

CSA Notice and Request for Comment

Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*

Prohibition on the Use of Chargebacks in the Distribution of Investment Fund Securities

June 26, 2025

Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are proposing amendments to prohibit the use of chargebacks in the distribution of investment fund securities in order to better align the interests of dealing representatives with the interests of their clients. Chargebacks involve a compensation practice where a dealing representative is paid an upfront commission, fee or compensation when a client purchases securities. Chargebacks occur when the client redeems all or part of 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 or compensation received.

We are publishing, for a 90-day comment period, proposed amendments (the **Proposed Amendments**) to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

The public comment period expires on September 24, 2025.

The text of the Proposed Amendments is contained in Annexes A and B of this notice and will also be available on the websites of the following CSA jurisdictions:

www.bcsc.bc.ca

www.asc.ca

www.fcaa.gov.sk.ca

www.mbsecurities.ca

www.osc.ca

www.lautorite.qc.ca

www.fcnb.ca

nssc.novascotia.ca

Substance and Purpose

The Proposed Amendments aim to address the inherent significant conflict of interest arising from the use of chargebacks in the distribution of investment fund securities. The Proposed

Amendments seek to improve investor protection and maintain investor confidence in our capital markets. Specifically, the Proposed Amendments prohibit the use of chargebacks in the distribution of investment fund securities.

Background

Under a compensation model using chargebacks, a dealing representative is paid an upfront commission, fee or compensation by the dealer firm or another registered firm when a client serviced by the representative purchases securities. If the client redeems all or part of their securities before the end of a fixed schedule as determined by the dealer firm or other registrant (the **chargeback period**), then the dealing representative is required to pay back all, or part, of the upfront commission, fee or compensation previously received to the dealer firm.

The use of chargebacks in the distribution of investment fund securities raises an inherent conflict of interest due to the misalignment of the interests of dealing representatives and their clients. A dealing representative benefits financially by being able to keep the entire amount of the upfront commission if their client does not redeem their securities until after the chargeback period. However, a client may want to, or need to, redeem all or part of their securities before the end of the chargeback period. It is also reasonably foreseeable that when reassessing the suitability of securities held by a client, including upon the required periodic review of know your client information prescribed by securities legislation, a dealing representative may also be influenced to put their financial interests ahead of their client's interests and recommend that a client continue to hold securities which are subject to a chargeback period. The conflict of interest from the use of chargebacks increases as the amount of the upfront commission increases and the duration of the chargeback period increases.

The deferred sales charge (**DSC**), which is now banned, raised similar investor protection issues. The DSC differs from chargebacks because the DSC was a sales charge option (i.e., where a redemption by a client under a DSC would have triggered a payment by the investor to the investment fund manager) whereas the chargeback is an internal dealer compensation practice (i.e., where a redemption by a client may trigger a payment of all or part of an upfront commission from the dealing representative to their dealer firm).

In both scenarios, the interests of different parties, such as the interests of the client and those of a registrant, are inconsistent or divergent. More specifically, chargebacks give rise to an inherent conflict of interest because (i) the dealing representative may be influenced to put their interests ahead of their client's interests, and (ii) there is a potential detriment to which the dealing representative may be subject, which may compromise the trust that a reasonable client has in their dealing representative. We are of the view that a dealing representative may attempt to dissuade their client from redeeming all or part of their securities in order to avoid paying back all or part of the upfront commissions that the dealing representative has received from the dealer firm.

While the current use of chargebacks for the distribution of investment funds is limited, we are of the view that it is important at this time to address this significant investor protection issue before chargebacks become entrenched and a widespread industry practice. The proposed ban on chargebacks would apply to all registered representatives, investment fund managers, advisers,

dealers and their affiliates in respect of the distribution of securities of investment funds that are reporting issuers.

The CSA have consulted with Canadian Investment Regulatory Organization (**CIRO**) in developing the Proposed Amendments. Comments from all registrant categories will be beneficial to the rule development process.

CIRO dealer members are registrants under securities legislation, and, as a result, concurrently subject to requirements under securities legislation and self-regulatory organization rules (the **CIRO Rules**).

CIRO may adopt conforming housekeeping amendments, the purpose of which would be to ensure that CIRO Rules remain aligned with requirements under securities legislation. Any conforming housekeeping amendments to CIRO Rules that are subsequently adopted will not solicit comment on the regulatory policy rationale underlying the Proposed Amendments.

Therefore, we encourage all CIRO members and other interested stakeholders to provide their comments on the Proposed Amendments at this time.

Questions for comment

While the Proposed Amendments would prohibit the use of chargebacks in connection with the distribution of securities of investment funds that are reporting issuers, similar inherent conflicts of interest may arise in respect of the distribution of other types of securities.

1. Should securities of investment funds that are non-reporting issuers also be subject to the proposed ban on the use of chargebacks? Why?
2. Are there other types of securities that should be subject to the proposed ban on the use of chargebacks? Why?

Summary of the Proposed Amendments

The Proposed Amendments prohibit the use of chargebacks in the distribution of investment fund securities.

Effective Date

We are proposing that the Proposed Amendments will come into force six months after the final publication date.

Local Matters

Annex B is being published in any local jurisdiction that is making related changes to local securities laws, including local notices or other policy instruments in that jurisdiction. It also includes any additional information that is relevant to that jurisdiction only.

Request for Comments

We welcome your comments on the Proposed Amendments including the questions posed in the notice. Please submit your comments in writing on or before September 24, 2025. Please send your comments by email in Microsoft Word format.

Address your submission to all of the CSA as follows:

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 of 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

Deliver your comments **only** to the addresses below. Your comments will be distributed to the other participating CSA jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: (416) 593-2318
Email: comments@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: (514) 864-8381
Email: consultation-en-cours@lautorite.qc.ca

We cannot keep submissions confidential because securities legislation requires publication of a summary of written comments received during the comment period. All comments received will be posted on the website of each of the Alberta Securities Commission at www.asc.ca, the Ontario Securities Commission at www.osc.ca and the Autorité des marchés financiers at www.lautorite.qc.ca. Therefore, you should not include personal information directly in

comments to be published. It is important you state on whose behalf you are making the submissions.

List of Annexes

This notice contains the following annexes:

Annex A: Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*

Annex B: Local Matters, where applicable

This notice will also be available on the following websites of CSA jurisdictions:

www.bcsc.bc.ca

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www.fcaa.gov.sk.ca

www.mbsecurities.ca

www.osc.ca

www.lautorite.qc.ca

www.fcnb.ca

nssc.novascotia.ca

Questions

Please refer your questions to any of the following:

British Columbia Securities Commission

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Alberta Securities Commission

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Financial and Consumer Affairs Authority of Saskatchewan

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Financial and Consumer Services Commission of New Brunswick

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Financial and Consumer Services
Commission of New Brunswick
Tel: 1-866-933-2222
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ANNEX A

PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

- 1. *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended by this Instrument.***
- 2. *Part 11 is amended by adding the following division:***

Division 4 Certain compensation practices

11.11 Compensation practices tied to redemptions of investment fund securities

A registrant must not require and, for greater certainty, must not cause an affiliate to require, in connection with the redemption by a client of a security of an investment fund that is a reporting issuer, that a registered firm or individual pay or reimburse all or part of an upfront commission, fee, sales charge or other compensation received by the registered firm or individual in connection with the distribution of the security..

- 3. This Instrument comes into force on •.**