

June 1, 2020

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission  
New Brunswick Superintendent of Securities  
Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon  
Superintendent of Securities, Nunavut

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
19th Floor, Box 55  
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3

RE: Proposed OSC Rule 81-502 restrictions on the use of the deferred sales charge option for mutual funds

Ladies and Gentlemen:

Morningstar Research, Inc. welcomes the opportunity to comment on the proposed OSC rule 81-502 and dated February 20<sup>th</sup>, 2020, its companion policy, and its related consequential amendments.

Morningstar Research, Inc. is a leading provider of independent investment research, and our mission is to create products that help investors reach their financial goals. Because we serve individual investors, professional financial advisors, and institutional clients, we benefit from a broad perspective on the impact of the proposed rule and its possible effect on the advice that

investors receive.

We appreciate the actions of all the Canadian securities commissions that have banned the deferred sales charge option to be made effective in June 2022. We feel wholeheartedly that the discontinued use of the DSC option provides flexibility, greater transparency, and ultimately better odds of success for the retail investor, outlined through our comment letter dated [June 5<sup>th</sup>, 2017](#) on CSA Consultation Paper 81-408 (consultation on the option of discontinuing embedded commissions).

The choice of the Ontario Securities Commission to not follow suit with all other provincial regulators is disconcerting. This choice is contrary to CSA's mission to *harmonize* securities regulation across Canada<sup>1</sup> and undermines the impact of the changes proposed in CSA Staff Notice 81-332, largely due to the concentration of assets in Ontario. The lack of harmonization will undoubtedly bring on additional administration costs for fund providers to account for different provincial regulations, which must ultimately be borne by retail investors. Morningstar's recommendation is still to outrightly ban the use of the DSC option Canada-wide, inclusive of Ontario.

The proposed limitations in OSC Rule 81-502 on the use of the DSC option certainly help to reduce unsavory sales practices and liquidity risk to investors. In particular the creation of a separate fund series may make it easier for investors to identify fund with the embedded DSC option. This said, Morningstar believes that *completely* eliminating the DSC option will afford the most protection to retail investors, and in particular for newer investors with lower starting amounts who are not aware of the implications of DSCs. Isolating Ontarians from the same investor protection afforded to other Canadians is an unusual approach that Morningstar does not agree with.

In terms of the fleeting argument that low balance investors may lose access to advice, we observe that these investors now have options of automated/robo-advice platforms from large reputable firms, as well as advice-only advisors. Both options provide reasonable advice to small investors and have fees that are made transparent and are easily understood. These options are more widely available to Canadians when compared to just a few short years ago.

We continue to urge the OSC to follow suit with all other provincial regulators in regard to the DSC option such that investors can continue to benefit from having a harmonized regulation system that puts their needs first.

Very Truly Yours,

Ian Tam, CFA  
Director of Investment Research, Canada  
Morningstar Canada

Aron Szapiro  
Director of Policy Research  
Morningstar, Inc.

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<sup>1</sup> <https://www.securities-administrators.ca/aboutcsa.aspx?id=77>