

## B.6

# Request for Comments

### B.6.1 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



Canadian Securities  
Administrators

Autorités canadiennes  
en valeurs mobilières

#### 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* (**NI 31-103**).

The public comment period expires on September 24, 2025.

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

[www.bcsc.bc.ca](http://www.bcsc.bc.ca)  
[www.asc.ca](http://www.asc.ca)  
[www.fcaa.gov.sk.ca](http://www.fcaa.gov.sk.ca)  
[www.mbsecurities.ca](http://www.mbsecurities.ca)  
[www.osc.ca](http://www.osc.ca)  
[www.lautorite.qc.ca](http://www.lautorite.qc.ca)  
[www.fcnb.ca](http://www.fcnb.ca)  
[www.nssc.novascotia.ca](http://www.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](mailto:comments@osc.gov.on.ca)

Me Philippe Lebel  
Corporate Secretary and Executive Director, Legal Affairs  
Autorité des marchés financiers  
Place de la Cité, tour PwC  
2640, boulevard Laurier, bureau 400  
Québec (Québec) G1V 5C1  
Fax: (514) 864-8381  
Email: [consultation-en-cours@lautorite.qc.ca](mailto: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](http://www.asc.ca), the Ontario Securities Commission at [www.osc.ca](http://www.osc.ca) and the Autorité des marchés financiers at [www.lautorite.qc.ca](http://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

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

[www.bcsc.bc.ca](http://www.bcsc.bc.ca)  
[www.asc.ca](http://www.asc.ca)  
[www.fcaa.gov.sk.ca](http://www.fcaa.gov.sk.ca)  
[www.mbsecurities.ca](http://www.mbsecurities.ca)  
[www.osc.ca](http://www.osc.ca)  
[www.lautorite.qc.ca](http://www.lautorite.qc.ca)  
[www.fcnb.ca](http://www.fcnb.ca)  
[www.nssc.novascotia.ca](http://www.nssc.novascotia.ca)

## Questions

Please refer your questions to any of the following:

*British Columbia Securities Commission*

Kathryn Anthistle  
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Capital Markets Regulation Division  
Tel: (604) 899-6536  
Email: [kanthistle@bcsc.bc.ca](mailto:kanthistle@bcsc.bc.ca)

*Alberta Securities Commission*

Ali Zaheer  
Senior Regulatory Analyst  
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*Financial and Consumer Affairs Authority of Saskatchewan*

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*Manitoba Securities Commission*

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*Ontario Securities Commission*

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*Autorité des marchés financiers*

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*Financial and Consumer Services*

*Commission of New Brunswick*  
Clayton Mitchell  
Registration and Compliance Manager  
Securities Division  
Tel: 1-866-933-2222  
Email: [clayton.mitchell@fcnb.ca](mailto:clayton.mitchell@fcnb.ca)

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 •.

## ANNEX B

### ONTARIO LOCAL MATTERS

#### 1. Introduction

The Ontario Securities Commission (the **Commission**) is publishing this Annex to supplement the CSA Notice and Request for Comment (the **CSA Notice**) and to set out matters required to be addressed by the *Securities Act* (Ontario) (the **Act**).

Unless otherwise defined in this Annex, defined terms or expressions used in this Annex share the meanings provided in the CSA Notice.

#### 2. Rule Making Authority

The following provisions of the Act provide the Commission with authority to make the Proposed Amendments:

**Subparagraphs 2(i) and (ii) of subsection 143(1)** of the Act authorize the Commission to make rules prescribing categories or subcategories of registration, classifying registrants into categories or sub-categories, prescribing the criteria a person or company must satisfy to qualify for registration in a particular category or sub-category of registration, prescribing requirements for registrants or prescribing terms and conditions on registration, reinstatement of registration, amendment of registration or registration in a particular category or sub-category of registration, including,

- i. standards of practice and business conduct of registrants in dealing with their customers and clients and prospective customers and clients,
- ii. requirements that are advisable for the prevention or regulation of conflicts of interest.

**Paragraph 13 of subsection 143(1)** of the Act authorizes the Commission to make rules regulating trading in or advising about securities or derivatives to prevent trading or advising that is fraudulent, manipulative, deceptive or unfairly detrimental to investors.

**Paragraph 18 of subsection 143(1)** of the Act authorizes the Commission to make rules designating activities, including the use of documents or advertising, in which registrants or issuers are permitted to engage or are prohibited from engaging in connection with distributions.

#### 3. Alternatives Considered

An alternative considered was to maintain the status quo. However, for reasons set out in the main body of this notice, the status quo is not satisfactory. We concluded that it is important at this time to address this significant investor protection issue with a regulatory ban before chargebacks become entrenched and a widespread industry practice.

#### 4. Reliance on Unpublished Studies

In publishing the Proposed Amendments, we have not relied on any significant unpublished study, report or other written materials.

#### 5. Anticipated costs and benefits of the proposed amendments

In Schedule 1, we provide a regulatory impact analysis of the anticipated costs and benefits of the Proposed Amendments.

## Schedule 1

**Regulatory impact analysis of the proposed ban the use of chargebacks in the distribution of investment fund securities****1. Overview**

The purpose of the Proposed Amendments is to address the inherent significant conflict of interest arising from the use of chargebacks in the distribution of investment fund securities. The Proposed Amendments prohibit the use of chargebacks in the distribution of securities of investment funds that are reporting issuers.

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 to the dealer firm all, or part, of the upfront commission, fee or compensation previously received.

The use of chargebacks give rise to an inherent conflict of interest because 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.

Currently, the use of chargebacks for the distribution of investment funds is limited, however 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.

