under a prospectus or a prospectus exemption. Are there other types of investment products that are not currently subject to NI 81-105, such as non-redeemable investment funds, certain labour-sponsored investment funds, structured notes and pooled funds that should also be subject to NI 81-105? If not, why should these investment products, their investment fund managers and the dealers that distribute them, remain outside the scope of NI 81-105?	One commenter was of the view that the scope of NI 81-105 should not be extended to include alternative investment products. The types of investors who purchase non-prospectus offered alternative investment products, including non-redeemable investment funds, are sophisticated investors who understand the terms of their investments and are given the opportunity to negotiate the terms of the offering. Also, alternative investment funds typically rely on relationship-based investing with their clients and distribute their own investment product. If the CSA were to extend the scope of NI 81-105 to include non-prospectus offered alternative investment products, it would be departing from the approach that it has historically taken even though the rationale for regulating them differently than mutual fund securities distributed pursuant to a prospectus or simplified prospectus will not have changed. Another industry commenter also agreed that exempt products should remain outside the scope of NI 81-105, as the industry needs to maintain some sort of compensation structure for those selling these higher-risk products. Private capital raises for new and existing businesses that drive employment, technology and innovation are needed for these firms to succeed. The elimination of up-front compensation for exempt market product sales would effectively eliminate this form of capital raising. Two industry commenters wrote that pooled funds should not be subject to NI 81-105. These types of products are sold pursuant to prospectus exemption and are not subject to other mutual fund rules such as National Instrument 81-101 – *Mutual Fund Prospectus Disclosure*, National Instrument 81-102 – *Investment Funds* or National Instrument 81-107 – *Independent Review Committee for Investment Funds*. Further, Client Focused Reforms seem to enhance the existing conflict of interest obligations in a manner which would capture any concerns associated with the sale of other types of investment products.	We thank commenters for their feedback. These comments will be taken in consideration should the CSA decide to modernize NI 81-105 at a future date.

	Some industry commenters were of the view that it is unnecessary to have products such as structured notes and pooled funds included in NI 81-105. For IIROC firms, most of these products are portfolio managed, discretionary solutions predominantly aimed at higher net worth clients. As such, these portfolio managed services and products are not usually purchased by middle income Canadians, the key investors that both the Client Focused Reforms and the Proposed Amendments are designed to protect. Furthermore, costs of offering these products will likely increase if more regulatory requirements are placed upon them. Another commenter noted that it may be useful to consider expanding the scope to other public funds, but only after consultation and research into industry practice in conjunction with a complete review and modernization of NI 81-105. It should not be expanded to private pool funds at this time, unless the CSA determine that, after carrying out research and consultation, the same concerns about sales practices exist in respect of pooled funds, as for public mutual funds. One industry commenter wrote that the CSA should consider separately managed accounts (**SMAs**) and unified managed accounts (**UMAs**) as they are considered fee-based accounts and are becoming increasingly popular, particularly among the banks. They are not subject to the same disclosure requirements as mutual funds and there is little disclosure of the performance of these accounts, although investors do receive reporting after they buy these products. There is also no publicly available price information about these products. Investors may not be aware that a higher portion of the fee goes towards advisor compensation than the commissions on a mutual fund. Rather, SMAs and UMAs are typically pitched as cheaper and superior alternatives to mutual funds, but in many cases, they are not. Another commenter indicated that the goal should be to regulate products that are either mutual-fund-like or that are sold alongside mutual funds by the same representatives in the same manner as mutual funds. Another commenter suggested that NI 81-105 should apply more broadly to include other investment products, not just prospectus qualified mutual funds. New types of investment products have been developed since NI 81-105 was adopted in 1998, and they should be subject to similar controls on sales practices and other arrangements if they are not captured elsewhere. However, this should be part of an overall review that would seek to modernize the instrument and reduce the burden of overly prescriptive requirements.	

	One industry commenter suggested that ETFs should be brought within the scope of NI 81-105.	
11. We seek feedback on whether we should change the term "trailing commission" to a plain language term that investors would better understand and would better describe what a trailing commission is. If so, what are some suggested terms?	One industry commenter opposed changing the term “trailing commission” because the current term is appropriate because a trailing commission trails after the advisor after the sale. Other commenters also opposed changing the term “trailing commission” and pointed out that term is used in a number of documents including compliance manuals, in prospectuses, Fund Facts documents and CRM2 reporting. Changing the term would result in unnecessary costs to revise the disclosure and reporting documents with no demonstrable benefit. Introducing a new term may only increase client confusion as it may raise questions as to whether it is a new fee. Consistency and continuity of the term helps to provide clarity. One commenter indicated that there has been much discussion of trailing commissions in the media so it is a fair assumption that investors understand the term generally. Another commenter strongly opposed the proposed definition for NI 81-105 in section 1.1. The commenter suggested that the definition of trailing commission should capture what the investor is specifically paying for and should not justify payments by an investor for continuing to hold the fund but not receiving any services or advice in respect of continuing to own the fund. One commenter suggested that an explanation be provided alongside the term “trailing commission”, and/or redirect investors to where more explicit information is available. Broadening the definition to include any services provided to the client, not limited to advice, will require clear language so firms and advisors understand what “services” are (or are not) captured as a trailing commission. Some commenters were open to the CSA’s efforts to improve consumer understanding of fees. One commenter suggested the term “ongoing annual commission” – or something similar. Another commenter suggested “service fee” or “advice fee” and another suggested “perpetual sales charge” or “ongoing sales charge” to help investors understand that the size of the fee grows at a compound rate. One investor advocate suggested the terms “distribution commission” or “service charge” but noted that any terminology employed would require investor testing. The commenter also suggested amending the definition to: A trailing commission is any payment by a mutual fund company to an investment dealer that is part of a	We thank commenters for their feedback. These comments will be taken in consideration should the CSA decide to modernize NI 81-105 at a future date.

	continuing series of payments directly related to a client's ownership of a mutual fund.	
12. The definition of "participating dealer" in NI 81-102 carves out a principal distributor. As a result, principal distributors are not subject to the provisions of NI 81-105 that apply to participating dealers. Should the modernization of NI 81-105 contemplate the inclusion of principal distributors in the application of all the provisions of NI 81-105? Alternatively, are there specific provisions in NI 81-105 that should also apply to principal distributors? Please explain.	Two industry commenters commented that the conflicts around payments by fund managers to participating dealers that NI 81-105 is designed to moderate are not as apparent in connection with principal distributors. Any decisions to expand or change NI 81- 105 should only be done in conjunction with a complete review of its terms and provisions with a view to modernizing it. One commenter wrote that the prohibition on the payment of trailing commissions where no suitability determination is made should apply to principal distributors as well as participating dealers; otherwise, dealers that are principal distributors would have an unfair advantage over participating dealers. Also, OEO dealers could become principal distributors of mutual funds offered by an affiliated investment fund manager in order to receive trailing commissions. Two industry commenters supported expanding the scope of NI 81-105 to include principal distributors to ensure a level playing field as dealers engaging in similar forms of activities should fall under similar regulations. Integrated financial institutions involved in both the manufacturing and distribution of a mutual fund product should not be exempt from the requirements applicable to third party dealers.	We thank commenters for their feedback. These comments will be taken in consideration should the CSA decide to modernize NI 81-105 at a future date.

