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TO: 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

c/o 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
Via Email: consultation-en-cours@lautorite.qc.ca

c/o The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8
Via Email: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

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

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This letter is submitted on behalf of Canadian Imperial Bank of Commerce and its affiliates (collectively, "**CIBC**"), in response to the CSA Notice 81-324 and Request for Comment Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts (the "**Proposed Methodology**") published by the Canadian Securities Administrators (the "**CSA**").

General comments

We support the CSA's objective to have a uniform methodology applicable to all investment funds to allow for easy comparison across investment funds and ensure consistency. However, we believe fund managers should continue to have the discretion to override the quantitative calculation for risk classification if they believe that the methodology produces a result that is not representative of the fund's risk level, is inappropriate or misleading to investors. In our view, it is necessary to allow fund managers the discretion to classify a fund in a higher or lower category if they deem such category more appropriate in order to accurately inform investors of a fund's level of risk. There are a number of circumstances or factors which could justify the use of discretion by fund managers.

The following are just two examples to explain why fund managers should be allowed to exercise discretion. If the standard deviation (**SD**) falls at the extremity of a SD band, whether at the lower or higher extremity, the fund manager may determine that the higher or lower risk category is more reflective of the fund's level of risk. Indeed, the SD band calculation could fall at 5.9 for a number of years and then move to 6.1, which in our view would not be a material change in a fund's risk volatility. The manager may determine that the fund's risk level remains the same and it is more accurate to maintain the fund in the lower risk category than move the fund in the higher risk category. Also, where the SD band calculation is near the extremity of a SD band, a small change in the risk volatility could potentially make the fund's risk level move back and forth from the higher to the lower risk category. Another example would be a new fund that has an investment objective to provide a hedge against inflation. The benchmark for the fund is the CPI (inflation). The risk volatility for this benchmark would be categorized as low - in line with money market funds – however, this would not necessarily be representative of the true risk volatility of the fund. The investment manager can invest in anything that will provide a hedge against inflation; equities, bonds, real return bonds, real assets, commodity-related investments with exposures that will vary in time. The fund having been around for less than 3 years makes it difficult to evaluate the risk volatility on the actual performance, hence; the fund manager must try to reconstruct a benchmark that will be representative of an unconstrained strategy which is hardly feasible. This is another example of a situation where quantitative data is insufficient to evaluate the risk volatility of a fund and where qualitative assessment is required.

Fund managers could be required under the methodology to keep records and document the reasons for deviating from the quantitative calculation whether to a lower or higher risk category.

CIBC estimates that approximately 57% of its funds will shift to a different risk category (with 50% moving to a higher risk category and 7% moving to a lower risk category) if the Proposed Methodology is implemented without any associated change in the fund's risk. We are concerned about the potential disruption and confusion this will have on dealers and investors which may have relied on the fund manager's risk classification to develop portfolios and perform suitability assessment. If the risk profile of most funds is changed, many investors will need to have their portfolio(s) reviewed and realigned to their stated risk tolerance – which could potentially result in them having to switch out of funds early in a DSC schedule, and incurring fees as a result of the change. Dealers could similarly find themselves exposed to suitability complaints. We anticipate that system changes would also be required for both dealers and fund managers. As such, we believe that adopting the current IFIC Fund Volatility Risk Classification methodology (the "**IFIC Methodology**"), which is used by the vast majority of the industry already, achieves comparability with minimal disruption for investors, dealers, and fund managers. Therefore, we support using the risk category and SD bands from the IFIC Methodology. This would in our view result in very few funds changing their risk classification thereby avoiding any disruption and confusion.

In our view, the IFIC Methodology should also be used for other types of publicly-offered investment funds such as ETFs. For ETFs, the market price should be used to calculate SD as it is more reflective of volatility.

Set out below are our comments to the specific questions on the Proposed Methodology for which feedback was requested.

Risk indicator

Keeping the criteria outlined in the introduction above in mind, would you recommend other risk indicators? If yes, please explain and supplement your recommendations with data/analysis wherever possible.

We do not recommend other risk indicators. We support the use of standard deviation as a volatility risk measure.

We believe that standard deviation can be applied to a range of fund types (asset class exposures, fund structures, manager strategies, etc.). Keeping the criteria outlined in the introduction above in mind, would you recommend a different Volatility Risk measure for any specific fund products? Please supplement your recommendations with data/analysis wherever possible.

Please refer to our response above. We recommend that a uniform methodology apply to all funds.

Monthly total returns

We understand that it is industry practice (for investment fund managers and third party data providers) to use monthly returns to calculate standard deviation. Keeping the criteria outlined in the introduction above in mind, would you suggest that an alternative frequency be used? Please specifically state how a different frequency would improve fund risk disclosure and be of benefit to investors. Please supplement your recommendations with data/analysis wherever possible.

We agree with using monthly returns to calculate standard deviation.