**2. Affected Stakeholders****(a) Dealers**

Dealers with a compensation model using chargebacks in the distribution of securities of investment funds that are reporting issuers will be affected by the Proposed Amendment.<sup>1</sup>

We estimate that there is one mutual fund dealer currently using this compensation model. This dealer will be directly impacted by the proposed ban. There may be some scholarship plan dealers that also use this compensation model, and they would also be directly impacted by the proposed ban. We estimate that there are no investment dealer firms currently using the compensation model.

**(b) Registered individuals**

Only registered individuals currently compensated under the chargeback model will be directly impacted by the Proposed Amendments. The vast majority of registered individuals will not be directly impacted by the Proposed Amendments.

**(c) Investors**

The Proposed Amendments would impact investors who are:

- (a) clients of the one dealer firm and its dealing representatives with a compensation model using chargebacks,
- or
- (b) clients of a dealer firm that would adopt a compensation model using chargebacks in the future.

We do not have estimates of the number of investors who have advisors who are compensated under the chargeback model, however only one mutual fund dealer and possibly some scholarship plan dealers use chargebacks.

According to the Investment Fund Institute of Canada's *2024 Canadian Mutual Fund & Exchange Traded Fund Investors Survey*<sup>2</sup>, 61% of Canadian investors own mutual funds. The survey found that approximately 41% of

<sup>1</sup> The total number of dealers by registration category: 155 investment dealers, 84 mutual fund dealers, and 4 scholarship plan dealers.

<sup>2</sup> [https://www.ific.ca/wp-content/themes/ific-new/util/downloads\\_new.php?id=29931&lang=en\\_CA](https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=29931&lang=en_CA)

these mutual fund investors engage in self-directed investing. The remaining 59% of mutual fund investors use advisors.

### 3. Anticipated Costs and Benefits

The following qualitative and quantitative analysis examines the anticipated costs and benefits to the affected stakeholders from the Proposed Amendments, as compared to the existing requirements. The analysis took into consideration the Commission's mandate:

Commission's Mandate	Analysis
(i) provide protection to investors from unfair, improper or fraudulent practices	The Proposed Amendments protect investors from unfair, improper or fraudulent practices by preventing the misalignment of interests between registrants and their clients due to the use of chargebacks.
(ii) foster fair, efficient and competitive capital markets and confidence in the capital markets	Misalignment between the interests of registrants and investors may cause market distortion and reduces confidence in the fairness of capital markets. In addition to harming retail investors receiving conflicted advice, capital may be misallocated, causing inefficiencies.
(iii) foster capital formation	The Proposed Amendments impact capital formation by ensuring robust compliance and procedural safeguards that foster investor confidence.
(iv) contribute to the stability of the financial system and the reduction of systemic risk	The Proposed Amendments have no impact on the stability of the financial system and the reduction of systemic risk.

For registrants and investors, only the qualitative costs and benefits are considered below as it is not possible to quantify the impact of the Proposed Amendments.

Overall, we expect that benefits from the Proposed Amendments would be proportional to the costs.

#### (a) Benefits to Stakeholders

The main benefits of Proposed Amendments are to address the investor protection issues associated with the use of chargebacks by registrants and prevent the proliferation of the chargeback model. This is essential to the protection of investors, ensuring efficiency and trust in the markets, and maintaining public confidence in the CSA. While the current use of chargebacks for the distribution of investment funds is limited, other dealers may start to adopt this practice.

Specific benefits to stakeholders are:

- (i) **Dealers and Registered Individuals** – The Proposed Amendments clarify the CSA's views on the use of the chargeback model, providing regulatory certainty that allows both registrants and registered individuals to better meet their conflict of interest and other compliance obligations. This certainty facilitates a more efficient allocation of compliance resources.
- (ii) **Investors** – Investors who are clients of dealers that use chargebacks or may consider using chargebacks in the future would benefit from the Proposed Amendments. The Proposed Amendments benefit investors by addressing the investor protection issues associated with the use of chargebacks by registrants and prevent the proliferation of the chargeback model. This is essential to the protection of investors, ensuring efficiency and trust in the markets, and maintaining public confidence in the CSA.

#### (b) Costs to Stakeholders

- (i) **Dealers** – Any impacted dealers would need to change their compensation model to cease the use of chargebacks. The costs associated with changes to a dealer firm's policies and procedures to cease the use of chargebacks should be nominal. We expect that impacted dealers would transition to other compensation practices, including compensation practices that are currently offered to their dealing representatives.

There should be no cost impact to dealers that do not have a compensation model using chargebacks in the distribution of securities of investment funds.



- (ii) **Registered Individuals** – Registered individuals may experience lower compensation. However, the potential negative impact to registered individuals from banning chargebacks could be minimized or offset by other compensation practices offered by the dealer firm.
- (iii) **Investors** – There should be no cost impact to investors.

**4. Alternatives Considered**

**(a) Status quo**

An alternative considered was to maintain the status quo. However, for reasons set out in the main body of the CSA Notice, the status quo is not satisfactory. We concluded that it is important at this time to address this significant investor protection issue with the proposed ban before chargebacks become entrenched and a widespread industry practice.

**(b) Continued monitoring**

An alternative considered is to continue to monitor the use of chargebacks in the distribution of investment fund securities. However, this alternative poses the risk of allowing the use of chargebacks to become entrenched and a widespread industry practice.

**(c) Provide guidance on the use of chargebacks**

Providing guidance on the use of chargebacks was another alternative considered. However, allowing the use of chargebacks to continue would not address the inherent conflict of interest arising from the use of chargebacks.

**(d) Prescribe restrictions on the use of chargebacks**

Lastly, prescribing restrictions on the use of chargebacks was considered. However, allowing the use of chargebacks to continue would not address the inherent conflict of interest arising from the use of chargebacks.