Part 8 – List of Commenters

<u>Commenters</u>

- Advocis, The Financial Advisors Association of Canada
- AGF Investments Inc.
- Alternative Management Association
- Association Professionnelle des Conseillers en Services Financiers
- Blanes, Alan
- Boom, Mary
- Borden Ladner Gervais LLP
- CARP
- Clark, Keir
- Durnin, James S.
- Dusmet, Tom
- Elford, Larry
- Elliot, Ruth
- FAIR Canada
- Federation of Mutual Fund Dealers
- Fidelity Investment Canada
- Fieldstone, David
- Financial Planning Standards Council
- Finandicap Inc.
- Franklin Templeton Investments Corp.
- Glick, Isaac
- Gosselin, Eric F.
- Groupe Cloutier Investissements
- HighView Asset Management Ltd.

- Independent Financial Brokers of Canada
- Invesco Canada Ltd.
- Investment Industry Association of Canada
- Jagdeo, Millie
- Kenmar Associates
- Kivenko, Ken
- Le Groupe financier PEAK
- Loeppky, Bruce
- MacDonald, James Richard
- Mackenzie Financial Corporation
- McFadden, D.
- Merici Services Financiers Inc.
- MICA Capital Inc.
- Mouvement Desjardins
- Naglie, Harvey
- National Bank of Canada
- OSC Investor Advisory Panel
- Portelance, Eric
- Portfolio Strategies Corporation
- Pozgaj, Steve
- Primerica Financial Services (Canada) Ltd.
- RBC Entities
- Rosen, Yegal
- Ross, Art
- Stenzler, Gary
- TD Wealth
- The Canadian Advocacy Council for Canadian CFA Institute Societies
- The Investment Fund Institute of Canada
- The Portfolio Management Association of Canada
- The Small Investor Protection Association
- Whitehouse, Peter

ANNEX B

SUMMARY OF COMMENTS AND RESPONSES ON THE PROPOSED ONTARIO SECURITIES COMMISSION RULE 81-502 *RESTRICTIONS ON THE USE OF THE DEFERRED SALES CHARGE OPTION FOR MUTUAL FUNDS*

(FEBRUARY 20, 2020)

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Part 1 – Background

Summary of Comments

On September 13, 2018, the Canadian Securities Administrators (the **CSA**) published for comment proposed amendments to NI 81-105 *Mutual Fund Sales Practices* (**NI 81-105**) and Companion Policy 81-105 *Mutual Fund Sales Practices* (**81-105CP**) and proposed consequential amendments to National Instrument 81-*101 Mutual Fund Prospectus Disclosure*, including Form 81-101F1 *Contents of Simplified Prospectus* and Form 81-101F3 *Contents of Fund Facts Document*, and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (collectively, the **Proposed Amendments**). The purpose of the Proposed Amendments is to implement the CSA's policy response to the investor protection and market efficiency issues arising from the prevailing practice of investment fund managers (**IFMs**) remunerating dealers and their representatives for mutual fund sales through commissions, including sales and trailing commissions (**embedded commissions**). The Proposed Amendments:

- prohibit investment fund managers from paying upfront commissions to dealers, which results in the discontinuation of the DSC option (the **DSC ban**), and
- prohibit the payment of trailing commissions to dealers who are not subject to a suitability requirement, such as dealers who do not provide investment recommendations, in connection with the distribution of prospectus qualified mutual fund securities (the **OEO trailing commission ban**).

On February 20, 2020, the Ontario Securities Commission (the **OSC** or **we**) published *Ontario Securities Commission Notice and Request for Comment, 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 **Proposed Rule**).

Also on February 20, 2020, the CSA, with the exception of Ontario, published *Multilateral CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices, Changes to Companion Policy 81-105CP to National Instrument 81-105 Mutual Fund Sales Practices and Changes to Companion Policy 81-101CP to National Instrument 81-101 Mutual Fund Prospectus Disclosure relating to Prohibition of Deferred Sales Charges for Investment Funds* (the **2020 Multilateral CSA Notice**)[1]. The amendments published in the 2020 Multilateral CSA Notice prohibit the payment by fund organizations of upfront sales commissions to dealers, which results in the discontinuation of all forms of the DSC option, including low-load options (the **Multilateral DSC Ban**). The Multilateral DSC Ban comes into force on June 1, 2022 in all CSA jurisdictions, except in Ontario.

[1] https://www.bcsc.bc.ca/-/media/PWS/Resources/Securities_Law/Policies/Policy8/81105-CSA-Notice-February-20-2020pdf.

On May 7, 2021, the OSC published OSC Staff Notice 81-731 *Next Steps on Deferred Sales Charges* to announce that the OSC will publish for adoption final amendments to prohibit the DSC option. The OSC also announced that the DSC ban in Ontario will come into force on June 1, 2022, to coincide with the in-force date of the Multilateral DSC Ban.

We received 34 comment letters on the Proposed Rule and the commenters are listed in Part 7. We thank everyone who took the time to prepare and submit comment letters. This document contains a summary of the comments we received on the Proposed Rule and our responses.

With respect to the Proposed Amendments for a DSC ban, a summary of the comments and responses are provided in Annex A.

