



April 28, 2025

To:

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

Via:

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and

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Re: CSA Notice and Request for Comment – The Principal Distributor Model – Proposed Amendments to National Instruments 31-103, 81-101 and 81-105

Worldsource Financial Management Inc. and Worldsource Securities Inc. (together, "Worldsource") thanks the Canadian Securities Administrators ("CSA") for the opportunity to provide comments on the proposed rule amendments to National Instruments 31-103, 81-101 and 81-105 and commends the CSA for soliciting feedback in respect of these proposed amendments.

Overview

Worldsource operates an Investment Dealer and Mutual Fund Dealer and is regulated by the Canadian Investment Regulatory Organization ("CIRO") and through the provincial securities regulators which form the Canadian Securities Administrators ("CSA"). Worldsource currently acts as a principal distributor to multiple investment fund managers and complies with all obligations related to its role as a principal distributor.

Worldsource understands the interest from securities regulators to impose certain requirements on principal distributors and fund managers in order to better regulate the investment industry. Worldsource further understands that there may be some manager/principal distributor relationships which require modification and oversight through additional regulation. However, Worldsource submits that the changes to the principal distributorship model currently being considered by the CSA are overly broad in their application and, while they address certain manager/principal distributor relationships which may require additional oversight, they will also lead to unforeseen negative consequences for clients who are serviced by compliant investment dealers who act as principal distributors.

In particular, Worldsource submits that the proposed changes to the principal distributorship model may have the unintended consequences of:

- negatively impacting clients by reducing the diversity of investment offerings; and
- reducing the viability of investment dealers acting as principal distributors to fund managers who currently operate in a compliant and client focused manner.

Worldsource submits that these consequences can be addressed through amendments to the proposed changes to the principal distributorship model.

Worldsource further recommends that the CSA undertake a review of Part 2 of *National Instrument 81-105 – Mutual Fund Sales Practices* ("NI 81-105") and any associated Companion Policy or similar legislation to provide additional detail which clarifies or better describes which benefits may be provided, or restrictions imposed upon, principal distributors and participating dealers.

Given Worldsource's position with respect to the proposed changes to the principal distributorship model, Worldsource will focus its response to the CSA's proposal on the following questions posed by the CSA:

Consultation Question 1: *The Proposed Amendments clarify that a principal distributor cannot have multiple principal distributor relationships except where it acts as principal distributor for mutual funds in the same mutual fund family. Are there any circumstances under which a dealer should be permitted to act as a principal distributor for more than one mutual fund family? In responding, please explain the advantages and disadvantages of such a model as compared to a participating dealer model for*

both investors and market participants. In particular, please outline the specific benefits for investors as they pertain to competition, cost and investor choice. Please provide quantitative data, where relevant, to support your answer?

Worldsource submits that there should be no prohibition against an investment dealer acting as a principal distributor for multiple fund managers or mutual fund families. Worldsource submits that there are two main advantages to an investment firm acting as a principal distributor for multiple fund managers. These are:

- 1) Increasing the availability of investments for clients; and
- 2) Allowing smaller, specialized fund managers to have access to a principal distributor which has greater expertise in distributing special-interest investments.

Worldsource submit that allowing investment dealers to act as a principal distributor for multiple fund managers or fund families provides clients of with access to investment funds which may not be economically viable for investment dealers to provide without the benefits provided under a principal distributor relationship. Worldsource submits that the most important element in conducting the review of the principal distributor model should be the effects on the client, including access to these potential investment funds or mutual fund families.

Worldsource further submits that any potential risks associated with this structure can, and should, be addressed through an expansion of the guidance provided to investment dealers and fund managers in NI 81-105 and its companion policy.

In addition, Worldsource submits that there are benefits to smaller, special-interest fund managers which result from allowing an investment dealer to act as principal distributor for multiple fund managers. Certain fund managers create investment funds which reflect economic, cultural or social goals (for example: ESG Funds, investment funds created by credit unions or similar economic groups, and investment funds addressed to specific cultural groups). These fund managers are generally smaller in size and may not have the same level of resources to widely distribute their investment offerings through multiple investment dealers.

Given this, certain investment dealers have developed expertise in distributing the investment funds created by these special-interest fund managers through the principal distributor model. The proposed changes to the principal distributor model effectively eliminate the benefits and expertise which these investment dealers can provide to special-interest fund managers and may have the unintended effect of pushing these smaller fund managers to close their existing investment funds or elect not to create new investment funds. Worldsource believes this action would limit the investment options available to clients who wish to invest in special-interest funds. This is particularly harmful since the number of special-interest funds available in the investment landscape in Canada is already low.

Consultation Question 2(a): *What are the specific circumstances under which a principal distributor should be allowed to act for more than one mutual fund family?*

As stated in its response to question 1, Worldsource submits that investment dealers should be allowed to act as principal distributor for multiple fund families in all cases. However, additional direction should be provided to the investment industry on the benefits and restrictions for principal distributor relationships in NI 81-105 and its companion policy.

