July 13, 2025

The Secretary,
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Email: comments@osc.gov.on.ca

CSA Notice and Request for Prohibition on the Use of Chargebacks in the Distribution of Investment Fund Securities

Under a compensation model using chargebacks, a dealing representative receives an upfront commission by the Dealer when a client serviced by the representative purchases an investment fund. If the client redeems all or part of the fund before the end of a fixed schedule ("the chargeback period"), as determined by the Dealer then the representative is required to pay back all, or part, of the upfront commission received, to the Dealer.

I fully support a prohibition on chargebacks, but do not feel that the consultation is required. My reasons are as follows:

Client Focused Reforms (CFR) noncompliance: The CSA has developed a comprehensive set of rules, the Client Focused Reforms which are based on the fundamental concept that clients' interests come first in their dealings with firms and individuals that are registered to give investment advice and trade in securities. Chargebacks are not designed to place the interests of clients first.

Corruption of the client-advisor relationship: This compensation model would bring disrepute to the investment industry and lack of trust by clients thereby encouraging increased movement towards DIY investing.

Chargebacks are not fair to salespersons: Salespersons need to return commissions earned even though client redemptions may not be associated with any salesperson wrongdoing or negligence. Supervisors and managers who concurred with the transaction should also be made to pay a price resulting from a redemption if chargebacks are permitted.

Chargeback could be harmful to clients: The model inherently creates a conflict-of-interest that is not in the best interest of clients and could lead to poor outcomes as a result of unduly holding onto a laggard investment fund.

Chargebacks involve upfront commissions: Such commissions encourage sales aggressiveness and if accompanied by sales quotas, client outcomes could be further depressed.

Risk aversion: This theory would suggest that salespersons would be highly unlikely to recommend redemption even if such redemption would be in the best interest of clients.

<u>Common sense/ logic</u>: Fund salespersons do not want to see their take home pay reduced (especially if the redemption has nothing to do with them)

<u>Behavioural finance</u>: The design of this method of compensation virtually ensures the client holds onto their mutual funds for the duration of the chargeback period.

<u>Corporate culture</u>: An organization whose success is based on unfairly taking cash away from its representatives will lead to a poor corporate culture (and morale); a model not designed to ensure client best interest is maintained. It could even lead to a shortage of professionals willing to be participate in the "advice" industry.

<u>Worse than the DSC model</u>: The chargeback model, unlike the toxic DSC model, does not permit any annual penalty-free redemptions.

As an aside, I would like to point out that any mutual fund with a different trailing commission than another would constitute a major conflict-of-interest. For example. a bond fund may pay a lower trailing commission that a more risky and expensive equity fund. Note also that any redemptions within say 90 days, could require the client to pay a short-term trading fee as high as 2% to the investment fund, even if the fund is deemed unsuitable.

Based on the above reasoning, I recommend immediate enforcement action rather than more CSA Study and contemplation.

Eva Krasa

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