



Monday, March 10, 2025

By email: [comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca); [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22nd Floor, Box 55  
Toronto, Ontario M5H 3S8

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

And

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
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  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territory  
Superintendent of Securities, Nunavut

**Re: Canadian Securities Administrators (CSA) Proposed Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Proposed Changes to Companion Policy 81-105 Mutual Fund Sales Practices – The Principal Distributor Model, issued on November 28, 2024**

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to the CSA on the proposed amendments to the principal distributor model in the distribution of mutual fund securities.

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

**Acknowledgment of CSA's Efforts**

The Investment Dealers we represent appreciate the CSA's initiative to examine cooperative arrangements under the Principal Distributor (PD) model. However, we must express disappointment in the limited scope of the consultation, particularly regarding pressing investor protection issues such as restricted fund shelves and certain sales practices.

**Principal Distributors Limited to a Single Fund Family**

The CSA proposes restricting PDs to distributing mutual fund securities from only one fund family, purportedly to address conflicts of interest. Although we recognize the potential benefits of increased accountability under such a model, we believe that such a limitation would significantly reduce investor choice and in fact may increase the potential for conflicts of interest.

**Chargebacks and Conflicts of Interest in the Current PD Model**

The Investment Dealers we represent have serious concerns about the practice of chargebacks, a feature of the PD model. Chargebacks occur when investors redeem their investments within a short period of time and mutual fund companies then recoup the payments made to distributors. These chargebacks exacerbate conflicts of interest.

This practice creates a misalignment between the interests of advisors and those of their clients, as self-serving advisors may be incentivized to prioritize short-term retention over the best interests of their clients. These self-serving advisors, who unfortunately do exist in the industry, focus on personal gain rather than client well-being. We urge the CSA to take proactive regulatory action to address this issue, as it undermines the principles of fairness and transparency that should govern advisor-client relationships in the industry.

## Impact on Competition and Investor Outcomes

The Investment Dealers we represent challenge the CSA's assertion that the PD model, even with the proposed single-fund-family restriction, remains relevant in the contemporary mutual fund landscape and instead are concerned about the potential this model has to suppress competition and limit market efficiency.

Furthermore, we would like to highlight potential negative effects on investor retirement savings, noting that reduced competition could result in higher fees and fewer investment options for retail investors. The Investment Dealers we represent would advocate for a more robust evaluation of the economic and competitive impacts of maintaining or modifying the PD model.

## Broader Implications and Call for Comprehensive Review

We acknowledge the CSA's efforts to align the PD model with Client Focused Reforms (CFR). However, we would like to emphasize that the proposed amendments fall short of addressing the broader systemic issues within the mutual fund industry.

We add our voice to others who have called for an expanded consultation process that includes a comprehensive review of the PD model's implications for investor protection, industry competition, and regulatory compliance.

## Conclusion

We commend the CSA for its efforts to maintain and enhance investor protection in Canada. However, we stress the need for a more extensive evaluation of the Principal Distributor model.

We believe that the CSA must address critical issues like:

- restricted fund shelves;
- sales practices by certain bank-owned dealers;
- conflicts of interest from chargebacks and other similar arrangements.

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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Annie Sinigagliese, CPA, FCSI  
Canadian Independent Finance and Innovation Counsel Inc.  
Conseil Indépendant Finance et Innovation du Canada Inc.  
[www.cific.co](http://www.cific.co)