B.6
Request for Comments

B.6.1 CSA Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, National Instrument 81-101 Mutual Fund Prospectus Disclosure, National Instrument 81-102 Investment Funds and National Instrument 81-105 Mutual Fund Sales Practices and Proposed Changes to Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, Companion Policy 81-102 Investment Funds and Companion Policy 81-105 Mutual Fund Sales Practices – The Principal Distributor Model

CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA NOTICE AND REQUEST FOR COMMENT

PROPOSED AMENDMENTS TO
NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*,
NATIONAL INSTRUMENT 81-101 *MUTUAL FUND PROSPECTUS DISCLOSURE*,
NATIONAL INSTRUMENT 81-102 *INVESTMENT FUNDS*
AND
NATIONAL INSTRUMENT 81-105 *MUTUAL FUND SALES PRACTICES*

AND

PROPOSED CHANGES TO
COMPANION POLICY 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*,
COMPANION POLICY 81-102 *INVESTMENT FUNDS*
AND
COMPANION POLICY 81-105 *MUTUAL FUND SALES PRACTICES*

THE PRINCIPAL DISTRIBUTOR MODEL

November 28, 2024

Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are proposing amendments to the principal distributor model in the distribution of mutual fund securities.

We are publishing, for a 90-day comment period, proposed amendments (the **Proposed Amendments**) to

- National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**),
- National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**),
- National Instrument 81-102 *Investment Funds* (**NI 81-102**),
- National Instrument 81-105 *Mutual Fund Sales Practices* (**NI 81-105**),

and proposed changes (the **Proposed Changes**) to

- Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**31-103CP**),
- Companion Policy 81-102 *Investment Funds* (**81-102CP**), and

- Companion Policy 81-105 *Mutual Fund Sales Practices* (**81-105CP**).

In addition to the Proposed Amendments and the Proposed Changes, we have also set out questions for stakeholders to consider (**Consultation Questions**) in Annex H of this notice. The public comment period expires on February 27, 2025.

The text of the Proposed Amendments and the Proposed Changes is contained in Annexes A, B, C, D, E, F and G of this notice and will also be available on the websites of the following CSA jurisdictions:

www.bcsc.bc.ca
www.asc.ca
www.fcaa.gov.sk.ca
www.mbsecurities.ca
www.osc.ca
www.lautorite.qc.ca
www.fcnb.ca
nssc.novascotia.ca

Substance and Purpose

The Proposed Amendments address the principal distributor model for mutual funds and seek to improve investor protection and maintain investor confidence in our capital markets. The Proposed Amendments clarify that a principal distributor may only act for mutual funds in the same mutual fund family, require disclosure of principal distributor arrangements and compensation and ensure that the DSC option (as defined below) is not available to investors purchasing mutual fund securities distributed by principal distributors.

(a) Principal Distributor Model

The general purpose of NI 81-105, as set out in 81-105CP, is to "ensure that the interest of investors remain uppermost in the actions of participants in the mutual fund industry by setting minimum standards of conduct to be followed by industry participants in their activities in distributing mutual fund securities."

Mutual fund securities are distributed by participating dealers and principal distributors. Principal distributors are carved out of the definition of "participating dealer" in NI 81-102 because they have an exclusive right to distribute mutual fund securities in a particular area or a feature that gives, or is intended to give, the principal distributor a material competitive advantage over others in the distribution of mutual fund securities.

Principal distributors offer the exclusive distribution of, or benefit from a feature that gives the principal distributor a material competitive advantage over others in the distribution of, mutual fund securities of an investment fund manager (**manager**) that is an affiliate, or in some cases, an unaffiliated manager. They might have ongoing participation in the design, selection, as well as ongoing training and monitoring in respect of the mutual fund products that it distributes. Such an arrangement would allow a principal distributor to customize the range of mutual fund products that are offered to clients. This participation in the product development process is recognized by the fact that principal distributors are required to review and certify the prospectus. As a result, they share liability with managers for the disclosure provided in mutual fund offering documents with managers.

Principal distributors are not subject to all the provisions of NI 81-105 that apply to participating dealers. The reason for the principal distributor carve-outs from NI 81-105 is provided in the CSA's notice of proposed instrument NI 81-105[1] published on July 25, 1997 (the **1997 Consultation**). The 1997 Consultation states that the representatives of principal distributors are "employed to sell only mutual funds within the principal distributor's mutual fund family."[2] In reference to principal distributors, the 1997 Consultation indicated that "IFIC noted that an ordinary investor purchasing a product in an environment in which the only product offered is an in-house brand knows, just as the ordinary car purchaser knows, that their choice in that environment is limited."[3]

NI 81-105 established minimum standards of conduct in the distribution of mutual fund securities to minimize conflicts of interests between industry participants and investors. Principal distributors are carved out of the NI 81-105 provisions that apply to participating dealers because the conflicts of interest raised by participating dealers distributing mutual fund securities of multiple managers are less acute for principal distributors distributing only mutual fund securities of the same mutual fund family. NI 81-105 also imposes additional obligations on a "principal distributor" as a "member of the organization", which is consistent with the broader framework of NI 81-105. The premise that principal distributors only distribute mutual fund securities of the same mutual fund family is the basis for the principal distributor carve-outs from

[1] Notice of Proposed Changes to Proposed Rule 81-503 and Companion Policy 81-503CP *Sales Practices Applicable to the Sale of Mutual Fund Securities* and Notice of Proposed National Instrument 81-105 and Companion Policy 81-105CP *Mutual Fund Sales Practices* published on July 25, 1997 at (1997), 20 OSCB 3979.
[2] See footnote 1 above, 3907.
[3] See footnote 2 above.

some NI 81-105 obligations, however, this premise is currently not captured in the provisions of NI 81-105. The Proposed Amendments clarify that principal distributors may only distribute mutual fund securities of the same mutual fund family.

(b) Disclosure of Principal Distributor Compensation

One of the fundamental obligations of industry participants to their investor clients is to provide full, true and plain disclosure of all material facts concerning a mutual fund, including the compensation paid to participating dealers and their representatives and other sales practices followed in connection with the distribution of mutual fund securities, which is essential to ensure that investors understand the nature of the investments they are making and the impact of fees and charges on them.[4] This fundamental obligation also extends to the disclosure of the compensation paid to principal distributors and their representatives. The Proposed Amendments require disclosure of principal distributor arrangements and compensation.

