CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

For Immediate Release

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Canadian securities regulators adopt ban on deferred sales charges

Vancouver – The securities regulatory authorities of British Columbia, Alberta, Saskatchewan, Manitoba, Québec, Nova Scotia, Prince Edward Island, New Brunswick, Newfoundland and Labrador, Nunavut, Northwest Territories and Yukon (the Participating Jurisdictions, or we), after extensive research, analysis, and consultations with the investment industry and investor advocates, are today adopting rules that will lead to the end of deferred sales charges (DSC) on mutual funds.

The rules, which take effect on June 1, 2022 in all provinces and territories except Ontario, will prohibit fund organizations from paying upfront sales commissions to dealers. Those payments give dealers an incentive to sell mutual funds that incidentally impose redemption fees to investors if they sell their holdings before a certain period of time.

"This decision was motivated by important investor protection concerns," said Louis Morisset, Chair of the CSA and President and CEO of the Autorité des marchés financiers. "Upfront sales commissions create conflicts of interest and impose liquidity constraints that harm investors. This compensation bias incentivizes dealers to recommend a product that may not be in the best interest of investors and has led to suboptimal investor outcomes."

We thoroughly considered alternatives to the DSC ban, including regulating sales through a series of restrictions, but concluded they were inadequate as they only partially mitigated the investor harms we identified and none dealt with the conflicts of interest inherent in the DSC option, or the harmful lock-in feature imposed on investors. In the face of ample evidence of investor harm and no evidence of any benefits, we see no reason to preserve the DSC option. Investors, especially the most vulnerable, shouldn't be compelled to accept liquidity constraints to suit the compensation needs of dealers.

Many investment fund companies and dealers have already transitioned away from this problematic compensation model as it no longer meets investors' needs and reasonable expectations. Innovation has opened significant new avenues for serving smaller accounts at an affordable cost. Investors today have access to a wide variety of funds, including no-load mutual funds and exchange traded funds, regardless of account size.

Mindful of the impact of the ban on dealers who sell mutual funds with DSCs, the Participating Jurisdictions are providing a significant transition period of almost two and a half years to allow dealers to adjust their business models. During this transition period, dealers will be allowed to sell these mutual funds, and the redemption fee schedules on those holdings will be allowed to run their course.

Until the ban takes effect, the Participating Jurisdictions will grant relief to dealers, with respect to the DSC feature, from the enhanced conflicts of interest requirements that will take effect on December 31, 2020 following the adoption of the client focused reforms. During that time, dealers will still need to comply with conflicts of interest requirements that are currently in effect under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

As announced on December 19, 2019, the CSA plan to publish later in 2020 amendments to prohibit the payment of trailing commission payments by fund organizations to dealers who do not make a suitability determination, such as order-execution-only (OEO) dealers.

The CSA, the council of the securities regulators of Canada's provinces and territories, co-ordinates and harmonizes regulation for the Canadian capital markets.

- 30 -

For investor inquiries, please refer to your respective securities regulator. You can contact them here.

For media inquiries, please refer to the list of provincial and territorial representatives below or contact us at media@acvm-csa.ca:

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