With respect to the Proposed Amendments for an OEO trailing commission ban, a summary of the comments and the CSA's responses were provided in the September 17, 2020 publication, *CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Related Consequential Amendments, Prohibition on Mutual Fund Trailing Commissions Where No Suitability Determination Was Required.* [2]

Part 2 – General Comments

Issue	**Comments**	**Responses**
The Proposed Rule	Overall, the majority of commenters were supportive of adopting the proposed restrictions on the use of the DSC option. The majority of commenters advocated for a complete ban of DSCs and urged the OSC to harmonize with the CSA. The remaining commenters advocated in favour of retaining DSCs and most expressed support for the Proposed Rule with some recommended modifications. The commenters that advocated for a complete ban noted that, while the Proposed Rule may reduce the most egregious sales practices, the continued use of DSCs will still result in some abused investors. Several commenters pointed out that there are practical issues related to permitting the sale of DSCs in Ontario and not in other Canadian jurisdictions. The Proposed Rule creates a 2-tiered regulatory approach and leaves advisors and firms in Ontario, or advisors and firms servicing Ontario-based clients from other jurisdictions, at risk of inadvertent errors. The absence of a harmonized solution to regulate the use of DSCs will ultimately raise costs to investors and regulatory burden for Ontario IFMs and will not be an optimal long-term solution in the best interests of Canadian investors. One commenter noted that the lack of national application and other aspects of the Proposed Rule make it costly, difficult to implement and burdensome to monitor, thereby increasing market inefficiency.	We appreciate the support from the commenters on the Proposed Rule, who overwhelmingly expressed support for a harmonized DSC ban. We continue to be of the view that the upfront sales commission payable by mutual fund organizations to dealers for mutual fund sales under the DSC option gives rise to a conflict of interest that can incentivize dealers and their representatives to make self-interested investment recommendations to the detriment of investor interests. This view is shared by a number of commenters on the Proposed Rule and on the Proposed Amendments.

[2] https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-105/csa-notice-amendments-national-instrument-81-105.

	Commenters in favour of retaining DSCs advocated to preserve consumer choice. Commenters noted that the Proposed Rule will likely reduce the ability of investors to receive advice from independent dealers and advisors. One commenter noted that limiting choice has a high cost that is sometimes not quantifiable but is not in the interest of investors. One industry association noted that the Proposed Rule is silent on what is expected when a client moves from Ontario to another CSA jurisdiction where DSCs will not be permitted; it would be unfair to the investor if they were forced to redeem early and were penalized as a result. The majority of commenters were supportive of adopting the Proposed Rule, and some provided suggested modifications. One commenter indicated that the Proposed Rule was not necessary. **Investors and Investor Advocate Groups** All of the investors and all of the investor advocate groups were supportive of a complete and outright DSC ban for investment funds. **Industry Associations** Two industry associations were also supportive of a complete DSC ban, while four industry associations opposed it. **Industry Stakeholders** Four industry stakeholders were supportive of a complete DSC ban including one industry stakeholder who supported the Proposed Rule as an alternative, and five industry stakeholders opposed it. **Other Commenters** One law firm and a service provider were supportive of a complete DSC ban. Another law firm remained neutral.	
Part 3 – Proposed Investment Fund Manager Restrictions on the Use of the DSC Option		
<u>Issue</u>	**<u>Comments</u>**	**<u>Responses</u>**

1. Section 3(a)(i) – Maximum term of DSC redemption fee schedule limited to 3 years	One investor and one investor advocate group noted that shortening the maximum term of the redemption schedule to 3 years will reduce but not eliminate harm particularly for retail investors. One industry association commented that reducing the redemption schedule to 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. One IFM suggested creating both a 3-year, and a 5-year option. Allowing two redemption schedules to continue to exist will hopefully retain the number of advisors who could service investors with smaller asset levels and will more adequately align with the choice usually afforded to investors to choose within "typical" investment time horizons. One dealer firm also suggested increasing the redemption schedule to 5 years. It noted that regulatory concerns related to the DSC "lock-in" feature arise from the suitability of the investment recommendation rather than the redemption schedule itself. Another IFM commented that the combination of the 3-year term limit and the small account size restriction will likely result in dealers and advisors abandoning DSC altogether.	We thank commenters for their feedback on the proposed investment fund manager restrictions on the use of the DSC option in the Proposed Rule.
2. Section 3(a)(ii) – Clients can redeem 10% of the number of mutual fund securities without redemption fees annually, on a cumulative basis	One investor advocate group commented that this proposal only codifies existing industry practice. It is unclear what new or additional impact this would have on investor protection and reducing the harms due to the "lock-in" effects of redemption fees. It recommends that the threshold for withdrawal without redemption fees in the Proposed Rule should be increased to 20% per year from 10%. One law firm commented that this proposal is reasonable and agreed that it should be a cumulative entitlement. The commenter also noted that every IFM that offers the DSC option already allows an investor to redeem 10% of the value of their investment subject to DSC annually without redemption fees. One dealer firm commented that being able to redeem 10% will have little	

	impact and will negatively hurt investors' net performance. One industry association commented that guidance needs to be provided on how the IFMs should perform the calculation. Is it the frame of reference for calculating the amount that can be redeemed without charge based only on the initial investment only? The calculation can become complicated if: (a) the investor makes subsequent, new investments within the account threshold of s. 3(b)(ii), (b) the investor subscribes to dividend reinvestment plans (**DRIPs**) or pre-authorized contribution plans, and (c) the fluctuations in unit price/net asset value over time, if not explicitly basing the calculation on the t=0 price. If the penalty-free redemption for any given year is based on the number of units, is that number the average number of units held by the investor through the year (dollar or time weighted), the number held at the year's start, or the units held at year end? One IFM commented that there should be flexibility for IFMs to determine how to apply the calculation. One industry association suggested that the calculation be changed to reflect the value of the securities as at the end of the prior calendar year. Another industry association commented 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 redemption schedule to a maximum of 3 years.	
3. Section 3(a)(iii) – Separate DSC Series **On January 10, 2017, the Canadian Securities Authorities (the CSA) published for comment CSA *Consultation Paper 81-408 Consultation on the Option of Discontinuing Embedded Commissions* (the Consultation Paper). The**	**<u>Agree</u>** Two investor advocate groups, two investors, three industry stakeholders and another commenter supported mandating a separate DSC series. One investor advocate group and one dealer firm commented that this should result in lower MERs for standalone, no-load/front-end load sales charge	