(c) Deferred Sales Charge Option

Previously, under the deferred sales charge option (**DSC option**), the investor did not pay an initial sales charge for purchased fund securities but paid a redemption fee to the manager (i.e., a deferred sales charge) if the securities were redeemed before a predetermined period from the date of purchase. Redemption fees decline according to a redemption fee schedule that is based on the length of time the investor holds the securities. While the investor did not pay a sales charge to the dealer, the manager paid the dealer an upfront commission.

As of June 1, 2022, the CSA adopted amendments (**DSC Ban Amendments**)[5] to prohibit managers from paying upfront sales commissions to participating dealers in respect of mutual fund securities, which were intended to result in the discontinuation of all forms of the DSC option. The DSC Ban Amendments addressed the conflict of interest that arose from the payment of the upfront sales commission by managers to participating dealers for mutual fund sales made under the DSC option that could incentivize participating dealers and their representatives to make self-interested investment recommendations to the detriment of investor interests. This same conflict of interest arises from the payment of the upfront sales commission by managers to principal distributors. However, as principal distributors are carved out of the NI 81-105 provisions that apply to participating dealers, the DSC Ban Amendments do not technically apply to principal distributors. While we do not see the DSC option currently being made available by principal distributors, to ensure that the DSC option is not available to investors purchasing mutual fund securities from participating dealers or principal distributors, managers should be prohibited from charging a fee to investors upon the redemption of mutual fund securities in all circumstances.

Background

CSA 2018 Consultation

The CSA published proposed amendments (the **2018 Consultation**) on September 13, 2018 to

(a) prohibit fund organizations from paying upfront commissions to dealers, resulting in the discontinuation of all forms of the DSC option, including low-load options (**DSC Ban**), and

(b) prohibit the payment of trailing commissions to dealers who were not subject to a suitability requirement, such as dealers who were not required to provide investment recommendations in connection with the distribution of prospectus qualified mutual fund securities (**OEO Trailer Ban**).

Subsequent to the 2018 Consultation, the CSA published final amendments[6,7] to adopt both the DSC Ban and the OEO Trailer Ban, which took effect on June 1, 2022.

In the 2018 Consultation, the CSA indicated that we may consider future amendments to modernize NI 81-105. The 2018 Consultation included questions to stakeholders which were intended to inform the CSA's initiative to modernize NI 81-105.

4 Section 2.2(2)(f) of 81-105CP.

5 Multilateral CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices, Changes to Companion Policy 81-105CP to National Instrument 81-105 Mutual Fund Sales Practices and Changes to Companion Policy 81-101CP to National Instrument 81-101 Mutual Fund Prospectus Disclosure relating to Prohibition of Deferred Sales Charges for Investment Funds published on February 20, 2020 and OSC Notice of Local Amendments to National Instrument 81-105 *Mutual Fund Sales Practices*, Local Changes to Companion Policy 81-105 *Mutual Fund Sales Practices* and Related Consequential Local Amendments and Changes – Prohibition of Deferred Sales Charges for Mutual Funds published on June 3, 2021.

6 See footnote 4 above.

7 CSA Notice of Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Related Consequential Amendments Prohibition of Mutual Fund Trailing Commissions Where No Suitability Determination Was Required published on September 17, 2020.

2022 – 2025 CSA Business Plan

One of the strategic goals of the 2022-2025 CSA Business Plan[8] is to improve investor protection by enhancing investors' ability to obtain redress and strengthening the advisor-client relationship. In furtherance of this goal, the CSA has stated its commitment to the modernization of mutual fund sales practices as follows:

- "Review and modernize NI 81-105 *Mutual Fund Sales Practices* and contemplate whether amendments are necessary in light of the Client Focused Reforms - including reviewing principal distributors' practices, considering whether amendments are needed to clarify the circumstances in which a principal distributor model should be available and whether such a model remains appropriate in light of the Reforms".[9]

Summary of the Proposed Amendments and the Proposed Changes

The following is a summary of the Proposed Amendments and the Proposed Changes:

(a) Principal Distributor Model

The Proposed Amendments clarify that a dealer cannot have multiple principal distributor relationships except where it acts as a principal distributor for mutual funds in the same mutual fund family. A mutual fund family is defined in NI 81-105 as "two or more mutual funds that have (a) the same manager, or (b) managers that are affiliates of each other."

The Proposed Amendments do not affect the ability of a principal distributor to also distribute mutual fund securities as a participating dealer to multiple managers. Additionally, although a dealer can act as principal distributor for a mutual fund family, managers that are affiliates of each other are not required to have the same principal distributor. A manager may also have more than one principal distributor for the distribution of its mutual fund securities.

(b) Principal Distributor Practices

The Proposed Amendments replicate the prohibition on providing incentives to representatives to recommend mutual funds of one family over another that currently applies to participating dealers to also apply to principal distributors. More specifically, the Proposed Amendments aim to prohibit a principal distributor from providing incentives to representatives to recommend one mutual fund over another mutual fund.

(c) Disclosure of Principal Distributor Compensation

The Proposed Amendments will require the simplified prospectus (**SP**), fund facts document (**Fund Facts**) and annual report on charges and other compensation (**ARCC**) to disclose that the principal distributor has the exclusive right to distribute funds and if the principal distributor receives a payment, other than trailing commissions, in connection with services provided to the fund manager and the funds as a principal distributor, the maximum percentage of the management fee that is paid by the manager to the principal distributor for its services.

(d) Prohibition on Fees for Redemptions

As discussed under the sub-heading "Deferred Sales Charge Option" in "Substance and Purpose" above, to ensure that the DSC option is not available to investors purchasing mutual fund securities from principal distributors, the Proposed Amendments prohibit managers from charging a fee to investors upon the redemption of mutual fund securities. The Proposed Amendments include an exception for mutual fund securities purchased prior to June 1, 2022 for so long as such securities are subject to a redemption fee schedule.

The Proposed Amendments do not impact fees charged by a mutual fund (as opposed to a manager) to investors in connection with the redemption of mutual fund securities that are not based on the sales charge option, such as fees for short-term trading and large redemption orders, provided that such fees are retained by the mutual fund for the benefit of remaining securityholders.

As a housekeeping amendment, the Proposed Amendments will also repeal the provision related to commission rebates. The provision applies to commission rebates from dealer representatives who paid all or part of the redemption fee when an investor redeemed mutual fund securities purchased under the DSC option from one mutual fund family and purchased mutual fund securities under the DSC option from a different mutual fund family. It is our understanding that this provision is only used in the context described above, i.e., a transaction that includes a purchase of new mutual fund securities under the DSC option. However, since the purchase of new mutual fund securities under the DSC option is no longer permitted under the DSC Ban, this provision is no longer required. The housekeeping amendment is expected to come into force approximately 90 days after final publication.

