

July 4, 2025

Re: CSA Notice and Request for Comment – Proposed Amendments to Regulation 31-103: Prohibition on the Use of Chargebacks in the Distribution of Investment Fund Securities

To:

British Columbia Securities Commission

Alberta Securities Commission

Financial and Consumer Affairs Authority of Saskatchewan

Manitoba Securities Commission

Ontario Securities Commission

Autorité des marchés financiers

Financial and Consumer Services Commission of New Brunswick

Superintendent of Securities, Department of Justice and Public Safety, Prince
Edward Island

Nova Scotia Securities Commission

Securities Commission of Newfoundland and Labrador

Superintendent of Securities, Northwest Territories

Superintendent of Securities, Yukon

Superintendent of Securities, Nunavut

C/o

The Secretary

Ontario Securities Commission

20 Queen Street West

22nd Floor

Toronto, Ontario M5H 3S8

Fax: (416) 593-2318

Email: comments@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour PwC
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: (514) 864-8381
Email: consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames,

I appreciate the opportunity to provide comments regarding the proposed prohibition on chargebacks. I am submitting this correspondence in my personal capacity as a longstanding advocate for investors and a participant in regulatory policy discussions in Canada.

In my view, the rationale for undertaking this consultation process is not readily apparent, given the evident nature of the inherent conflict involved. Chargebacks constitute a manifest and unambiguous conflict of interest that cannot be credibly mitigated. To proceed with a consultation tasked with evaluating whether such a structure might be acceptable risks conveying the impression that there is a prospect of reconciling this practice with the duty to act in clients' best interests. Call it a failure of imagination, but I am hard pressed to entertain this possibility.

The chargeback model, by its very design, imposes a direct economic penalty on representatives when clients redeem their investments before a prescribed holding period expires. This inherently distorts professional judgment by incentivizing representatives to refrain from recommending redemptions even where such advice is necessary and appropriate. No disclosure regime, compliance protocol, or supervisory procedure can neutralize this fundamental conflict. In short, there is no point in doing effectively that which should not be done at all.

Further, the experience with deferred sales charges has already demonstrated the harm of similar compensation structures. It is difficult to conceive of any policy rationale for tolerating an analogous system merely because the burden of repayment falls on the representative rather than the client. The outcome is the same: clients are discouraged, whether overtly or implicitly, from taking steps that may be essential to align their portfolios with their needs, objectives or life circumstances.

In addition to the obvious impairment of impartial advice, the existence of chargebacks creates secondary risks that deserve serious consideration. Supervision and compliance teams may become reluctant to enforce unsuitability findings if doing so requires representatives to repay substantial commissions, thereby exacerbating the risk of investor harm. Moreover, the demoralizing effect of these arrangements on sales staff can undermine professional conduct and corrode organizational culture.

It is important to recognize that there are a multitude of entirely legitimate reasons why clients may redeem their investments before any arbitrary timeline expires, including significant and unexpected changes in an individual's financial or personal circumstances. It would be inappropriate to penalize a representative for redemptions that are not attributable to any failing on their part. Penalizing representatives under these circumstances is inherently unfair and, even more importantly, creates conditions that is almost certain to impede the provision of objective advice.

For these reasons, I believe that the only credible outcome of this consultation must be a complete prohibition on chargebacks. Permitting this practice to persist in any form would, in my view, be incompatible with the principles and objectives of the Client Focused Reforms and the broader obligation to foster fair, efficient, and trustworthy capital markets.

Thank you for considering these comments. Should you have any questions or wish to discuss these observations further, I would be pleased to be of assistance.

Yours sincerely,

Harvey S. Naglie

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Toronto, Ontario