

For Immediate Release

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Canadian securities regulators to review use of chargebacks by securities registrants

Toronto and Montreal – The Canadian Securities Administrators (CSA) is launching a review of the use of chargebacks in the mutual fund industry. The CSA is undertaking this review due to concerns about potential conflicts of interest associated with this practice.

The review is aligned with the CSA's [2022-2025 CSA Business Plan](#), which includes assessing whether additional mutual fund sales practice rule modernization is needed to improve investor protection and maintain investor confidence in Canadian capital markets. The review will include a survey of securities registrants on their use of chargebacks. It will also involve [Canadian Investment Regulatory Organization](#) (CIRO) staff participation.

Chargebacks involve a compensation practice where a dealer or dealing representative is paid upfront commissions and/or fees when their client purchases securities. Chargebacks occur when investors redeem their securities before a fixed schedule as determined by the dealer firm, and the dealing representative is required to pay back all or part of the upfront commission/fees.

“The CSA is committed to enhancing investor protection,” said Stan Magidson, CSA Chair and Chair and CEO of the Alberta Securities Commission. “The information obtained from this review will help us determine whether further regulatory reform is needed to align certain mutual fund sales practices with the interests of clients.”

On September 8, 2022, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) released for public consultation a [discussion paper](#) on upfront compensation paid for the sale and servicing of segregated funds and individual variable insurance contracts, which identified chargebacks as possible conflicts of interest. On May 15, 2023, the CCIR and CISRO published a news release indicating that there is a risk of customer harm with the use of chargebacks and that they will develop guidance on the controls that need to be in place. While the use of chargebacks is not as common for the distribution of mutual funds relative to the distribution of segregated funds, chargebacks raise the same conflict of interest concerns for mutual fund distribution.

The review of chargebacks follows, and complements, the review of the practices of mutual funds that have principal distributor relationships with registrants to distribute their securities, [announced](#) in September 2022. The CSA will use the information obtained from both reviews to determine whether regulatory amendments to National Instrument 81-105 *Mutual Fund Sales Practices* or other instruments are needed now that the Client Focused Reforms have been implemented.

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

CIRO oversees the conduct of mutual fund dealers in Canada¹.

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For investor inquiries, please contact your [local securities regulator](#).

¹ In Québec, during the current transitory phase of the [AMF's transition plan for Québec MFD membership in CIRO](#), mutual fund dealers remain supervised by the AMF.