[8] See page 7: 2022-2025 CSA Business Plan, https://www.securities-administrators.ca/wp-content/uploads/2022/10/2022_2025CSA_BusinessPlan.pdf.
[9] See footnote 8 above.

Transition

We are proposing that the Proposed Amendments and the Proposed Changes will come into force 3 months after the final publication date with the exception of:

- the Proposed Amendments to NI 31-103 and the Proposed Changes to 31-103CP, and
- the Proposed Amendments to NI 81-105.

The CSA recognizes that existing business models or new business models might be developed that do not fit within the parameters of the Proposed Amendments. The CSA encourages commenters whose existing business model in particular might be uniquely impacted by the Proposed Amendments to provide feedback as to whether there are alternative transition measures that could ease any burden for a particular business model in changing their business model to align with the Proposed Amendments.

(a) Proposed Amendments to NI 31-103 and Proposed Changes to 31-103CP

The Proposed Amendments to NI 31-103 and the Proposed Changes to 31-103CP will come into force on January 1, 2026. The effective date will coincide with the January 1, 2026 effective date of the final amendments and changes published on April 20, 2023 by the CSA and the Canadian Council of Insurance Regulators relating to Total Cost Reporting for Investment Funds and Segregated Funds.[10]

(b) Proposed Amendments to NI 81-105

The Proposed Amendments to NI 81-105 will come into force 18 months after the final publication date. We anticipate that the period between the final publication date and the effective date will provide sufficient time for principal distributors who act as a principal distributor for more than one unaffiliated manager to transition their practice, operational model and compensation arrangements. Any impacted managers will need to make alternate distribution arrangements for their mutual fund securities prior to the effective date.

We are seeking comments on the appropriate transition period for the Proposed Amendments to NI 81-105. Please see the Consultation Questions in Annex H.

Local Matters

Annex I is being published in any local jurisdiction that is making related changes to local securities laws, including local notices or other policy instruments in that jurisdiction. It also includes any additional information that is relevant to that jurisdiction only.

Request for Comments

Please submit your comments on the Proposed Amendments, the Proposed Changes and the Consultation Questions in this notice. We cannot keep submissions confidential because securities legislation requires publication of a summary of written comments received during the comment period. All comments received will be posted on the website of each of the Alberta Securities Commission at www.asc.ca, the Ontario Securities Commission at www.osc.ca and the Autorité des marchés financiers at www.lautorite.qc.ca. Therefore, you should not include personal information directly in comments to be published. It is important you state on whose behalf you are making the submissions.

Deadline for Comments

Please submit your comments in writing on or before February 27, 2025. If you are not sending your comments by email, please send a USB flash drive containing the submissions (in Microsoft Word format).

Where to Send Your Comments

Address your submission to all of the CSA as follows:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers

[10] CSA and CCIR Notice of Publication – CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance and Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations – Total Cost Reporting (TCR) for Investment Funds and Segregated Funds published on April 20, 2023.

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
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Deliver your comments only to the addresses below. Your comments will be distributed to the other participating CSA jurisdictions.

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 Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: (514) 864-8381
Email: consultation-en-cours@lautorite.qc.ca

Content of Annexes

The text of the Proposed Amendments and the Proposed Changes is contained in the following annexes to this notice and is available on the websites of members of the CSA:

Annex A: Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*

Annex B: Proposed Changes to Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*

Annex C: Proposed Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*

Annex D: Proposed Amendments to National Instrument 81-102 *Investment Funds*

Annex E: Proposed Changes to Companion Policy 81-102 *Investment Funds*

Annex F: Proposed Amendments to National Instrument 81-105 *Mutual Fund Sales Practices*

Annex G: Proposed Changes to Companion Policy 81-105 *Mutual Fund Sales Practices*

Annex H: Consultation Questions

Annex I: Local Matters

Questions

Please refer your questions to any of the following:

British Columbia Securities Commission

Kathryn Anthistle
Senior Legal Counsel, Legal Services
Capital Markets Regulation Division
British Columbia Securities Commission
Tel: 604-899-6536
Email: kanthistle@bcsc.bc.ca

Noreen Bent
Chief, Corporate Finance Legal Services
British Columbia Securities Commission
Tel: 604- 899-6741
Email: nbent@bcsc.bc.ca

Alberta Securities Commission

Chad Conrad
Senior Legal Counsel, Investment Funds
Alberta Securities Commission
Tel: 403-297-4295
Email: chad.conrad@asc.ca

Financial and Consumer Affairs Authority of Saskatchewan

Heather Kuchuran
Director, Corporate Finance
Financial and Consumer Affairs Authority of Saskatchewan
Tel: 306-787-1009
Email: heather.kuchuran@gov.sk.ca

Manitoba Securities Commission

Patrick Weeks
Deputy Director, Corporate Finance
Manitoba Financial Services Agency
Manitoba Securities Commission
Tel: 204-945-3326
Email: Patrick.weeks@gov.mb.ca

Ontario Securities Commission

Irene Lee
Senior Legal Counsel,
Investment Management Division
Ontario Securities Commission
Tel: 416-593-3668
Email: ilee@osc.gov.on.ca

Stephen Paglia
Manager,
Investment Management Division
Ontario Securities Commission
Tel: 416-593-2393
Email: spaglia@osc.gov.on.ca

Autorité des marchés financiers

Ata Kassaian
Senior Policy Analyst,
Investment Products Oversight
Autorité des marchés financiers
Tel: 514-395-0337 ext. 4457
Email: ata.kassaian@lautorite.qc.ca

Philippe Lessard
Analyst, Investment Products Oversight
Autorité des marchés financiers
Tel: 514-395-0337 ext. 4364
Email: philippe.lessard@lautorite.qc.ca

Gabriel Vachon
Analyst, Investment Products Oversight
Autorité des marchés financiers
Tel: 514-395-0337 ext. 2689
Email: gabriel.vachon@lautorite.qc.ca

ANNEX A

PROPOSED AMENDMENTS TO
NATIONAL INSTRUMENT 31-103
REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

1. National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended by this Instrument.

2. Subsection 14.17(1) is amended by adding the following paragraph after paragraph (u):

(v) the following notification, or a notification that is substantially similar, either of which must be located in a footnote, if during the period covered by the report

(i) the client owned securities of a mutual fund that is a reporting issuer,

(ii) the registered firm was a principal distributor, as defined in section 1.1 of National Instrument 81-102 *Investment Funds*, of those securities, and

(iii) the registered firm received a payment, other than a payment reported under paragraphs (g) or (h), in connection with services that the registered firm provided to the manager or to the mutual fund as a principal distributor:

"We have an exclusive right to distribute or a material competitive advantage over others in distributing the securities of [insert name of the fund]. [Insert name of fund manager] paid us up to a maximum of [insert percentage of the management fee] % of the fund's management fee for providing services as a principal distributor."***.***

Effective Date

3. (1) This Instrument comes into force on •.

