

# FAIR Canada provides comments on the OSC Proposed Rule to restrict Deferred Sales Charges (DSCs) in the sale of Mutual Funds

FAIR

Canadian Foundation for  
Advancement of Investor Rights  
Fondation canadienne pour l'avancement  
des droits des investisseurs

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July 8, 2020, Toronto, ON ~(Globe Newswire) FAIR Canada has provided [comments to the OSC](#) on the OSC Proposed Rule to restrict DSCs in the sales of mutual funds to investors. FAIR Canada has advocated for a regulatory ban of DSCs for many years and supports the announcement of December 19, 2019 by the Canadian Securities Administrators (CSA) to prohibit DSCs and associated redemption fees in all jurisdictions in Canada other than Ontario.

***"DSC mutual funds have hindered many Canadians from being able to effectively and efficiently save for their retirement and other financial goals,"*** says Douglas Walker, Deputy Director at FAIR Canada.

DSCs are a form of embedded commissions that raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors, which can impair investor outcomes. Embedded commissions generally do not align with the services provided to investors.

***"The use of DSCs creates conflicts of interest between the interests of the investment advisor recommending the purchase of such securities and the best interests of many investors, which, while we would have preferred an outright ban across the country, we acknowledge that the OSC's proposal will protect investors from much, if not most, of the harm caused by DSCs,"*** says Ermanno Pascutto, Executive Director at FAIR Canada.

Recently, [FAIR Canada called on the financial services industry](#) to recognize the substantial financial hardship that the COVID-19 pandemic has presented to many Canadians and to waive fees associated with redemption of DSC mutual funds. The current health and economic crisis may cause many Canadians to use their savings, only to find high fees in order to access their own money.

The OSC Proposed Rule has an effective date of June 1, 2022 and will permit

DSC redemption schedules for mutual fund sales that take place prior to the proposed effective date to continue unaltered. Some DSC mutual funds have redemption schedules that will result in DSC charges for as long as 7 years. This means that an investor buying a DSC mutual fund in May 2022 could end up paying these charges until as late as May 2029. **This puts smaller investors, who are most likely to invest in DSC funds, at the risk of harm for almost another decade following the decision of regulators to address problems associated with DSC mutual funds.** "We recommend the maximum 3-year term be implemented by December 3, 2020. We see no need for a longer delay," said Douglas Walker.

FAIR Canada believes that the OSC Rule Proposal in conjunction with the CSA ban of DSCs in other jurisdictions in Canada, will inevitably lead to the reduced sale of DSC mutual funds in the market due to many factors, including the costs of ensuring appropriate compliance with the OSC Proposed Rules, resulting in this investment product becoming unattractive to the investment industry.

Since the publication of the CSA Staff Notice to impose a ban on DSCs in all jurisdictions other than Ontario and the OSC Notice regarding the OSC Proposed Rule, several more financial institutions have joined the exodus and announced they will no longer sell DSC mutual funds.

**About FAIR Canada:** FAIR Canada is an independent national charitable organization. The mission of FAIR Canada is to be a catalyst for enhancing the rights of Canadian shareholders and individual investors including being a national voice for investors and financial consumers in securities regulation. FAIR Canada provides information and education to the public, governments and regulators about investors' and financial consumers' rights and protections in Canada's capital markets.

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