

March 11, 2014

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, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

The Secretary
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Toronto, Ontario M5H 3S8
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Corporate Secretary
Autorité des marchés financiers
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Dear Sirs and Mesdames:

Re: CSA Notice 81-324 and Request for Comment– *Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts*

The Portfolio Management Association of Canada ("PMAC"), through its Industry, Regulation & Tax Committee, is pleased to have the opportunity to provide comments on CSA Notice 81-324 and Request for Comment - *Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts* (the "Notice") which proposes, among other things, a CSA risk classification methodology (the "Proposed Methodology") for use by mutual fund managers in the Fund Facts document.

As background, PMAC represents investment management firms registered to do business in Canada as portfolio managers. Collectively, our member firms manage investment portfolios for most of Canada's pension plans, and as such, have special experience with the issues faced by pension plans, their administrators, advisers and portfolio managers with regard to the investment of pension plan assets. PMAC was established in 1952 and currently represents over 180 investment management firms that manage total assets in excess of \$800 billion (excluding mutual fund assets). Our mission is to advocate the highest standards of unbiased portfolio management in the interest of the investors served by Members. Member firms are in the business of managing investments for clients in keeping with each client's needs, objectives and risk tolerances. For more information about PMAC and our mandate, please visit our website at www.portfoliomanagement.org.

General Comments

PMAC supports the mandatory use of a standard deviation risk rating methodology that would provide investors with consistency and would enhance transparency in the market by enabling both investors and third parties to independently verify the risk rating disclosure of a mutual fund in the Fund Facts. We also believe in the importance of meaningful comparisons across funds and minimizing subjectivity. At the same time, the chosen methodology must be easily understood and for this reason, we would suggest that any adopted risk rating methodology require additional disclosure explaining the methodology to investors in plain language.

While we have not provided comments on each of the specific questions posed by the Canadian Securities Administrators (“CSA”) in the Annex, we include some general comments on certain of the proposals referenced in the Notice.

Standardization & Harmonization

PMAC applauds efforts by the CSA to both enhance transparency and encourage greater consistency amongst registrants vis-à-vis the application and interpretation of securities laws. As such, we are supportive of the CSA’s proposals to mandate the use of a standard methodology for the risk ratings of mutual funds disclosed in Fund Facts. We believe that requiring the adoption of a more objective and uniformly applied metric such as standard deviation will help reduce and eliminate “arbitrage” whereby some investment fund managers may take a more aggressive position on a rating predicated on subjective factors or a more discretionary risk assessment (such as, for example, giving a product a safer rating than it may otherwise warrant based on a more objective assessment). In addition, a standardized methodology would likely also address some of the disclosure issues raised by Staff of the Ontario Securities Commission pertaining to risk ratings such as, for example, where currency hedged and unhedged funds with exposure to the same underlying portfolio have been assigned the same risk rating despite the fact that volatility of past returns varied between them.¹ We therefore believe that adopting the proposed methodology only as guidance would effectively maintain the status quo while, in our view, making it mandatory would help facilitate a fairer and more consistent evaluation of risk by investors of similar investment products.

Given the broad similarities between conventional mutual funds and other types of publicly-offered investment funds like exchange-traded mutual funds (“ETFs”) such as the profile of their investors, types of holdings and investment restrictions, we would encourage the CSA to further explore the potential application of the proposed methodology to analogous disclosure documents (e.g., ETF Summary Documents). However, in order to reduce the costs and logistical complexity to investment fund managers resulting from successive, incremental changes to form requirements (imposed either by securities law instruments or exemptive relief), we would strongly encourage the CSA to, where possible, consider aggregating proposed changes through the use of transitional periods such that they apply at the same time. For example, *OSC Staff Notice 81-723 – Summary Report for Investment Fund Issuers 2013*² indicates that new rules codifying exemptive relief for ETF Summary Documents are expected to be published for comment in Fall 2014. PMAC recommends the CSA consider using that codification initiative as an opportunity to dovetail any additional disclosure proposals resulting from the Notice.

¹ The Investment Fund Practitioner – November 28, 2013

http://www.osc.gov.on.ca/documents/en/InvestmentFunds/ifunds_20131128_practitioner.pdf

² See last para of 1.3 of OSC Staff Notice 81-723 http://www.osc.gov.on.ca/en/SecuritiesLaw_sn_20140213_81-723_summary-rpt-if-issuers-2013.htm#3_1_2 [footnote font adjustment?]

Portfolio-Level Risk

While PMAC firmly believes that product-level risk should be clearly and meaningfully disclosed to investors, we would add that viewing risk at that level does not necessarily inform overall portfolio-level risk and generally only represents one component of a complete investment perspective. For example, the addition of a higher-level risk product to a portfolio may actually decrease an investor's overall risk profile due to positive and negative correlations with other holdings (and vice versa). As such, we would recommend that the CSA consider whether any additional disclosure (e.g., a footnote) should be prescribed to qualify product-level risk classification as only one factor which is, itself, predicated on only one methodology for calculating risk (i.e., volatility).

Use of a Proxy Reference Index

Our main concern with the use of a historical synthetic proxy reference is the potential for the reference index to be misleading. We recommend the CSA provide more clarity around what can be used and provide additional guidance in this area.

Monitoring and Changing of Risk Categorizations

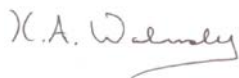
Finally, we question the need for the risk classification assessment to occur on a monthly basis. We believe this is too frequent and that it would be more practical and preferable if the calculation occurred on a semi-annual basis and one of these calculations was tied to the timing of the applicable fund's annual prospectus renewal.

Conclusion


PMAC supports the CSA's objective of mandating a uniform risk classification methodology that is easily understood and meaningful to investors and that provides greater transparency and consistency in the investment industry. If you have any questions regarding this submission, please do not hesitate to contact Katie Walmsley (kwalmsley@portfoliomanagement.org) at (416) 504-7018.

Yours truly;

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA



Katie A. Walmsley
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Scott Mahaffy
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MFS Investment Management Canada Limited

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