CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

For Immediate Release

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Canadian securities regulators propose rules to prohibit certain embedded commissions

Proposed amendments would discontinue the deferred sales charge (DSC) option and trailing commissions to dealers who do not make a suitability determination

Toronto - The Canadian Securities Administrators (CSA) today published for comment a notice outlining proposed amendments that would prohibit investment fund managers from paying upfront sales commissions to dealers, and trailing commissions to dealers who do not make a suitability determination, such as order-execution-only dealers. These changes would result in the discontinuation of all forms of the deferred sales charge option (the DSC option), and more transparent fees on the discount brokerage channel.

"These proposed amendments, together with enhanced registrant conduct requirements proposed under our Client Focused Reforms, comprise the CSA's policy response to the investor protection and market efficiency concerns examined in our consultations on embedded commissions," said Louis Morisset, CSA Chair and President and CEO of the Autorité des marchés financiers.

The proposed changes will eliminate a compensation conflict inherent in the DSC option that has given rise to investor protection concerns. The CSA expects that the prohibition of upfront sales commission payments by investment fund managers to dealers will eliminate the need for charging redemption fees to investors, effectively discontinuing the DSC option. Further to this change, dealers would be required to negotiate with, and charge directly to, clients any upfront sales commissions for mutual fund purchases. Similarly, the prohibition of trailing commission payments to dealers who do not make suitability determinations would require such dealers to charge investors directly for services.

The CSA is also proposing to eliminate certain disclosure requirements in the simplified prospectus form, in the Fund Facts document and under dealer disclosure rules since these would no longer be necessary when the DSC option is discontinued.

These proposed amendments follow the June 21, 2018 publication of the CSA’s policy decision on embedded commissions and its proposed Client Focused Reforms . Under proposed enhanced conflict of interest rules in the Client Focused Reforms, all embedded commissions would be considered conflicts that must be addressed in the best interests of clients or avoided.

The proposed amendments are available on CSA members' websites. The 90-day comment period will close on December 13, 2018.

Details regarding in-person consultations will be announced separately by individual CSA jurisdictions.

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

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