(2) In Saskatchewan, despite subsection (1), if this Instrument is filed with the Registrar of Regulations after •, this Instrument comes into force on the day on which it is filed with the Registrar of Regulations.

ANNEX B

PROPOSED CHANGES TO
COMPANION POLICY 31-103
REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS

1. ***Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is changed by this Document.***

2. ***The following paragraph is added immediately preceding "*****Reporting information when approximations are used*****" in section 14.17:***

Payments from Investment Fund Managers Received by Principal Distributors

A registered firm that is a mutual fund's principal distributor may have an arrangement with the investment fund manager for which they act as principal distributor. In order to provide transparency regarding the interests of the principal distributor in such circumstances, it is important to provide investors with information regarding payments received by principal distributors. In particular, there may be circumstances where the principal distributor might receive a percentage of the management fees collected by the investment fund manager. In some cases, the percentage received may vary depending on the total level of assets under management attributed to the principal distributor. Principal distributors must provide a footnote to disclose the maximum percentage of the management fee that is paid to them by an investment fund manager for principal distributor services provided to the investment fund manager and the funds, as required under paragraph 14.17(1)(v).

For greater clarity, we do not expect registered firms to also disclose under paragraph 14.17(1)(g) a payment which is required to be disclosed under paragraph 14.17(1)(v)..

Effective Date

3. This change becomes effective on •.

ANNEX C

PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 81-101 *MUTUAL FUND PROSPECTUS DISCLOSURE*

1. National Instrument 81-101 Mutual Fund Prospectus Disclosure is amended by this Instrument.

2. Part A of Form 81-101F1 Contents of Simplified Prospectus is amended by renumbering the disclosure requirements under item 10 as subsection 10(1) and by adding the following subsections:

(2) If a mutual fund has a principal distributor, state in substantially the following words:

"[Insert name of principal distributor] has an exclusive right to distribute or has a material competitive advantage over others in distributing the securities of the mutual fund(s). Please see "Dealer Compensation" for more information, including a description of the services provided by [insert name of principal distributor] to the fund(s) or [insert name of manager of the mutual fund]."

(3) If a mutual fund has a principal distributor that receives a payment, other than a payment that is a trailing commission, in connection with services provided by the principal distributor to the manager of the mutual fund or the mutual fund, state in substantially the following words:

"[Insert name of manager of the mutual fund] pays up to a maximum of [insert percentage of the management fee payable to principal distributor] % of the management fee to [insert name of principal distributor] for providing services to [insert name of manager of the mutual fund] or the mutual fund(s) as the principal distributor."

(4) If the fee payable to a principal distributor varies under an agreement between the principal distributor and the manager of the mutual fund, describe the variables that are used in the determination of the fee and how that fee is calculated.***.***

3. Part II of Form 81-101F3 Contents of Fund Facts Document is amended by adding the following subsections to item 1.3:

(4.1) If a mutual fund has a principal distributor, include a statement substantially similar to the following:

[Insert name of principal distributor] has an exclusive right to distribute or has a material competitive advantage over others in distributing the securities of this fund.

(4.2) If a mutual fund has a principal distributor that receives a payment, other than a payment that is a trailing commission, in connection with services provided by the principal distributor to the manager of the mutual fund or the mutual funds, state in substantially the following words:

[Insert name of manager of the mutual fund] pays up to a maximum of [insert percentage of the management fee payable to principal distributor] % of the management fee to [insert name of principal distributor] for providing services to [insert name of manager of the mutual fund] or the fund as the principal distributor.

(4.3) If the fee payable to a principal distributor varies under an agreement between the principal distributor and the manager of the mutual fund, describe the variables that are used in the determination of the fee and how that fee is calculated.***.***

Effective Date

4. (1) This Instrument comes into force on ●.

(2) In Saskatchewan, despite subsection (1), if this Instrument is filed with the Registrar of Regulations after ●, this Instrument comes into force on the day on which it is filed with the Registrar of Regulations.

ANNEX D

PROPOSED AMENDMENTS TO
NATIONAL INSTRUMENT 81-102
INVESTMENT FUNDS

1. ***National Instrument 81-102*** **Investment Funds** ***is amended by this Instrument.***

2. ***Part 10 is amended by adding the following section:***

10.2.1 Prohibition of Fees for Redemptions

A manager must not charge a fee to a securityholder of a mutual fund for a redemption by the securityholder of securities of the mutual fund*.*.

Transition

3. Section 10.2.1 of National Instrument 81-102 *Investment Funds* does not apply to a fee referred to in that section if the fee is charged under a fee arrangement that existed before June 1, 2022, and the fee arrangement is still in effect.

Effective Date

4. (1) This Instrument comes into force on ●.

(2) In Saskatchewan, despite subsection (1), if this Instrument is filed with the Registrar of Regulations after ●, this Instrument comes into force on the day on which it is filed with the Registrar of Regulations.

