

Ban on inducements – the Canadian experience

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THE INVESTMENT
FUNDS INSTITUTE
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L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA

Agenda



OVERVIEW: CANADIAN
INVESTMENT FUNDS
INDUSTRY

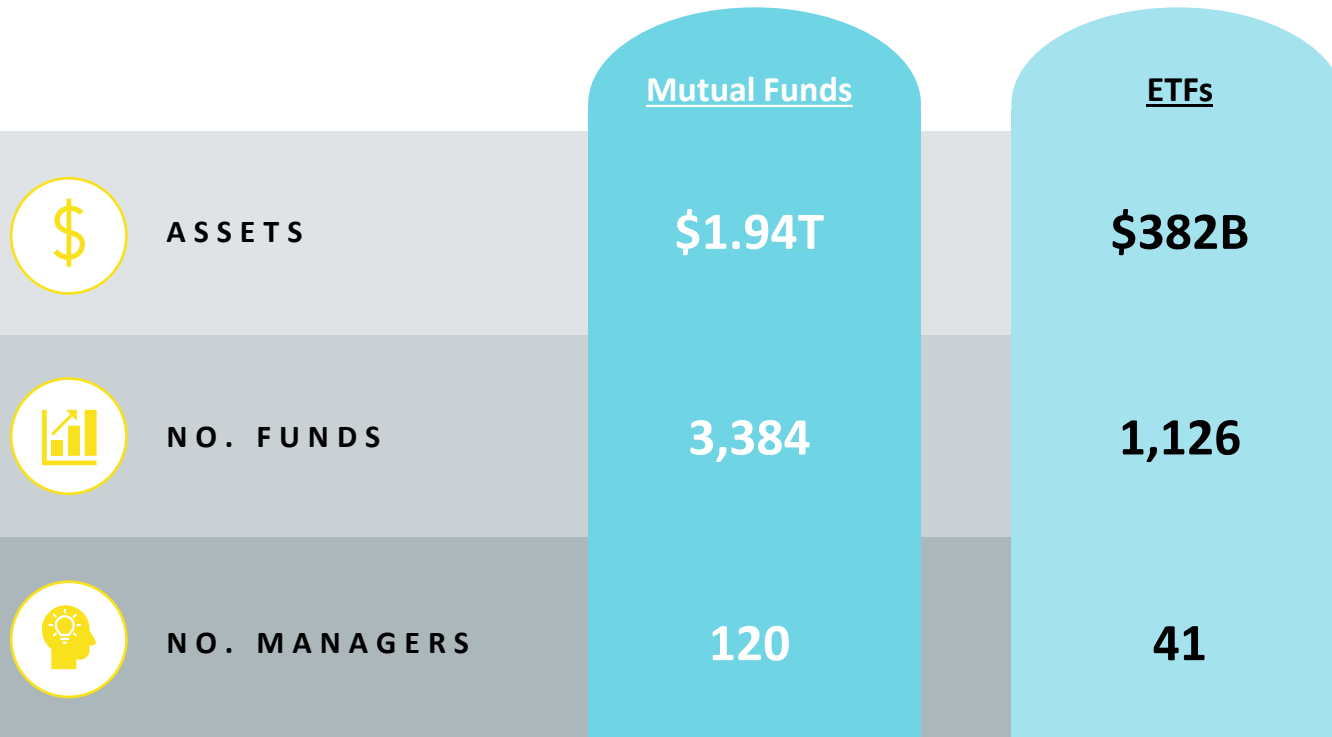


CANADA'S INVESTMENT
FUND SALES PRACTICES
RULES



ADVOCACY AND
LESSONS LEARNED

Mutual Fund and ETF Landscape



Economic Footprint

Contribution to GDP (CDN)

\$37B



Full-time jobs

81,000



Economic multiplier

1.21



Significant source of capital (CDN)

\$370B



A Uniquely Canadian Environment



Canadian investors are generally very satisfied with their advisors, however the **reliance on advisors is declining** putting pressure on the delivery of advice



The rise in **direct investing continues to accelerate** in an increasingly digital world, resulting in the need for new products and update to service offerings



Uniqueness of the Canadian market puts **banks in an advantageous position with investors** and servicing their broader financial planning needs




Canada's **advanced regulatory framework** ensures investor protection however it creates challenges asset managers and dealers need to solution

Investment fund sales practices across Canada governed by NI81-105

- NI81-105 applies to publicly offered mutual funds and ETFs
- No mutual fund, mutual fund manager or related party may:
 - make a payment of money to a dealer or dealer's representative;
 - provide a non-monetary benefit to a dealer or dealer's representative; or
 - pay or reimburse a dealer or dealer's representative a cost/expense incurred; except for certain permitted types of payments and provision of non-monetary benefits
- No dealer, dealer representative or related party may:
 - receive a payment or non-monetary benefit, except for permitted payments and non-monetary benefits

Other prohibited or restricted sales practices

- 
- Internal dealer incentive practices
 - Financial assistance
 - Charitable donations
 - Tied selling

Permitted Payments and Provision of Benefits

Permitted Monetary Payments/Receipts

- Commissions
- Trailing commissions, except for OEO dealers
- Certain portfolio trading commissions/spreads

Permitted Provisions/Receipts of Non-Monetary Benefits

- Cooperative marketing and educational practices
- Minimal promotional items and business promotion activities
- Client commission rebates

Disclosure Requirements

- Sales practices disclosed in simplified prospectus
- Certain equity interests held by dealers and their representatives, in aggregate, in fund managers and their related parties
- Equity interests held by fund managers and their related parties in dealers

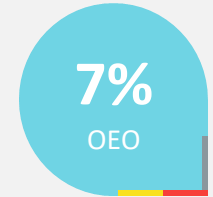
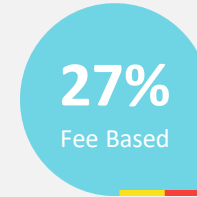
OEO Dealer Trail Ban

- Highly complex implementation, particularly for dealers, requiring system, process and internal control changes, and dealer review of internal compensation and client fees
- Final rule adopted in September, 2020
- Investment funds reviewed fund and fund series/class offerings in OEO channel
- Final rule became effective June, 2022
- Regulatory relief issued to provide:
 - brief transition period to address transfers-in of trailer paying series/classes
 - reprieve for series/class holdings purchased under deferred sales charge method, where dealer rebates are paid

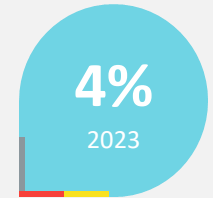
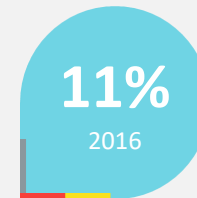
Advocacy and Lessons Learned

- Significant investment of time and resources identifying scenarios and their implications
- Close partnership with regulators to achieve:
 - buy-in and approval of framework
 - ample runway for system, process and internal control changes
 - regulatory relief, where required, within the requisite timeline

Market Share Growth Rate¹ (2022, 5-yr CAGR)



DSC Assets as % Mutual Fund Assets²



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