Consultation Paper stated that some investors may indirectly subsidize certain dealer compensation costs that are not attributable to their investment in the fund, which means they indirectly pay excess fees.[3] As an example of this "cross-subsidization", the Consultation Paper made reference to the financing costs incurred by investment fund managers in connection with the payment of the upfront commission to dealers that is typically associated with the DSC sales charge option. This financial cost could be embedded in a mutual fund's management fee, which would result in some investors in a fund, such as the front-end load investors, cross-subsidizing the costs attributable to DSC investors in the fund. As a result, we are proposing to require the DSC sales charge option to be included in a separate series of the fund, which would have its own management fee. We note that some investment fund managers already use this practice. Do you agree that mandating a separate DSC series will help in curtailing the cross-subsidization of the costs attributable to DSC investors? Why or why not?	series. The investor advocate group noted that, as a result, the dealer would be required to justify the sale of a more expensive DSC fund with redemption restrictions over a lower cost series no-load fund (or a front-end load fund with 0% front-end load) with no redemption restrictions. One investor and one investor advocate group commented that separate series for DSC will increase the MER. Any upfront payments would have to be amortized over the three-year period over the number of units in the DSC series. This would make recommending a DSC more unjustifiable. This measure should be taken as an absolute minimum. A separate Fund Facts document should also be required. **<u>Neutral</u>** One investor advocate group acknowledged that a separate DSC series may help curtail cross-subsidization, however the OSC should weigh the benefit to investors against the additional costs of a separate DSC series that may be passed on to investors. **<u>Disagree</u>** One law firm, three industry associations, and three industry stakeholders did not support mandating a separate DSC series. One law firm noted that the concept of cross subsidization is inherent to pooled investing. Typically, cross-subsidization is thought of in terms of operating expenses, not management fees. In that sense, fund operating expenses may include expenses that benefit some investors but not others. If investors were to be charged separately for each expense from which they benefit, or if a separate series was required in each case, it would become overly complex and potentially uneconomic to offer these services and benefits. The Proposed Rule encourages an IFM to indirectly charge the fund for distribution expenses. Three industry stakeholders, one law firm and one industry association	

[3] See page 13, https://www.osc.gov.on.ca/documents/en/Securities-Category8/sn_20170110_81-408_consultation-discontinuing-embedded-commissions.pdf.

	commented that the costs of launching and operating a new fund or separate series are significant and likely to be passed on to investors in the form of higher management fees, regardless of which series or compensation model is selected. Additional resources at the fund level would be required for implementation and ongoing monitoring and compliance; for example, the regulatory prospectus filing fees are based on the series and not on the fund, which would increase the fees payable. There would be additional costs for fund administration and auditing, and the need to update and file additional disclosure for the series, such as Fund Facts, would require additional compliance resources. Additional training, enhanced KYC and suitability review at account opening and on-going monitoring of the client account would also be required at the dealer level. Therefore, the overall costs of running and distributing the funds is likely to increase. These costs will be disproportionately borne by the smaller investors that are typically put into DSC products. One industry association and one IFM commented that it is not clear that cross-subsidization is occurring nor is it clear that separating the DSC to a different series will meaningfully curtail any cross-subsidization. IFMs have priced their product offerings through the management fees and finance the cost of the DSC option from the management fee revenue they earn. There is no additional cost borne by the mutual fund or its securityholders. To the extent that any cross-subsidization exists, it would exist across all financial services compensation models where the revenues generated by one client exceed those generated by another. For example, accounts with higher balances produce higher margins than accounts with lower balances. There is no cross-subsidization of investors who purchase under the DSC option by investors who purchase on a no-load or front-end sales charge basis. Two industry stakeholders commented that there is no evidence to suggest that cross-subsidization of costs due to the DSC model itself is overly problematic or material to the management fees being charged. A significant portion of the cost of financing up front commissions in the	

	DSC model is borne by investment dealers through an arrangement whereby, in exchange for an up-front commission from the IFM, the dealer agrees to a 50% reduction in trailing commission from the IFM during the sales charge period. The impact on fund costs is negligible.	
Part 4 – Proposed Dealer Restrictions on the Use of the DSC Option		
Issue	**Comments**	**Responses**
1. Section 3(b)(i) of the Proposed Rule – No sales of the DSC option to clients aged 60 and over	One investor advocate group commented that the restrictions should be expanded to include vulnerable clients including retirees, recent immigrants, veterans, clients who are drawing income immediately or within the redemption schedule, clients with a large debt load and clients with a drug addiction or are institutionalized. Two industry associations and one investor advocate group commented that the restrictions should be expanded to those who may have reduced financial decision-making capabilities, mental health concerns or cognitive impairments. One commenter noted that investors with terminal illnesses or medical conditions with a life expectancy shorter than the redemption schedule should also be included in the restriction. Another investor advocate group, one IFM and an investor commented that DSCs should not be sold to young investors as they could equally be negatively impacted. Two industry associations commented that the restriction of 60 years of age appears to be somewhat arbitrary and inconsistent with the definition of a senior used in the OSC's Seniors Strategy (age 65). One IFM commented that there is no rationale why age 60 is the last year that investors can purchase DSC. One industry association, one law firm and three industry stakeholders noted that the age limitation under the Proposed Rule is too low. Age 65 is a hallmark of retirement and is the age at which Canadians can typically access full government retirement benefits. The commenter asked how pre-authorized contribution plans set up before a client turns 60 (or 65) should	We thank commenters for their feedback on the proposed dealer restrictions on the use of the DSC option in the Proposed Rule.

	be handled once the client turns 60 (or 65) years of age. One industry association asked for clarification in the application of this rule in situations where the client/account owner is not the same person as the account beneficiary or is not the sole beneficiary. Examples of the former would include RESPs and spousal RRSPs, and an example of the latter would be joint accounts. In the former case, the age of the beneficiary is more relevant to assessing the timeframe for the intended use of the funds (and consequently, the suitability of the DSC option in that beneficial situation). In the latter case, at a minimum, the OSC should consider using the average of the joint beneficiaries' ages when applying the maximum age restriction. Further, the OSC should add additional details regarding its expectations for how non-natural clients can be serviced under the Proposal.	
2. Section 3(b)(ii) of the Proposed Rule – Maximum client account size of $50k	Three investor advocate groups, one industry association, one law firm and two industry stakeholders commented that while the restriction safeguards investors with large accounts from the harm of DSCs, it does not extend the same protection to smaller investors, who may well be more vulnerable. Clients with the lowest amount of money 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. One IFM supported this restriction on the condition that new DSC purchases result in a maximum upfront commission payment of 3%; implying a maximum commission of $1,500 up front (max $50k of purchases x 3%). A 3% maximum commission rate will limit the potential for abuse. Two industry associations and three industry stakeholders recommended increasing the account size maximum to $100,000 to permit modest investors to continue to benefit from the DSC option where appropriate. One investor advocate group, one IFM and two industry associations commented that the restriction based	

