CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

# CSA Notice 31-360

## *Blanket Orders/Class Orders in respect of Transitional Relief Related to the Deferred Sales Charge Option in respect of Client Focused Reforms Enhanced Conflicts of Interest and Client First Suitability Provisions of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations*

**June 23, 2021**

**Introduction**

On October 3, 2019, the Canadian Securities Administrators (the **CSA** or **we**) published amendments to National Instrument 31-103 (**NI 31-103**), the Client Focused Reforms (**CFRs**).On February 20, 2020, all CSA jurisdictions other than Ontario published amendments to National Instrument 81-105 *Mutual Fund Sales Practices* (**NI 81-105**) to prohibit (the **DSC ban**) the payment by fund organizations of upfront sales commissions to dealers, which will result in the discontinuation of all forms of a compensation model referred to as the deferred sales charge option, including low-load options (collectively, the **DSC option**). In order to give dealers time to transition away from the DSC option, the DSC ban will not be effective until June 1, 2022 (the **DSC transition period**).

On June 3, 2021, the Ontario Securities Commission (the **OSC**) published final amendments to NI 81-105 (the **Ontario DSC ban amendments**) to prohibit the DSC option in Ontario. In order to give dealers time to transition away from the DSC option, the DSC ban in Ontario will not be effective until June 1, 2022, which aligns with the DSC transition period already in place for all other CSA jurisdictions. The Ontario Minister of Finance approved the Ontario DSC ban amendments on June 17, 2021.

**Background**

The CFRs are an important investor protection initiative based on the concept that in the client-registrant relationship, the interests of the client come first. The CFRs' enhanced conflicts of interest provisions come into effect on **June 30, 2021**. As a result, there will be an overlap period of approximately 11 months between the effective date of the CFRs' enhanced conflicts of interest provisions and the effective date of the DSC ban. There will also be a five month overlap period between the effective date of the DSC ban and the CFRs' enhanced suitability provisions, including the requirement to put the client's interest first, which come into effect on **December 31, 2021**.

**Summary of Relief Orders**

In order to address any issues raised by the overlapping periods between the implementation of the enhanced conflicts of interest and "client first" suitability requirements of the CFRs and the implementation of the DSC ban, the CSA jurisdictions have decided to grant relief from these enhanced standards in respect of sales of DSC products during the DSC transition period.

The remainder of the CFRs enhanced suitability standard (the specified suitability factors in s. 13.3(1)(a) of National Instrument 31-103), and all other CFRs requirements will apply to sales of DSC products as of the December 31, 2021 implementation date. Firms that continue to offer DSC products to their clients during the DSC transition period will have to consider the disclosure needed in respect of DSC products to meet their relationship disclosure information obligations under the CFRs.

**Relief Orders**

The orders will come into effect on June 30, 2021 and expire on June 1, 2022.

For the specific provisions of the relief summarized above, see the applicable orders available on websites of CSA members including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.fcnb.ca
nssc.novascotia.ca
www.osc.gov.on.ca
www.fcaa.gov.sk.ca
www.mbsecurities.ca

**Questions**

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