ANNEX E

PROPOSED CHANGES TO
COMPANION POLICY 81-102
INVESTMENT FUNDS

1. ***Companion Policy 81-102 Investment Funds is changed by this Document.***

2. ***Part 10 is changed by adding the following section:***

Prohibition of Fees for Redemptions

10.7 – Section 10.2.1 of the Instrument prohibits a manager from charging a fee to a securityholder for the redemption of mutual fund securities. This would have the effect of prohibiting a manager from charging a fee to securityholders for redemptions based on the sales charge option under which the securities were initially purchased. This prohibition does not impact fees charged by a mutual fund (as opposed to a manager) to investors in connection with the redemption of mutual fund securities that are not based on the sales charge option, such as fees for short-term trading and large redemption orders.*.*

Effective Date

3. This change becomes effective on •.

ANNEX F

PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 81-105 *MUTUAL FUND SALES PRACTICES*

1. National Instrument 81-105 Mutual Fund Sales Practices is amended by this Instrument.

2. Part 2 is amended by adding the following section:

2.4 Principal Distributors

A principal distributor of a mutual fund shall not be a principal distributor of another mutual fund unless the other mutual fund is a member of the same mutual fund family.***.***

3. Section 4.2 is amended by adding the following subsection:

(0.1) A principal distributor of a mutual fund that is also a principal distributor of another mutual fund that is in the same mutual fund family as the first-mentioned mutual fund shall not provide an incentive for any of its representatives to recommend a mutual fund of which it is a principal distributor over another mutual fund of which it is a principal distributor.***.***

4. Section 7.1 is repealed.

Effective Date

5. (1) This Instrument comes into force on ●.

(2) In Saskatchewan, despite subsection (1), if this Instrument is filed with the Registrar of Regulations after ●, this Instrument comes into force on the day on which it is filed with the Registrar of Regulations.

ANNEX G

PROPOSED CHANGES TO
COMPANION POLICY 81-105
MUTUAL FUND SALES PRACTICES

1. Companion Policy 81-105 Mutual Fund Sales Practices is changed by this Document.

2. Section 9.1 is repealed.

Effective Date

3. This change becomes effective on •.

ANNEX H

SPECIFIC CONSULTATION QUESTIONS

In addition to your comments on all aspects of the Proposed Amendments and the Proposed Changes, we are seeking specific feedback on the following questions:

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.

2. If your answer to question #1 was yes, please also comment on the following:

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

   (ii) 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?

   (iii) 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.

   (iv) 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?

   (v) 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?

3. Do the Proposed Amendments fully address potential investor protection concerns for existing principal distributor business models and any foreseeable new mutual fund distribution business models? Are there any other considerations, limits or factors about a principal distributor arrangement that we should consider?

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.

5. Some principal distributors may currently use chargebacks. Chargebacks involve a compensation practice where a representative is paid upfront commissions and/or fees from the dealer when their client purchases securities. Chargebacks occur when investors redeem their securities before a fixed schedule as determined by the dealer, and the dealing representative is required to pay back all or part of the upfront commission/fees to the dealer. In June 2023, the CSA announced that it would be reviewing the use of chargebacks in the mutual fund industry due to concerns about potential conflicts of interest associated with this practice. The CSA is of the view that the use of chargebacks raises a significant conflict of interest for principal distributors in the distribution of mutual fund securities and we are considering the appropriate regulatory steps. We are requesting additional feedback on this practice.

ANNEX I

LOCAL MATTERS

ONTARIO SECURITIES COMMISSION

1. Introduction

This Annex to the accompanying CSA Notice and Request for Comment (the **CSA Notice**) sets out matters required to be addressed by the *Securities Act* (Ontario) (the **Act**). The Ontario Securities Commission (the **Commission**) is publishing this Annex to supplement the CSA Notice.

The CSA are publishing for comment the Proposed Amendments and Proposed Changes. As defined in the CSA Notice, the Proposed Amendments include amendments to NI 31-103, NI 81-101, NI 81-102, NI 81-105, and the Proposed Changes include changes to 31-103CP and 81-101CP.

Unless otherwise defined in this Annex, defined terms or expressions used in this Annex share the meanings provided in the CSA Notice. Please refer to the main body of the CSA Notice for additional details.

2. Overview

The purpose of the Proposed Amendments is to modernize the principal distributor model for mutual funds and improve investor protection and maintain investor confidence in our capital markets. The Proposed Amendments clarify that a principal distributor may only act for mutual funds in the same mutual fund family, require disclosure of principal distributor arrangements and compensation and ensure that the DSC option is not available to investors purchasing mutual fund securities distributed by principal distributors.

The following is a high-level summary of the Proposed Amendments:

(a) Principal Distributor Model

The Proposed Amendments clarify that a dealer cannot have multiple principal distributor relationships except where it acts as a principal distributor for mutual funds in the same mutual fund family. A mutual fund family is defined in NI 81-105 as “two or more mutual funds that have (a) the same manager, or (b) managers that are affiliates of each other.”

(b) Principal Distributor Practices

The Proposed Amendments replicate the prohibition on providing incentives to representatives to recommend mutual funds of one family over another that currently applies to participating dealers to also apply to principal distributors. More specifically, the Proposed Amendments aim to prohibit a principal distributor from providing incentives to representatives to recommend mutual funds of one manager over mutual funds of an affiliated manager.

(c) Disclosure of Principal Distributor Compensation

The Proposed Amendments will require the SP, fund facts document and ARCC to disclose that the principal distributor has the exclusive right to distribute funds. If the principal distributor receives a payment, other than trailing commissions, in connection with services provided to the manager and the funds as a principal distributor, the maximum percentage of the management fee that is paid by the manager to the principal distributor for its services must also be disclosed.

(d) No Redemption Fees Charged by Managers

As of June 1, 2022, the CSA adopted DSC Ban Amendments to prohibit managers from paying upfront sales commissions to participating dealers in respect of mutual fund securities, which were intended to result in the discontinuation of all forms of the DSC option. However, as principal distributors are carved out of the NI 81-105 provisions that apply to participating dealers, the DSC Ban Amendments do not technically apply to principal distributors. The Proposed Amendments prohibit managers from charging investors redemption fees upon the redemption of mutual fund securities. The Proposed Amendments include an exception for mutual fund securities purchased prior to June 1, 2022 for so long as such securities are subject to a redemption fee schedule.

We recognize that existing business models or new business models might be developed that do not fit within the parameters of the Proposed Amendments. We are prepared to consider requests for exemptive relief from the prohibition on a dealer acting as a principal distributor for multiple managers in appropriate circumstances where it can be demonstrated that any potential investor protection concerns can be adequately addressed. In our view, any exemptive relief will be fact specific and will be considered novel.

3. Affected Stakeholders

The following stakeholders are expected to be affected by the Proposed Amendments:

(a) Principal distributors

We estimate that there are 2 principal distributors in Canada that currently act as principal distributors for more than one mutual fund family.[1] These 2 principal distributors have 7,308 dealer representatives in total and an estimated $27 billion assets under management.