	on account size is unclear. Does it apply to all accounts (RRSP, TFSA, margin) in total or does it apply to each account? It is assumed it applies to the aggregate dollar amount invested with the dealer. The effect of this restriction will be to limit sale to those with modest amounts to invest. Two industry associations, one investor advocate group and one law firm noted that guidance should include a provision that dealers should not be permitted to circumvent regulatory intent by opening multiple client accounts. One industry association opposed this restriction and commented that it will render the DSC option not economically viable. The effect will be nearly the same as if Ontario had banned DSCs. With the new maximum 3-year redemption schedule, the upfront commission paid by the investment fund for the DSC option is likely to be 3%.	
3. Section 3(b)(iii) of the Proposed Rule – No sales of the DSC option to clients whose investment time horizon is shorter than the DSC schedule	One industry association commented that this appears to codify current suitability practices as a dealer should not allow a trade where the client's time horizon is less than the redemption schedule. One law firm supported limiting the sales of the DSC option to ensure the schedule does not exceed the investment time horizon. Two investor advocate groups commented that the term "time horizon" be defined in plain language and that a standardized definition be incorporated into KYC / account forms, rules and processes. One dealer firm commented that the policy will be 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.	
4. Section 3(b)(iv)(A) of the Proposed Rule – Client cannot use borrowed money to purchase mutual funds with the DSC option	One law firm supported restricting DSC investors from borrowing money to invest. One industry association commented that this policy is overly restrictive. Individual circumstances should be considered for purchases.	

	One dealer firm noted that this may impede investors who have differing terms with their 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, this appears inconsistent with Section 3(a)(i). One industry association requested more clarity on whether the prohibition would apply to the use of an RRSP loan, which is a common method used by Canadians to help fund their retirement savings. One industry association commented that repeated use of the phrase "the dealer knows or reasonably ought to have known" seems to be open to broad interpretation. For example, in the instance of borrowed funds, while the firm or advisor can make inquiries, if the investor is using funds borrowed outside of the firm, and chooses not to share this, what is the responsibility of the dealer or advisor to meet this obligation?	
5. Section 3(b)(iv)(B) of the Proposed Rule – Upfront commissions only for new contributions to a client's account	One dealer firm recommended moving away from upfront commissions of any kind, beyond normal trading fees, etc. The commenter noted that education is required for this policy to work and this may create additional confusion for those trying to make trades or shift funds. One IFM commented that specific rules and guidelines will need to be written in a way that minimizes the potential for abuse so that the results will be consistent with the spirit of this proposed measure. Dealers will need processes to monitor compliance with this restriction. One industry association asked for more clarity on how switches from one fund to another fund in a family will be treated if the first fund was purchased before the effective date of the Proposed Rule. One law firm commented that this restriction could unduly limit an investor who initially invested a small amount, holds the investment for a meaningful period of time (no churning), and then seeks to invest in a "better" mutual fund. The only option would be to pay a	

	commission of up to $1,500 on that transaction, an amount that seems rather high for someone to pay at that asset level. This is a decision that, if made, should be done consciously and transparently.	
6. Section 3(b)(iv)(C) of the Proposed Rule – No upfront commissions on reinvested distributions	One law firm commented that while they are not aware of any IFM that pays commissions on reinvested distributions, it should clearly be banned as there is no economic rationale for why the dealer or representative should be compensated for this activity. One industry association asked for more clarity on how reinvested distributions, on a security purchased before the effective date of the Proposed Rule, will be treated.	
7. Section 3(b)(v) of the Proposed Rule – 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**	One investor, two investor advocate groups and one industry association recommended simply using 'financial hardship' as the criteria to unlock the investment early, and using death, involuntary loss of full-time employment, permanent disability, and critical illness as examples that might qualify under the financial hardship provision. One industry association commented that this measure has the effect of placing investors who work in traditional, full-time employment roles in a preferential position relative to self-employed, part-time employees, project-based and seasonal employees and independent contractors who do not qualify for employment insurance. The OSC could consider language that is more inclusive, such as making the employment-related hardship release available to all clients upon the involuntary loss of, or inability to perform, the client's primary remunerative activities. One investor advocate group and one industry association commented that legitimate client hardship situations are not limited to negative shocks that happen directly to the client. Events including the involuntary unemployment of a spouse, marital breakdown/divorce or illness of a child or other dependent can have equally devastating impacts on personal finances that also warrant hardship consideration. The OSC should take a more expansive approach here, so that the qualifying	

	hardship criteria apply to negative shocks occurring both to the client directly, as well as to certain specified classes of client-connected individuals. Two IFMs commented that the vulnerable investor category should be expanded (i.e., health, life events, resilience, and capability). One law firm indicated that every IFM provides for a discretionary hardship exemption for DSCs. The proposed restriction is a dealer restriction so dealers will ensure the IFM pays for the waiver before putting the IFM's DSC option on the shelf. The restriction will remove the IFM's discretion. The upfront commission for the DSC is effectively a loan from the IFM to the client to pay the commission and the loan is repaid through the management fee and the redemption fee is like a prepayment penalty. With a bank loan, none of the hardships in the proposed restriction would result in the loan being forgiven so similarly, the redemption fee should not be waived and the IFM should not have to absorb the financial burden. The hardship exemption should remain discretionary and not impact the economic rights of the IFM or the dealer. This public policy matter is not within the authority of the securities regulator and should not be in the final Rule. One IFM commented that involuntary loss of full-time employment may be difficult to prove; unless a record of employment is required to qualify for redemption fee waivers. Some advisors and dealers commented that they require additional details on how the OSC would like them to address situations of financial hardship for non-natural (corporate or partnership) clients. One industry association and one IFM cautioned that assessing the severity of an illness, including whether it should be characterized as critical, is not an easy matter and is not something that mutual fund dealers have experience with or equipped to do. The OSC should provide additional guidance to allow for this type of analysis to be conducted in an efficient and fair way. One dealer firm added that at minimum this list should be expanded to include:	