Consultation Question 2(b): *If a principal distributor could act for more than one mutual fund family, should the compensation arrangements between the principal distributor be required to be the same or substantially similar in respect of each mutual fund family? If not, how could we ensure that any compensation arrangement differences would not influence a principal distributor to favour the mutual fund family with the most favourable compensation structure?*

Worldsource submits that compensation arrangements between the principal distributor and fund manager are not *required* to be standardized. However, Worldsource concedes that standardizing compensation agreements across fund families will assist the industry in ensuring that conflicts of interest within the industry are kept to a minimum.

Worldsource submits that additional guidance or standardization would reduce conflicts of interest and ensure that principal distributors are not incentivized to prefer certain funds over others. Worldsource submits that this additional guidance could take the form of a standardized compensation agreement or it could take the form of additional updates or revisions to NI 81-105 and its companion policy which provide detailed guidance on structuring compensation arrangements.

Consultation Question 2(c): *What factors and considerations would be relevant to determining the appropriate number of mutual fund families for which a dealer should act as principal distributor? Explain how the distinction between principal distributors and participating dealers does not become blurred as the number of mutual fund families distributed by the same principal distributor increase?*

Worldsource submits that the CSA should take the relationship between principal distributors and fund managers into consideration when determining the appropriate number of fund families for which a principal distributor can act. While not exhaustive, Worldsource submits that relevant criteria to determine the appropriate number of mutual fund families for which a principal distributor can act could include: related owners between the fund manager and the principal distributor, affiliation between the fund manager and the principal distributor and whether the investment fund sold by the principal distributor is a special-interest fund.

Consultation Question 2(d): *Should there be minimum duties and obligations owed by the principal distributor in respect of each principal distributor relationship? Should those obligations be the same across all mutual fund families for which the dealer acts as principal distributor?*

Worldsource submits that there should be minimum duties and obligations imposed upon investment dealers and fund managers across all mutual fund families for which the investment dealer acts as a principal distributor. These minimum duties should be listed and described with sufficient detail in NI 81-105 and its companion policy.

Consultation Question 2(e): *Should mutual funds that have a principal distributor be exclusively distributed by the principal distributor and not be distributed by other principal distributors or participating dealers?*

Worldsource submits that the CSA should not impose a requirement that funds with a principal distributor *only* be distributed by the principal distributor. The overarching goal of a principal distributor relationship is to provide greater benefits to clients through the relationship. Where managers and principal distributors believe, acting in good faith, that the client is better served by making certain investment funds only available through the principal distributor, which may be the case for specialized social, economic funds, then this option should be available to the manager and principal distributor.

In short, Worldsource submits that principal distributors should be *able* to exclusively distribute investment funds in certain situations, but exclusivity should not be a *requirement* for the principal distributor relationship.

Consultation Question 4: *The Proposed Amendments to NI 81-105 will come into force 18 months after the final publication date. Does this provide sufficient time for dealers that act as a principal distributor for more than one unaffiliated manager to transition their practice, operational model and compensation arrangements? Does this provide sufficient time for impacted investment fund managers to make alternate distribution arrangements for their mutual fund securities prior to the effective date? If not, please explain.*

Worldsource suggests that the timeline for compliance with any changes to NI 81-105 should be as long of a transition period as possible. While Worldsource does not wish to submit a time period which would lead to client harm, it stresses that certain managers and principal distributors have created business structures which deeply integrate the existing principal distributorship requirements and which cannot be changed quickly. While it is impossible, at this time, for Worldsource to state whether 18 months is a sufficient period of time for a manager or principal distributor to overhaul its existing business structures to maintain compliance with securities laws, Worldsource stresses that such changes will have substantial impact on certain investment dealers which may lead to financial or reputational harm to those investment dealers, particularly smaller investment dealers. To ensure the viability of the whole of the investment industry, Worldsource submits that as much time should be given to managers and principal dealers to amend their businesses as possible.

Conclusion:

Worldsource understands that the CSA's primary concerns to be addressed through the current amendments are: (1) the potential for conflicts of interest between the principal distributor and the client; and (2) ensuring that principal distributors act in the client's



best interest. Worldsource submits that both topics have been previously addressed through the CSA's client focused reforms which both investment dealers and fund managers are required to comply with.

Worldsource submits that investment dealers should continue to be allowed to act as principal distributors for multiple fund managers in order to: (1) improve client access to investment funds through a larger product shelf; and (2) allow smaller, specialized fund managers to retain access to a principal distributors with greater expertise in distributing special-interest investments. Worldsource submits that the ideals of the CSA which ground the proposed amendments can be addressed through compliance with the existing client focused reforms as well as the amendments to NI 81-105 proposed by Worldsource in this comment.

Worldsource would like to thank the CSA for the opportunity and forum to comment on these proposed rule amendments and would request the ability to review and comment on any changes to the proposed rule amendments that may be considered by the CSA after public comments have been reviewed.

Sincerely,
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