There are an estimated 42 principal distributors in Canada that currently act as principal distributors for one mutual fund family.[2]

(b) Managers

There are an estimated 37 managers that have their mutual fund securities distributed by principal distributors.[3]

Based on preliminary data from the 2023 OSC Investment Funds Survey, we estimate that there were 96 managers of public mutual funds registered in Ontario at the end of 2023.[4]

(c) Participating dealers

We estimate that there are 159 participating dealers (84 mutual fund dealers and 75 investment dealers) in Ontario.[5] We note that the principal distributor and participating dealer categories are not mutually exclusive. This means that an entity could be both a principal distributor and a participating dealer.

(d) Mutual fund investors

According to the Investment Funds Institute of Canada (IFIC), 4.9 million,[6] or 32.71% of the estimated 14.98 million households in Canada,[7] invest in mutual funds.

4. Anticipated Costs and Benefits

The following qualitative and quantitative analysis examines the incremental anticipated costs and benefits to the affected stakeholders from the Proposed Amendments, as compared to the existing requirements. The analysis took into consideration the OSC's mandate:

OSC's Mandate	Analysis
(i) provide protection to investors from unfair, improper or fraudulent practices	The Proposed Amendments are aimed at providing mutual fund investors with increased investor protection and investor confidence in the capital markets from the proposal to have principal distributors only distribute mutual fund securities of the same mutual fund family because there will be less conflicts of interest raised as compared to situations where principal distributors are distributing for multiple mutual fund families. There is an expected increased investor protection from the prohibition on principal distributors providing incentives to representatives to recommend mutual funds of one manager over mutual funds of an affiliated manager, as this proposal ensures that this conflict of interest does not exist regardless of whether mutual fund investors purchase mutual fund securities from a principal distributor or from a participating dealer.

1 OSC staff review of SPs filed on SEDAR in 2022.
2 OSC staff review of SPs filed on SEDAR in 2022.
3 OSC staff review of SPs filed on SEDAR in 2022.
4 OSC Investment Funds Survey (2023 preliminary data).
5 According to the Canadian Investment Regulatory Organization (CIRO), investment dealers are considered participating dealers if they reported that they received mutual fund commissions for the year ending December 31, 2023.
6 *Investor Centre*, The Investment Funds Institute of Canada, https://investorcentre.ific.ca/evolution-mutual-funds/
7 Census Profile, 2021 Census of Population, Profile Table, Statistics Canada, https://www12.statcan.gc.ca/census-recensement/2021/dp-pd/prof/details/page.cfm?Lang=E&DGUIDList=2021A000011124&GENDERList=1&STATISTICList=1&HEADERList=0&SearchText=Canada

OSC's Mandate	Analysis
	Mutual fund investors should benefit from full, true and plain disclosure about principal distributor compensation in the SP, fund facts and ARCC. Mutual fund investors should benefit from the prohibition on managers from charging redemption fees to investors because it will ensure the DSC option is not available when purchasing mutual fund securities from principal distributors.
(ii) foster fair, efficient and competitive capital markets and confidence in the capital markets	The Proposed Amendments foster efficient capital markets. The Proposed Amendments increase the ease with which market participants can navigate the regulatory environment by providing principal distributors and managers with greater clarity about principal distributor arrangements, address conflict of interests in principal distributor relationships, and offer a level playing field to participating dealers. The Proposed Amendments are also aimed at improving investor protection and maintain investor confidence in the capital markets. In particular, mutual fund investors will be provided with full, true and plain disclosure about principal distributor compensation, including disclosure in the SP, fund facts and ARCC. There will be disclosure that the principal distributor has the exclusive right to distribute funds and if the principal distributor receives a payment, other than trailing commissions, in connection with services provided to the manager and the funds as a principal distributor, the maximum percentage of the management fee that is paid by the manager to the principal distributor for its services. The prohibition on managers from charging redemption fees to mutual fund investors will ensure the DSC option is not available when purchasing mutual fund securities from principal distributors.
(iii) foster capital formation	The Proposed Amendments have no impact on capital formation.
(iv) contribute to the stability of the financial system and the reduction of systemic risk	The Proposed Amendments have no impact on the stability of the financial system and the reduction of systemic risk.

For principal distributors and managers, the quantitative estimates set out below are based on the benefits and the costs of the Proposed Amendments. While there are some assumptions underlying these estimates, the estimates provide a general guide of the impact of the Proposed Amendments on principal distributors and managers.

For investors and participating dealers, only the qualitative costs and benefits are considered below as it is not possible to quantify the impact of certain proposals. For example, it is not possible to quantify the impact of creating a level playing field between principal distributors and participating dealers. Overall, we expect that a net benefit from the Proposed Amendments given that the benefits associated with them exceed the costs.

(a) Principal distributors

In terms of competition and levelling the playing field between principal distributors and participating dealers, the Proposed Amendments will have no impact on most principal distributors because they act as a principal distributor for only one mutual fund family. However, there are an estimated 2 principal distributors, to our knowledge, that will be impacted by the Proposed Amendments and will be limited to acting as a principal distributor for only one mutual fund family. While it is not known what operational model and compensation arrangements will be adopted by the impacted principal distributors as a result of the Proposed Amendments, we expect that impacted principal distributors would be able to continue to act as a principal distributor for one mutual fund family and possibly transition to act as a participating dealer for other mutual fund families after the adoption of the Proposed Amendments.

(i) Principal Distributor Model

For the 2 known principal distributors that act for more than one manager or more than one mutual fund family, there will be costs for the principal distributors to transition their practice, operational model and compensation arrangements to act as a principal distributor for one mutual fund family.

An estimate of the costs cannot be provided given that we do not know what operational model and compensation arrangements will be adopted by the impacted principal distributors as a result of the Proposed Amendments. We expect that impacted principal distributors would be able to continue to act as a principal distributor for one mutual fund family but will lose revenue from not being able to act as a principal distributor for more than one mutual fund family. However, the loss in revenue may be offset by the impacted principal distributor acting as a participating dealer for other mutual fund families after the adoption of the Proposed Amendments.

(ii) Principal Distributor Practices

There may be a nominal cost impact, if any, to the 2 known principal distributors that distribute securities for more than one manager or more than one mutual fund family from the Proposed Amendments to prohibit principal distributors from providing incentives to representatives to recommend mutual funds of one manager over mutual funds of an affiliated manager.

We expect that these principal distributors would already have compliance policies and procedures in place to address this conflict of interest and the proposal maintains the status quo. To the extent that existing compliance policies and procedures may need to be modified, then there may be a nominal one-time cost to update compliance documents and dealing representatives. We estimate the costs to the 2 known principal distributors to be $1,952, or $976 for each principal distributor.[8]

Principal distributors that act for only one manager or one mutual fund family will not be impacted.