	- death of an immediate family member - negative changes to employment or income - hospitalization or long-term illness - significant economic downturn or shock (e.g., COVID-19 or 2008 crisis) - future OSC policy changes - dealer/IFM fee changes - new dealer/IFM due to company change (i.e., due to retirement, loss of ability to send funds, or any other factor). One investor commented that this rule should be expanded to allow a unitholder to redeem without penalty if as a result of a merger, the fund's objectives are changed, or the MER is increased.	
Part 5 – Comments on Transition Period		
Issue	**Comments**	**Responses**
The effective date of the Proposed Rule coincides with the effective date of the final amendments to implement a DSC ban in the other CSA jurisdictions. Are there additional transition issues that we should consider?	**Supportive** Two industry associations and three industry stakeholders agreed with the proposed transition time. One dealer firm commented that the time for transition will help ensure an advice gap would not exist if a full ban came into effect. Another industry association commented that implementing changes on a particular subject matter all at once is more efficient from an operational perspective and with respect to disclosure. **Opposed** Two investor advocate groups, five investors, one industry association, and two IFMs advocated for an earlier implementation date. One IFM noted that quicker implementation will reduce investor harm, particularly at a time when investors are facing financial hardship as a result of the COVID-19 crisis. Another investor advocate group agreed and noted that smaller investors, who are most likely to invest in DSC funds, will be placed at risk of harm for almost another decade	We thank commenters for their feedback on the effective date of the Proposed Rule.

	following the decision of regulators to address problems associated with DSC mutual funds. The Proposed Rule, in particular the restriction on the Maximum Term, should become effective on December 31, 2020. One law firm commented that waiting until June 2022 would needlessly expose Ontarians to material financial harm that will extend as far as 2028. Several commenters supported ceasing the sale of DSC products earlier. One investor recommended that it should be done immediately, one investor advocate group recommended a transition time of not more than 3-6 months, another investor suggested 6-9 months, and one IFM recommended a transition time of 1 year. One investor advocate group commented that since Ontario has chosen not to harmonize with the rest of Canada on the DSC ban, there is no rationale for the implementation date of the Proposed Rule to harmonize with the effective date of the DSC ban. Dealers will still be able to sell regular DSC funds and their redemption schedules will run to their conclusion, meaning that 6-year DSC funds will be in client accounts in Ontario until 2028. The implementation date should be sooner to curtail DSC sales volume so that fund manufacturers close their DSC fund series ahead of the June 1, 2022 date. One industry association commented that the OSC should align its implementation date with the implementation of conflict of interest CFRs. **<u>Extend Transition</u>** One dealer firm advocated for the extension of the implementation date to June 1, 2023 due to the disruptive effect of the current pandemic and the significant changes businesses are required to make to adapt to the current operating environment.	
Part 6 – Comments on Anticipated Costs and Benefits		
<u>Issue</u>	**<u>Comments</u>**	**<u>Responses</u>**
Annex E sets out the anticipated costs and benefits of the Proposed Rule. Are there any other significant	One industry advocate group commented that a May 2017 MFDA research report found that households	We thank commenters for their feedback on the anticipated costs and benefits of the Proposed Rule.

costs or benefits that have not been identified in this analysis? Please explain with concrete examples and provide data to support your views.	with less than $100K to invest held 42% of assets in DSC funds while those with over $500K held just 17%. As households with less than $100K in investable assets are less likely to be eligible for fee-based accounts, they are an attractive target of DSC fund salespersons. DSC sold funds are generally more expensive than mutual funds that do not carry a provision for the recovery of the 5% upfront payout to salespersons embedded in the management fee. This suggests that investors of modest means based in Ontario could have their life savings impaired by fund salespersons recommending DSC mutual funds. Further, a July 2019 Report by the OSC's Investor Advisory Panel indicated that, in many cases, basic financial planning concepts are not addressed in the advice provided. For example, 68% of small investors surveyed said their advisor spent less than an hour communicating with them per year or didn't communicate with them at all. For these reasons, the commenter recommended that the OSC publish a checklist for DSC investors and an update on fund fees like Mutual Fund Fees from the MFDA. Another industry association pointed out that there are cost implications of various aspects of the rule, which would make them burdensome to implement. For example, with respect to the maximum account size, limiting the DSC option to a smaller group of investors with smaller account values will decrease the asset base and increase the costs of operating these funds. One IFM added that 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 additional series. One IFM commented that the Proposed Rule will likely reduce the ability of investors to receive advice from independent dealers and advisors. This primarily helps low cost robo-advisors (which may not be desirable for many investors) or banks. Limiting choice has a high cost that is sometimes not	

	quantifiable but is certainly real and not in the interests of the investing public. One industry association commented that the Proposed Rule may result in fewer funds being offered, and therefore fewer choices available to investors. There is a risk that costs will also be passed on to investors in the form of higher management fees. Such unintended consequences will be harmful to investors, in particular, those with smaller accounts and less money to invest, and therefore Ontario should consider these costs in determining whether to harmonize its policy with other CSA jurisdictions.	

Part 7 – List of Commenters

<u>Commenters</u>

Adelson Law
Advocis, The Financial Advisors Association of Canada
AGF Investments Inc.
The Canadian Advocacy Council of CFA Societies Canada
CARP
Dusmet, Tom
Elliot, Ruth
FAIR Canada
Federation of Mutual Fund Dealers
Fidelity Investments Canada ULC
Fieldstone, David M.
Fortier, Sophia
Glick, Isaac
Gourley, Stan
Highview Asset Management Ltd.
Independent Financial Brokers of Canada
Invesco Canada Ltd.
The Investment Funds Institute of Canada
Investor Advisory Panel
Jagdeo, Millie
Kenmar Associates
Libro Credit Union
Mackenzie Investments
MBC Law
Money Coaches Canada
Morningstar Research Inc.
The Portfolio Management Association of Canada
Primerica Financial Services (Canada) Ltd.
Roberts, Dale
Rosen, Yegal
Ross, Arthur
Small Investor Protection Association
Vanguard
Whitehouse, Peter

ANNEX C

LOCAL AMENDMENTS TO
NATIONAL INSTRUMENT 81-105 *MUTUAL FUND SALES PRACTICES*
IN ONTARIO

1. National Instrument 81-105 Mutual Fund Sales Practices is amended by this Instrument.

2. Section 1.1 is amended in paragraph (d) of the definition of "member of the organization***" by adding "***associate or***" before "***affiliate***".***

3. Section 3.1 is repealed.

4. This Instrument comes into force in Ontario on June 1, 2022.

ANNEX D

LOCAL CHANGES TO
COMPANION POLICY 81-105 *MUTUAL FUND SALES PRACTICES*
IN ONTARIO

1. Companion Policy 81-105 Mutual Fund Sales Practices is changed by this document.

2. Part 4 of the Companion Policy is changed by adding the following section:

4.1.1 Front-end load sales option – The Canadian securities regulatory authorities are of the view that the Instrument does not preclude members of the organization of a mutual fund from facilitating the payment by a mutual fund investor to a participating dealer of a sales commission in connection with the purchase of mutual fund securities that is negotiated and agreed to exclusively between those two parties. For example, the participating dealer may remit to the member the gross proceeds of an investor's purchase of mutual fund securities from which the member may then deduct and remit the sales commission to the participating dealer on the investor's behalf pursuant to instructions received from the dealer.***.***

