

ID	Author	Subject	Log Type	Received
351302	BOURQUE, Q.C., Paul C.	Approval in principle of proposed amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) and National Instrument 33-109 Registration Information (NI 33-109)	BCSC Rule	2016-06-03
351477	LEONG, Brenda M.	BCSC Rule - Consent to adoption of proposed Multilateral Instrument 91-101 - Derivatives: Product Determination and proposed Multilateral Instrument 96-101 - Trade Repositories and Derivatives Data Reporting (the Instruments)	BCSC Rule	2016-06-14
351778	LEONG, Brenda M.	BCSC Rule - Proposed amendments to National Instrument 24-101 Institutional Trade Matching and Settlement - Approval in Principle	BCSC Rule	2016-07-04
352405	LEONG, Brenda M.	BCSC Rule - Approval in principle of proposed amendments to the mutual fund regime in National Instrument 81-102 Investment Funds, National Instrument 81-104 Commodity Pools, National Instrument 81-101 Mutual Fund Prospectus Disclosure, and related consequential amendments	BCSC Rule	2016-08-10
355589	BRADY, Peter J.	BCSC Rule - Consent to adopt proposed amendments to the mutual fund regime in National Instrument 81-102 Investment Funds and National Instrument 81-101 Mutual Fund Prospectus Disclosure	BCSC Rule	2016-11-30
355590	BRADY, Peter J.	BCSC Rule - Consent to adopt proposed amendments to exchange-traded mutual funds (ETFs) disclosure and delivery rules under National Instrument 41-101 General Prospectus Requirements and related consequential amendments	BCSC Rule	2016-11-30
356358	BRADY, Peter J.	BCSC Rule - Consent to adopt proposed National Instrument 94-101 - Mandatory Central Counterparty Clearing of Derivatives	BCSC Rule	2017-01-20
356359	BRADY, Peter J.	BCSC Rule - Consent to adopt proposed National Instrument 94-102 - Derivatives: Customer Clearing and Protection of Consumer Collateral and Positions	BCSC Rule	2017-01-20
356404	BRADY, Peter J.	BCSC Rule - Consent to adopt proposed amendments to the maximum permissible trading fee in National Instrument 23-101	BCSC Rule	2017-01-23
357136	BRADY, Peter J.	BCSC Rule - Proposed National Instrument 93-101 - Derivatives: Business Conduct (NI 93-101) - Approval in Principle	BCSC Rule	2017-03-03
357138	BRADY, Peter J.	BCSC Rule - Proposed National Instrument 93-102 - Derivatives: Registration (the proposed instrument)	BCSC Rule	2017-01-23
357208	BRADY, Peter J.	BCSC Rule - Approval in principle of proposed amendments to section 2.14 (the foreign trade exemption) of National Instrument 45-102 Resale of Securities (the proposed amendment)	BCSC Rule	2017-03-07
357210	BRADY, Peter J.	BCSC Rule - Approval in principle of proposed amendments to NI 25-101 Designated Rating Organizations, NI 44-101 Short Form Prospectus Distributions, NI 44-102 Shelf Distributions, NI 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, NI 33-109 Registration Information, NI 41-101 General Prospectus Requirements, NI 44-101 Short Form Prospectus Distributions, NI 44-102 Shelf Distributions, NI 45-106 Prospectus Exemptions, NI 51-102 Continuous Disclosure Obligations, NI 81-102 Investment Funds and NI 81-106 Investment Fund Continuous Disclosure (the proposed amendments)	BCSC Rule	2017-03-07

# MEETING - Backgrounder

**Meeting Date:** March 28, 2017

**Cliff:** 357045

**MEETING:** Fidelity Investments Canada ULC (Fidelity)  
Rob Strickland, President  
Sian Burgess, Senior Vice President of Fund Oversight

**ISSUE:** The Canadian Securities Administrators (CSA) recently released a consultation paper on the option of prohibiting embedded commissions in relation to the sale of mutual funds. Fidelity wishes to express its concerns about this potential policy.

## KEY FACTS:

### Relevant Parties

- Fidelity is part of the Fidelity Investments organization of Boston, one of the world's largest providers of financial services. Fidelity is one of the largest mutual fund providers in Canada, with over 800 Canadian employees and \$130 billion in assets under management in Canada.
- The CSA is an umbrella organization of Canada's provincial and territorial securities regulators whose objective is to coordinate regulation of the Canadian capital markets.

### Background

- Most sales of mutual funds by dealers to investors involve embedded commissions. Investment fund managers pay commissions to dealers who sell their mutual funds, and recoup these costs through management fees charged to the fund, which are embedded in the ongoing costs of the fund.
- Released in 1995, the Ontario Securities Commission's Stromberg Report was the first major report in Canada to bring the practice of embedded commissions into question. Continuing discussions of the issue have not been accompanied by much action, until recent momentum by the CSA, which appears serious about moving forward.
- Over the last several years, the CSA has introduced two reforms related to fund fees: the Point of Sale (POS) and Client Relationship Model (CRM) reforms. These reforms aimed to improve investor awareness and understanding of fees by strengthening requirements for the disclosure of fund fees and dealer compensation.
- The CSA released a discussion paper on the subject of mutual fund fees in 2012, and has continued to investigate the subject since then through consultations and research. A follow-up consultation paper that was released on January 10, 2017 (the 2017 Paper) is the subject of Fidelity's current concerns. The 2017 Paper takes a position in favour of banning

embedded commissions, and argues that a ban could complement the POS and CRM reforms. The 2017 Paper also includes a number of specific questions about the potential implementation of a ban, on which the CSA is seeking input.

### The 2017 Paper

- In the 2017 Paper, the CSA expressed concern regarding the following key investor protection and market efficiency issues in Canada:
  1. Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors;
  2. Embedded commissions limit investor awareness, understanding and control of dealer compensation costs; and
  3. Embedded commissions paid generally do not align with the services provided to investors.

The CSA's preferred option to address these issues would be to disallow embedded commissions and transition to direct pay arrangements, whereby mutual fund dealers are paid for their services directly by the investor.

- The CSA is seeking feedback (by June 9, 2017) on the 2017 Paper to assist it in making a decision on whether to proceed with banning embedded commissions. The paper includes 36 questions intended to gather information on:
  - potential effects of a ban on investors and market participants;
  - measures that could mitigate any negative effects of a ban;
  - alternative options that could address the investor protection and market efficiency issues raised by the CSA.

### Fidelity's Concerns

- A move to ban embedded commissions would significantly affect Fidelity's business.
- Fidelity has expressed concern with how the proposals in the 2017 Paper would, if adopted, affect investors. In particular, Fidelity argues the proposals would:
  - "limit the accessibility of investing for Canadians";
  - "unnecessarily reduce choice in payment methods";
  - "deny hundreds of thousands of middle- and lower-income Canadians valuable professional financial advice".
- Fidelity has confirmed that it intends to formally reply to the 2017 Paper.
- Fidelity's stated purpose for meeting is to express these concerns in person and provide additional research and documentation to help explain these concerns.

## RECOMMENDED RESPONSE:

s.13

Program Area Contact:	Name Joseph Primeau Director, Securities	Number 250 387-7525
-----------------------	--	------------------------