(iii) Disclosure of Principal Distributor Compensation

Principal distributors that act as a principal distributor for more than one manager or more than one mutual fund family will benefit from providing their clients with greater clarity from the Proposed Amendments to require disclosure of principal distributor compensation in the ARCC.

There should be a nominal cost impact to the estimated 2 principal distributors that currently act for more than one mutual fund family to provide disclosure of principal distributor compensation in the ARCC. Principal distributors can obtain this information from their contractual documents with the managers. It is not expected that this disclosure will change in the ARCC on subsequent periods unless there has been a change in principal distributor or a change in the compensation arrangements with the manager. We estimate the costs to the 2 impacted principal distributors to be $4,092, or $2,046 for each principal distributor.[9]

There is no cost impact to principal distributors that receive trailing commissions in connection with services provided to the manager and the funds as a principal distributor because the principal distributors would not be subject to the requirement to disclose the maximum percentage of the management fee that is paid by the manager to the principal distributor for its services.

(iv) Managers Not Receiving Redemption Fees

Principal distributors will benefit from greater clarity from the Proposed Amendments to prohibit managers from charging investors redemption fees.

Managers have already discontinued the DSC option for participating dealers and the proposal clarifies that the DSC option should not be available for investors who purchase mutual fund securities from principal distributors.

There is no cost impact to principal distributors from the Proposed Amendments to prohibit managers from receiving redemption fees from investors upon the redemption of mutual fund securities as it maintains the status quo. We are not aware of any managers receiving redemption fees from investors

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8 The cost estimates are based on reviewing the Proposed Amendments (2 hours x $61/hour by a compliance officer, and 1 hour x $70 by a compliance manager) and updating policies and procedures (3 hours x $70 by a compliance manager, and 5 hours x $115/hour by a chief compliance officer). Hourly rates and production costs are based on the *2024 Robert Half Salary Survey*, Robert Half, https://www.roberthalf.com/ca/en/insights/salary-guide and *External Counsel Canadian Lawyer Magazine 2019 Legal Fees Survey*, Canadian Lawyer Magazine, https://www.canadianlawyermag.com/staticcontent/AttachedDocs/CL_Apr_19-survey.pdf.

9 The cost estimates are based on reviewing the Proposed Amendments (2 hours x $61/hour by a compliance officer, and 1 hour x $70 by a compliance manager) and updating policies and procedures (3 hours x $70 by a compliance manager, and 5 hours x $115/hour by a chief compliance officer), drafting and reviewing the updated disclosure in the ARCC (1 hour x $70 by a compliance manager and updating existing disclosure in the ARCC including production & design and workflow to collect data ($1,000). Hourly rates and production costs are based on the *2024 Robert Half Salary Survey*, Robert Half, https://www.roberthalf.com/ca/en/insights/salary-guide and *External Counsel Canadian Lawyer Magazine 2019 Legal Fees Survey*, Canadian Lawyer Magazine, https://www.canadianlawyermag.com/staticcontent/AttachedDocs/CL_Apr_19-survey.pdf.

for redemptions (other than for mutual fund securities purchased under the DSC option prior to the June 1, 2022 effective date of the DSC Ban, which have been grandfathered).

(b) Managers

(i) Principal Distributor Model

Managers with principal distributors that only distribute their mutual fund securities or also distribute mutual funds securities of an affiliate(s) will not be impacted.

Managers with participating dealers will not be impacted.

(ii) Principal Distributor Practices

Affiliated managers with the same principal distributor would benefit from a level playing field from the Proposed Amendments to prohibit principal distributors from providing incentives to representatives to recommend mutual funds of one manager over mutual funds of an affiliated manager.

All other managers with principal distributors will not be impacted.

(iii) Disclosure of Principal Distributor Compensation

Managers with principal distributors will benefit from providing full, true and plain disclosure of all material facts by providing disclosure in the SP and Fund Facts. The Proposed Amendments will require disclosure in the SP and Fund Facts that a principal distributor has the exclusive right to distribute funds and if the principal distributor receives a payment, other than trailing commissions, in connection with services provided to the manager and the funds as a principal distributor, the maximum percentage of the management fee that is paid by the manager to the principal distributor for its services.

There is a nominal cost impact to the impacted managers to provide the required disclosure in the SP and the Fund Facts. As some principal distributors are paid a trailing commission, this disclosure requirement regarding compensation will only impact a couple of managers. The impacted managers already have this information from their contractual documents with their principal distributors and there may be a one-time cost to modify the SP and the Fund Facts template with the additional disclosure. It is not expected that this disclosure will change in the SP and Fund Facts on subsequent filings unless there has been a change in principal distributor or a change in the compensation arrangements with the principal distributor. We estimate that the costs to the impacted managers providing the required disclosures in the SP and the Fund Facts to be $98,860 for 37 managers or $2,673 for each manager with a principal distributor.[10]

Managers with participating dealers will not be impacted.

(iv) Managers Not Receiving Redemption Fees

Managers will benefit from greater clarity from the Proposed Amendments to prohibit managers from charging investors redemption fees.

Managers have already discontinued the DSC option for participating dealers and the proposal clarifies that the DSC option should not be available for investors who purchase mutual fund securities from principal distributors.

There is no cost impact to managers from the Proposed Amendments to prohibit managers from receiving redemption fees from investors upon the redemption of mutual fund securities as it maintains the status quo. We are not aware of any managers receiving redemption fees from investors for redemptions (other than for mutual fund securities purchased under the DSC option prior to the June 1, 2022 effective date of the DSC Ban, which have been grandfathered).

[10] The cost estimates are based on reviewing the Proposed Amendments (2 hours x $61/hour by a compliance officer, and 1 hour x $70 by a compliance manager) and updating policies and procedures (3 hours x $70 by a compliance manager), drafting and reviewing the updated disclosure in the SP and the Fund Facts (1 hour x $70 by a compliance manager and 2 hours x $350/hour by external counsel), and updating existing disclosure in the SP and the Fund Facts including production & design and workflow to collect data ($1,500). Hourly rates and production costs are based on the *2024 Robert Half Salary Survey*, Robert Half, https://www.roberthalf.com/ca/en/insights/salary-guide and *External Counsel Canadian Lawyer Magazine 2019 Legal Fees Survey*, Canadian Lawyer Magazine, https://www.canadianlawyermag.com/staticcontent/AttachedDocs/CL_Apr_19-survey.pdf

(c) Participating dealers

(i) Principal Distributor Model

Participating dealers will benefit from the greater clarity from the Proposed Amendments to have principal distributors act only for mutual funds in the same mutual fund family. There will not be any cost impact to the estimated 159 participating dealers.