3. This change becomes effective in Ontario on June 1, 2022.

ANNEX E

LOCAL AMENDMENTS TO
NATIONAL INSTRUMENT 81-101 *MUTUAL FUND PROSPECTUS DISCLOSURE*
IN ONTARIO

1. National Instrument 81-101 Mutual Fund Prospectus Disclosure is amended by this Instrument.

2. Form 81-101F1 Contents of Simplified Prospectus is amended

(a) in Item 8.2(1) in Part A by deleting the "Redemption Charge Option***" row in the table required by this Item, and by repealing the footnote,***

(b) in Item 8.2(2) of Part A by replacing subsection (2) with "In preparing the table contemplated by this Item, assume, in determining the fees paid under the sales charge option, that the maximum sales charge commission disclosed in the simplified prospectus is paid by the investor.***",***

(c) in subsection (2) of the Instructions under Item 9.1 of Part A by deleting the following:

For example, if the manager of the mutual fund pays an up-front sales commission to participating dealers, so state and include the range of commissions paid. If the manager permits participating dealers to retain the sales commissions paid by investors as compensation, so state and include the range of commissions that can be retained.***,***

(d) in subsection (2) of the Instructions under Item 9.2 of Part A by deleting "sales and***", and***

(e) by repealing subsection (3) of the Instructions under Item 9.2 of Part A.

3. Form 81-101F3 Contents of Fund Facts Document is amended

(a) in subsection (1) of the Instructions under Item 1.2 of Part II by deleting ", deferred sales charge***",***

(b) in subsection (2) of the Instructions under Item 1.2 of Part II by deleting "For a deferred sales charge, provide the full sales charge schedule.***",***

(c) in subsection (3) of the Instructions under Item 1.2 of Part II by deleting "For a deferred sales charge, include a range for the amount that can be charged on every $1,000 redemption.***", and***

(d) in subsection (4) of the Instructions under Item 1.2 of Part II by deleting the following:

In the case of a deferred sales charge, the disclosure must also briefly state:

- any amount payable as an upfront sales commission;
- who pays and who receives the amount payable as the upfront sales commission;
- any free redemption amount and key details about how it works;
- whether switches can be made without incurring a sales charge; and
- how the amount paid by an investor at the time of a redemption of securities is calculated, for example, whether it is based on the net asset value of those securities at the time of redemption or another time.***.***

4. This Instrument comes into force in Ontario on June 1, 2022.

ANNEX F

LOCAL CHANGES TO COMPANION POLICY 81-101 *MUTUAL FUND PROSPECTUS DISCLOSURE* IN ONTARIO

1. ***Companion Policy 81-101 Mutual Fund Prospectus Disclosure is changed by this document.***

2. ***The Sample Fund Facts Document in Appendix A – Sample Fund Facts Document is replaced by the following:***

XYZ Mutual Funds

FUND FACTS

XYZ Canadian Equity Fund – Series B

June 30, 20XX

This document contains key information you should know about XYZ Canadian Equity Fund. You can find more details in the fund's simplified prospectus. Ask your representative for a copy, contact XYZ Mutual Funds at 1-800-555-5556 or investing@xyzfunds.com, or visit www.xyzfunds.com.

Before you invest in any fund, consider how the fund would work with your other investments and your tolerance for risk.

Quick facts

Fund code:	XYZ123	**Fund manager:**	XYZ Mutual Funds
Date series started:	March 31, 2000	**Portfolio manager:**	Capital Asset Management Ltd.
Total value of fund on June 1, 20XX:	$1 billion	**Distributions:**	Annually, on December 15
Management expense ratio (MER):	2.25%	**Minimum investment:**	$500 initial, $50 additional

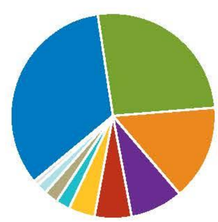
What does the fund invest in?

The fund invests in a broad range of stocks of Canadian companies. They can be of any size and from any industry. The charts below give you a snapshot of the fund's investments on June 1, 20XX. The fund's investments will change.

Top 10 investments (June 1, 20XX)

1.	Royal Bank of Canada	7.5%
2.	Toronto-Dominion Bank	7.1%
3.	Canadian Natural Resources	5.8%
4.	The Bank of Nova Scotia	4.1%
5.	Cenovus Energy Inc.	3.7%
6.	Suncor Energy Inc.	3.2%
7.	Enbridge Inc.	3.1%
8.	Canadian Imperial Bank of Commerce	2.9%
9.	Manulife Financial Corporation	2.7%
10.	Canadian National Railway Company	1.9%
	Total percentage of top 10 investments	**42.0%**
	Total number of investments	**93**

Investment mix (June 1, 20XX)



Industry	
Financial services	34.0%
Energy	26.6%
Industrial goods	16.5%
Business services	6.4%
Telecommunication	5.9%
Hardware	3.7%
Healthcare services	2.3%
Consumer services	2.1%
Media	1.9%
Consumer goods	0.6%

How risky is it?

The value of the fund can go down as well as up. You could lose money.

One way to gauge risk is to look at how much a fund's returns change over time. This is called "volatility".

In general, funds with higher volatility will have returns that change more over time. They typically have a greater chance of losing money and may have a greater chance of higher returns. Funds with lower volatility tend to have returns that change less over time. They typically have lower returns and may have a lower chance of losing money.

Risk rating

XYZ Mutual Funds has rated the volatility of this fund as **medium**.

This rating is based on how much the fund's returns have changed from year to year. It doesn't tell you how volatile the fund will be in the future. The rating can change over time. A fund with a low risk rating can still lose money.

Low	Low to medium	**Medium**	Medium to high	High

For more information about the risk rating and specific risks that can affect the fund's returns, see the Risk section of the fund's simplified prospectus.

No guarantees

Like most mutual funds, this fund doesn't have any guarantees. You may not get back the amount of money you invest.

XYZ Mutual Funds

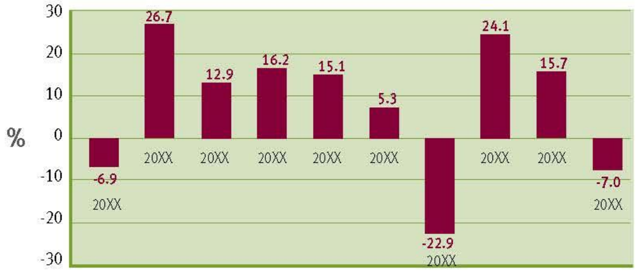
XYZ Canadian Equity Fund – Series B

How has the fund performed?

