Soma Choudhury
416.966.2004 x 255
soma@aumlaw.com

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DELIVERED VIA EMAIL

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 (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

Delivered to:

John Stevenson
The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
Email: comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax: 514-864-6381
Email: consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: CSA Notice 81-324 and Request for Comments on Proposed CSA Mutual Fund Risk Classification Methodology (the "Proposed Methodology") for Use in Fund Facts Document (the "Fund Facts")

AUM Law Professional Corporation ("**AUM Law**") is a boutique corporate and securities law firm focused in the areas of registration and compliance, investment fund formation and asset management, and corporate finance. AUM Law assists many small to mid-size registrants in Canada. It is with this perspective that we have chosen to focus our comments on those issues in the Proposed Methodology that are likely to be of particular importance to our clients. This letter represents the personal views of Kevin Cohen, Erez Blumberger, Soma Choudhury, Richard Roskies and Puneet Grewal, who are lawyers at AUM Law, and is submitted without prejudice to any position taken or that may be taken by AUM Law on its behalf or on behalf of any of its clients.

While we are generally supportive of the standardization of risk classification methodology in the Fund Facts, we have concerns about the frequency for monitoring risk rating changes and the resulting additional cost of compliance without any enhanced investor protection.

Our comments are as follows:

1. **Proposed risk bands**

The Proposed Methodology contemplates the addition of a "Very High" category of risk classification. In our view, this sixth category does not add meaningful differentiation for an investor whose risk profile already contemplates investment in a mutual fund with a "High Risk" rating. Accordingly, we recommend that the CSA adhere to the existing five band scale.

2. **Frequency of monitoring risk ratings**

The Proposed Methodology contemplates monthly monitoring of a mutual fund's risk rating. The increased frequency of monitoring, specifically monthly monitoring, of a mutual fund's risk rating adds disclosure and compliance burdens on small to mid-size investment fund managers without adding any significant benefit for investors.

If the better view from the perspective of a mutual fund investor (who typically does not invest on a monthly basis with the intention of short-term returns) is to take a long-term approach to assessing a mutual fund's risk profile and return, then the proposed monthly monitoring as opposed to an annual assessment of a mutual fund's risk rating fails to align with the intention of such investor.

Moreover, monthly monitoring will not necessarily provide sufficient time for markets to correct. The proposed mandatory monthly monitoring may result in revised risk rating disclosure of a mutual fund to its investors, thereby potentially misrepresenting the characteristics of the fund and its risk curve. This may potentially lead to unwarranted investor exodus from the fund. For example, mutual funds investing in emerging markets may, due to a change in financial, political, or social factors, experience a sharp short-term volatility over the course of a few months, but a

AUM Law Professional Corporation
175 Bloor Street East, Suite 303, South Tower
Toronto, Ontario M4W 3R8 Canada
Tel: 416 966 2004 Fax: 866 627.2299
www.aumlaw.com

stabilized long-term risk rating over the course of a year. A monthly review will cause such funds to assign a higher risk rating during the short-term despite the anticipated long-term lower risk rating.

Monthly fluctuations in risk bands and the resulting disclosure of revised risk ratings as contemplated by the Proposed Methodology may result in unwarranted mismatch between the know-your-client and suitability assessments of investors and their risk profiles. This may force redemptions by an investor as the investor's risk profile no longer matches the new risk rating of the fund, even though the investor's risk profile may align with the previously assigned annual risk rating of such fund. A mismatch will also trigger costs with respect to investor communications and compliance with securities legislation, which can be significant for small investment fund managers, who already experience substantial costs to comply with increasingly stringent regulatory oversight and disclosure requirements.

3. Discretion to override the quantitative calculation for risk classification purposes

We recommend that the CSA provide investment fund managers the discretion to classify a mutual fund either higher or lower than the rating it would be assigned under the Proposed Methodology. This discretion may be exercised if the investment fund manager believes that qualitative factors, such as sector concentration, may contribute to the fund's volatility and may not be accurately captured by the standard deviation band. We suggest that investment fund managers maintain internal documentation that supports the exercise of such discretion. This would ensure that investment fund managers maintain the discipline to continue to assess the risk rating of the mutual fund as contemplated by the Proposed Methodology and any exercise of such discretion would only take place when circumstances warrant.

4. Amendments to Fund Facts and related documents

We seek clarification from the CSA that a change in risk rating which would trigger an issuance of a press release under the Proposed Methodology will not be considered a "material change" and will not trigger the filing of a material change report and amendments to the simplified prospectus and annual information form of a mutual fund. In our view, the issuance of a press release should be sufficient to alert investors about a change in the risk profile of the fund prior to the renewal of the fund's simplified prospectus and annual information form. This may result in implementation of the policy objectives being sought by the CSA through the Proposed Methodology in a more proportionate fashion with decreased regulatory burden on small to mid-size investment fund managers.

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Toronto, Ontario M4W 3R8 Canada
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We thank the members of the CSA who participated in the preparation of the Proposed Methodology and appreciate the opportunity to provide comments. If you have any questions, please do not hesitate to contact us.

Best regards,

Soma Choudhury
soma@aumlaw.com
416.966.2004, ext. 255

cc:

Kevin Cohen
kevin@aumlaw.com
416.966.2004, ext. 225

Erez Blumberger
erez@aumlaw.com
416.966.2004, ext. 235

Richard Roskies
richard@aumlaw.com
416.966.2004, ext. 230

Puneet Grewal
puneet@aumlaw.com
416.966.2004, ext. 258

AUM Law Professional Corporation
175 Bloor Street East, Suite 303, South Tower
Toronto, Ontario M4W 3R8 Canada
Tel 416 966 2004 Fax 866 627 2299

www.aumlaw.com