(ii) Principal Distributor Practices

Participating dealers will benefit from having a level playing field from the Proposed Amendments to prohibit principal distributors from providing incentives to representatives to recommend mutual funds of one manager over mutual funds of an affiliated manager, as participating dealers are already subject to this prohibition. There will not be any cost impact to the estimated 159 participating dealers.

(iii) Disclosure of Principal Distributor Compensation

Participating dealers will benefit from having a level playing field from the Proposed Amendments to require disclosure of principal distributor compensation as the compensation paid to participating dealers is required to be disclosed in the SP, the Fund Facts and the ARCC. There will not be any cost impact to the estimated 159 participating dealers.

(iv) Managers Not Receiving Redemption Fees

Participating dealers will benefit from having a level playing field from the Proposed Amendments to prohibit managers from charging investors redemption fees as the DSC ban already applies participating dealers. There will not be any cost impact to the estimated 159 participating dealers.

(d) Mutual fund investors

(i) Principal Distributor Model

Mutual fund investors from 4.9 million households in Canada should benefit from increased investor protection and investor confidence in the capital markets from the Proposed Amendments to have principal distributors only distribute mutual fund securities of the same mutual fund family.

The conflicts of interest raised by principal distributors distributing only mutual fund securities of the same mutual fund family are less acute than the conflicts of interest raised by principal distributors distributing mutual fund securities of multiple managers.

Mutual fund investors of principal distributors that act for more than one mutual fund family may need to adjust their mutual fund investments depending on the changes that the principal distributor will adopt to their operational model and compensation arrangements as a result of the Proposed Amendments.

(ii) Principal Distributor Practices

Mutual fund investors should benefit from increased investor protection provided by the Proposed Amendments to prohibit principal distributors from providing incentives to representatives to recommend mutual funds of one manager over mutual funds of an affiliated manager. Given that this prohibition is already in place for participating dealers, this proposal ensures that this conflict of interest does not exist regardless of whether mutual fund investors purchase mutual fund securities from a principal distributor or from a participating dealer. There will not be any cost impact to mutual fund investors.

(iii) Disclosure of Principal Distributor Compensation

Mutual fund investors should benefit from full, true and plain disclosure about principal distributor compensation, including disclosure in the SP, fund facts and ARCC that the principal distributor has the exclusive right to distribute funds and if the principal distributor receives a payment, other than trailing commissions, in connection with services provided to the manager and the funds as a principal distributor, the maximum percentage of the management fee that is paid by the manager to the principal distributor for its services. There will not be any cost impact to mutual fund investors.

(iv) Managers Not Receiving Redemption Fees

Mutual fund investors should benefit from the Proposed Amendments to prohibit managers from charging redemption fees to investors because it will ensure the DSC option is not available when purchasing mutual fund securities from principal distributors. As the DSC ban already applies to participating dealers, mutual fund investors should benefit from the increased investor protection when purchasing mutual fund securities from principal distributors. There will not be any cost impact to mutual fund investors.

5. Alternatives Considered

(a) Status quo

Recent amendments, including the DSC Ban Amendments and the Client Focused Reforms, are based on NI 81-105 provisions operating as they were originally intended to in accordance with the general purpose of NI 81-105.

The general purpose of NI 81-105, as set out in Companion Policy 81-105 *Mutual Fund Sales Practices*, is to "ensure that the interest of investors remain uppermost in the actions of participants in the mutual fund industry by setting minimum standards of conduct to be followed by industry participants in their activities in distributing mutual fund securities."

The premise that principal distributors only distribute mutual fund securities of the same mutual fund family, which is the basis for the principal distributor carve-outs from some NI 81-105 obligations, is currently not captured in the provisions of NI 81-105.

As a result, status quo is not an option. The Proposed Amendments provide principal distributors and managers with greater clarity, offer a level playing field to participating dealers and improve investor protection and maintain investor confidence in the capital markets. The benefits of the proposals outweigh the nominal costs to managers and principal distributors that act as principal distributors for one mutual fund family. While the proposals have a direct cost impact to principal distributors that currently act as a principal distributor for more than one mutual fund family, there are a limited number of impacted principal distributors.

(b) Ban principal distributors

While we considered banning principal distributors, a model where principal distributors only distribute mutual fund securities of the one mutual fund family continues to have a place in today's mutual fund industry.

As indicated in the 1997 Consultation "IFIC noted that an ordinary investor purchasing a product in an environment in which the only product offered is an in-house brand knows, just as the ordinary car purchaser knows, that their choice in that environment is limited." This view still prevails today with many mutual fund investors purchasing mutual funds from principal distributors that distribute only mutual funds of one mutual fund family.

6. Rulemaking Authority

The following provisions of the Act provide the Commission with authority to adopt the Proposed Amendments:

- Subparagraph 143(1)2(ii) of the Act authorizes the Commission to make rules prescribing requirements for registrants including requirements that are advisable for the prevention or regulation of conflicts of interest;

- Paragraph 143(1)7 of the Act authorizes the Commission to make rules prescribing requirements in respect of the disclosure of information to the public by registrants;

- Paragraph 143(1)13 of the Act authorizes the Commission to make rules regulating trading or advising in securities to prevent trading or advising that is, among other things, unfairly detrimental to investors; and

- Paragraph 143(1)31 of the Act authorizes the Commission to make rules regulating investment funds and the distribution and trading of the securities of investment funds, including,

    - making rules varying Part XV (Prospectuses -- Distribution) or Part XVIII (Continuous Disclosure) by prescribing additional disclosure requirements in respect of investment funds and requiring or permitting the use of particular forms or types of additional offering or other documents in connection with the funds (subparagraph (i));

- making rules respecting sales charges imposed by a distribution company or contractual plan service company under a contractual plan on purchasers of shares or units of an investment fund, and commissions or sales incentives to be paid to registrants in connection with the securities of an investment fund (subparagraph (ix)); and

- making rules prescribing procedures applicable to investment funds, registrants and any other person or company in respect of sales and redemptions of investment fund securities (subparagraph (xi)).