



Wednesday, July 30, 2025

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And

British Columbia Securities Commission  
Alberta Securities Commission  
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Manitoba Securities Commission  
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

**Re: CSA Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations – Prohibition on the Use of Chargebacks in the Distribution of Investment Fund Securities, issued on June 26, 2025**

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to the CSA regarding its proposed amendments to NI 31-103 with respect to the prohibition on the use of chargebacks in the distribution of investment fund securities (the **Proposed Amendments**).

The Canadian Independent Finance and Innovation Counsel represents more than 40 national Investment Dealers and their industry's position on securities regulation, public policy, and industry issues. We represent notable CISO-regulated Investment Dealers in the Canadian securities industry.

**Industry Position on this Initiative**

As committed stewards of investor protection and regulatory integrity, the members of CIFIC's Independent Dealers Group (IDG) fully endorse this initiative and consider it to be in the best interests of Canadian investors.

**Chargebacks are Incompatible with the Client Focused Reforms (CFRs)**

The chargeback model inherently undermines a dealing representative's ability to provide objective advice. The Investment Dealers we represent believe that this has been an issue in the mutual fund business for quite some time. When advisors are faced with the prospect of returning earned commissions for recommending a redemption, even if this is in the client's best interest, the potential conflict is clear. For example, a mutual fund advisor may hesitate to recommend the client redeem a poorly performing fund or suggest the client moves to a more cost-effective ETF if doing so triggers a financial penalty. Such outcomes should have no place in the Canadian market.

This tension contradicts the intent of the Client Focused Reforms, which require that advice be driven solely by client needs, and not fund advisors' economics. In this light, chargebacks resemble a variation of the now-banned Deferred Sales Charge (DSC) structure and should be treated accordingly.

**Chargebacks Reduce Investment Quality and Agility**

The Investment Dealers we represent believe that clients deserve timely, responsive advice based on evolving market conditions and their personal circumstances. Chargebacks act as a "lock-in"

mechanism for advisors and could have the effect of pressuring them to delay or avoid recommending necessary and beneficial changes to their clients.

For instance:

- If a client's financial situation changes unexpectedly, such as through job loss or medical emergency, prompt access to funds may be required.
- If a fund increases its management fees, changes its strategy, or underperforms its benchmark over several quarters, the advisor may reasonably recommend switching to another product.

Under the chargeback regime, such recommendations become financially punitive to the advisor, introducing a perverse incentive to preserve commission income at the expense of providing sound advice to the investor.

### Chargebacks Reflect Misaligned Dealer Incentives

The persistence of chargebacks also speaks to broader issues in mutual fund dealer compensation frameworks. Compensation models that focus excessively on upfront commissions distort advice quality and long-term outcomes. A forward-looking compensation model should align the advisor's incentives with client success over time, and not penalize early redemptions triggered by legitimate needs.

Management teams that impose chargeback regimes risk sending a message that short-term firm revenue should trump long-term client trust. This is incompatible with the evolving standards of professionalism, transparency, and investor protection that Investment Dealers, regulators and the public expect.

### Conclusion and Recommendation

We strongly support the CSA's proposal to prohibit chargebacks and believe doing so is in the best interest of both investors and the Canadian wealth management industry.

Considering CISO's Rule Consolidation Project, the time has come to elevate the regulatory standards applied to certain segments of the industry. The mutual fund dealer regulatory framework must be as rigorous and comprehensive as the one governing Investment Dealers, ensuring consistency across the investment sector. A truly level playing field is essential and must be one wherein the investor remains the central figure around whom protections and obligations are designed.

By removing compensation structures that distort advice and undermine trust, regulators will be advancing a market that is more transparent, more client-centred, and ultimately more resilient.

We urge the CSA to implement this ban and to continue aligning compensation practices with modern regulatory expectations.

#### Questions for Comment

1. Should securities of investment funds that are non-reporting issuers also be subject to the proposed ban on the use of chargebacks? Why?

**CIFIC response:** The Investment Dealers we represent believe the CSA should extend the proposed ban to non-reporting issuer funds to ensure consistent investor protection and eliminate any potential conflicts of interest across all distribution channels.

2. Are there other types of securities that should be subject to the proposed ban on the use of chargebacks? Why?

**CIFIC response:** The Investment Dealers we represent believe that the use of chargebacks gives rise to potential conflicts of interest. As such, we encourage CRO to undertake a comprehensive review of all products and compensation structures associated with chargebacks to ensure they align with their mandate to protect investors.

Thank you for considering our comments on this important proposal.

As always, we are available to discuss the content of this submission further, address any concerns you may have, or provide additional information as needed. Your feedback is invaluable to us, and we are committed to ensuring that we all achieve our objectives effectively and efficiently.

Please feel free to contact me at [annie@cific.co](mailto:annie@cific.co) with any questions, comments, or to schedule a call to discuss any aspects of the letter or explore potential next steps. We look forward to our continued collaboration on this matter.

Sincerely,

*A. Sinigagliese*

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