This section tells you how Series B units of the fund have performed over the past 10 years. Returns are after expenses have been deducted. These expenses reduce the fund's returns.

Year-by-year returns

This chart shows how Series B units of the fund performed in each of the past 10 years. The fund dropped in value in 3 of the 10 years. The range of returns and change from year to year can help you assess how risky the fund has been in the past. It does not tell you how the fund will perform in the future.



Best and worst 3-month returns

This table shows the best and worst returns for Series B units of the fund in a 3-month period over the past 10 years. The best and worst 3-month returns could be higher or lower in the future. Consider how much of a loss you could afford to take in a short period of time.

	Return	3 months ending	If you invested $1,000 at the beginning of the period
Best return	32.6%	April 30, 2003	Your investment would rise to $1,326.
Worst return	-24.7%	November 30, 2008	Your investment would drop to $753.

Average return

The annual compounded return of Series B units of the fund was 6.8% over the past 10 years. If you had invested $1,000 in the fund 10 years ago, your investment would now be worth $1,930.

Who is this fund for?

Investors who:

- are looking for a long-term investment
- want to invest in a broad range of stocks of Canadian companies
- can handle the ups and downs of the stock market.

! Don't buy this fund if you need a steady source of income from your investment.

A word about tax

In general, you'll have to pay income tax on any money you make on a fund. How much you pay depends on the tax laws where you live and whether or not you hold the fund in a registered plan, such as a Registered Retirement Savings Plan or a Tax-Free Savings Account.

Keep in mind that if you hold your fund in a non-registered account, fund distributions are included in your taxable income, whether you get them in cash or have them reinvested.

XYZ Mutual Funds

XYZ Canadian Equity Fund – Series B

How much does it cost?

The following tables show the fees and expenses you could pay to buy, own and sell Series B units of the fund. The fees and expenses — including any commissions — can vary among series of a fund and among funds. Higher commissions can influence representatives to recommend one investment over another. Ask about other funds and investments that may be suitable for you at a lower cost.

1. Sales charges

You may pay a sales charge when you buy the fund.

Sales charge option	What you pay		How it works
	in per cent (%)	in dollars ($)	
Initial sales charge	0% to 4% of the amount you buy	$0 to $40 on every $1,000 you buy	• You and your representative decide on the rate. • The initial sales charge is deducted from the amount you buy. It goes to your representative's firm as a commission.

2. Fund expenses

You don't pay these expenses directly. They affect you because they reduce the fund's returns.
As of March 31, 20XX, the fund's expenses were 2.30% of its value. This equals $23 for every $1,000 invested.

	Annual rate (as a % of the fund's value)
Management expense ratio (MER) This is the total of the fund's management fee (which includes the trailing commission) and operating expenses. XYZ Mutual Funds waived some of the fund's expenses. If it had not done so, the MER would have been higher.	2.25%
Trading expense ratio (TER) These are the fund's trading costs.	0.05%
Fund expenses	**2.30%**

More about the trailing commission

The trailing commission is an ongoing commission. It is paid for as long as you own the fund. It is for the services and advice that your representative and their firm provide to you.

XYZ Mutual Funds pays the trailing commission to your representative's firm. It is paid from the fund's management fee and is based on the value of your investment. The rate depends on the sales charge option you choose.

Sales charge option	Amount of trailing commission	
	in per cent (%)	in dollars ($)
Initial sales charge	0% to 1% of the value of your investment each year	$0 to $10 each year on every $1,000 invested
Deferred sales charge	0% to 0.50% of the value of your investment each	$0 to $5 each year on every $1,000 invested

XYZ Mutual Funds

XYZ Canadian Equity Fund – Series B

How much does it cost? cont'd

3. Other fees

You may have to pay other fees when you buy, hold, sell or switch units of the fund.

Fee	What you pay
Short-term trading fee	1% of the value of units you sell or switch within 90 days of buying them. This fee goes to the fund.
Switch fee	Your representative's firm may charge you up to 2% of the value of units you switch to another XYZ Mutual Fund.
Change fee	Your representative's firm may charge you up to 2% of the value of units you switch to another series of the fund.

What if I change my mind?

Under securities law in some provinces and territories, you have the right to:

- withdraw from an agreement to buy mutual fund units within two business days after you receive a simplified prospectus or Fund Facts document, or
- cancel your purchase within 48 hours after you receive confirmation of the purchase.

In some provinces and territories, you also have the right to cancel a purchase, or in some jurisdictions, claim damages, if the simplified prospectus, annual information form, Fund Facts document or financial statements contain a misrepresentation. You must act within the time limit set by the securities law in your province or territory.

For more information, see the securities law of your province or territory or ask a lawyer.

For more information

Contact XYZ Mutual Funds or your representative for a copy of the fund's simplified prospectus and other disclosure documents. These documents and the Fund Facts make up the fund's legal documents.

XYZ Mutual Funds
123 Asset Allocation St.
Toronto, ON M1A 2B3

Phone: (416) 555-5555
Toll-free: 1-800-555-5556
Email: investing@xyzfunds.com
www.xyzfunds.com

To learn more about investing in mutual funds, see the brochure **Understanding mutual funds**, which is available on the website of the Canadian Securities Administrators at **www.securities-administrators.ca.**

3. This change becomes effective in Ontario on June 1, 2022.

ANNEX G

LOCAL AMENDMENTS TO
NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*
IN ONTARIO

1. National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended by this Instrument.

2. Paragraph 8.7(4)(a) is amended by deleting "deferred or contingent sales charge or"***.***

3. Paragraph 14.2.1(1)(b) is repealed.

4. This Instrument comes into force in Ontario on June 1, 2022.

ANNEX H

LOCAL CHANGES TO
COMPANION POLICY 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*
IN ONTARIO

1. Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is changed by this document.

2. Section 14.2.1 is changed:

(a) by replacing **"**purchase***" with "***redemption**"** ***in the second paragraph,***

(b) by deleting "upon the redemption of the security***" in the second paragraph, and***

(c) by replacing the second bullet in the fourth paragraph with the following:

- the sales charge options available to the client and an explanation as to how such charges work. Any redemption fees or short-term trading fees that may apply should also be discussed***.***

3. These changes become effective in Ontario on June 1, 2022.