

July 8, 2025

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**CSA Notice and Request for Prohibition on the Use of Chargebacks in the Distribution of Investment Fund Securities** <https://www.securities-administrators.ca/news/canadian-securities-regulators-propose-prohibiting-the-use-of-chargebacks-in-the-distribution-of-investment-funds/>

The CSA define chargeback as follows: Chargebacks involve a compensation practice where a dealing representative is paid an upfront commission, fee or compensation when a client purchases securities. Chargebacks occur when the client redeems all or part of their securities before a fixed schedule as determined by the dealer firm and the dealing representative is required to pay back all, or part, of the upfront commission or compensation received. As noted by the CSA, this scheme involves an **inherent** conflict-of-interest due to the misalignment of interests between the fund salesperson and the client.

A salesperson required to pay back the upfront sales commission is a salesperson that could become a threat to her/his clients via mis-selling to make up for the loss of income.

So why the consultation? The Dealer received the upfront commission from the fund and shared it with the salesperson for the purpose of providing trustworthy financial advice to the client. Chargebacks make this impossible - prohibition is the only logical choice for the CSA.

I assume that the chargeback would not apply in cases where the fund is switched to another fund in the fund family, when the account is transferred to another Dealer, if the Fund company decides to close the fund, if the Fund Company is under investigation by authorities or has been sanctioned for weak governance, if the Dealer offers only proprietary funds or if the client passes away.

If the CSA does not prohibit chargebacks, an appropriate title for representatives would be "salesperson".

A related question might be - Should the Dealer refund the upfront payment it received from the fund? Put another way, should the fund pay upfront commissions to Dealers who knowingly place their representatives in an unprofessional and CFR non-compliant position?

Peter Drucker, a renowned management consultant, famously stated: "*It is more important to work on the right things than to do things right*". So it is with this consultation. I would much prefer the CSA consult on such investor protection issues as restricted product shelves, a binding decision mandate for the Ombudsman, elimination of NDA's in complaint resolution and modernized effective disclosure practices.

Thank you for the opportunity to express my views.

Peter Whitehouse

cc:

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