10 year history

Keeping the criteria outlined in the introduction above in mind, should we consider a different time period than the proposed 10 year period as the basis for risk rating disclosure? Please explain your reasoning and supplement your recommendations with data/analysis wherever possible.

We propose that the fund's risk classification be calculated based on an average three-year and five-year standard deviation in accordance with the IFIC Methodology to minimize costs and disruption to the industry.

With the IFIC Methodology currently being used for the vast majority of investment funds, most fund managers have developed and implemented systems that calculate the fund's risk classification based on the IFIC 3-/5-years average rolling methodology. Our analysis, when comparing the 3-/5-years average rolling methodology vs. a 10-year rolling methodology under the Proposed Methodology, shows substantially similar results with no significant difference in term of risk classification, assuming there are no changes to the SD Bands or risk label.

We are also concerned that requiring SD calculation over the past 10 years of a fund under the Proposed Methodology may limit the use of an appropriate reference index in cases where the reference index does not have a 10-year history or a widely recognized reconstruction or calculation of such index is not available for a 10-year period. Many funds would have sufficient history using the IFIC 3-/5-years average rolling methodology and fewer funds would require reconstruction (vs. 10-year requirement).

We consider the balance between indicator stability and data availability to be better attained by using the IFIC Methodology as the basis for risk rating disclosure considering the above.

Fund series/class used

Keeping the criteria outlined in the introduction above in mind, should we consider an alternative approach to the calculation by series/class? Please supplement your recommendations with data/analysis wherever possible.

We agree that total returns of the oldest fund series/class of the securities of the fund be used as the basis for their volatility risk calculation across all fund series/classes, unless an attribute of a particular fund series/class would result in a materially different level of volatility risk, in which case, the total returns of that particular fund series/class must be used.

Use of reference index data

Keeping the criteria outlined in the introduction above in mind, do you agree with the criteria we have proposed for the use of a reference index for funds that do not have sufficient historical performance data? Are there any other factors we should take into account when selecting a reference index? Please supplement your recommendations with data/analysis wherever possible.

In general, we agree that an appropriate reference index can be used for funds that do not have sufficient historical performance data. However, to avoid the use of different benchmarks for purposes of performance information in the management reports of fund performance (MRFPs) and for risk classification purposes, we believe the requirements under the Proposed Methodology should be aligned with the requirements of an appropriate broad-based securities market index or other financial or narrowly-based securities indices as described under National Instrument 81-106. Otherwise, fund managers may be required to build a new database of risk proxy benchmarks as the MRFP benchmarks may not be suitable as reference indices for purposes of risk classification. Applying different criteria for the MRFPs and the fund's risk classification will create confusion for both investors and dealers.

We also have specific concerns with the below proposed criteria for use of reference index data.

(i) ***be publicly available*** – we require clarification as to what is meant by publicly available. The reference index data may not always be available on the internet and fund managers may have to enter into agreements to access or purchase the reference index data. Would this disqualify a reference index from being used?

(ii) ***contain a high proportion of the securities represented in the fund's portfolio with similar portfolio allocations*** – we believe that this criteria is achievable for an index fund with an objective to replicate an index or blended index. It would be very challenging meeting this criteria for an actively managed fund or an index fund that uses optimization (i.e. derivatives). In such circumstances, the fund may not contain a high proportion of the securities represented in the fund's index or blended index. We also require clarification as to what is meant by "similar portfolio allocations".

(iii) ***have security allocations that represent investable position sizes on a pro rata basis to the fund's total assets*** – see our comment under (ii).

(iv) ***have its returns computed on the same basis (e.g., total return, net of withholding taxes, etc.) as the fund's returns*** – it may not be feasible to reconstitute a reference index net of withholding taxes.

We recommend extending the use of a reference index in situations where there is a change in the investment objectives of the fund and when the fund's past returns are not representative of the new mandate. We propose that a summary disclosure of the change could be included in the Fund Facts document.

Six category scale and risk bands

Do you agree with the proposed number of risk bands, the risk band break-points, and nomenclature used for risk band categories?

We disagree with the risk band break points under the Proposed Methodology.

To avoid any disruption and confusion to the industry, as well as costs associated with the implementation of the Proposed Methodology, we propose using the SD bands and risk label from the IFIC Methodology.

Do the proposed break points allow for sufficient distinction between funds with varying asset class exposures/risk factors? If not, please propose an alternative, and indicate why your proposal would be more meaningful to investors. Please supplement your recommendations with data/analysis wherever possible.

As indicated above, we propose that the IFIC Methodology risk label and SD band break points be used. If the CSA decide to add a very high risk category, we propose using the SD band breaks points and nomenclature shown in the chart below.

Risk Category	SD Bands
Low	0% - 6%
Low to Medium	6% - 11%
Medium	11% - 16%
Medium to High	16% - 20%
High	20% - 28%
Very High	>28%

Monitoring and changing of risk categorizations

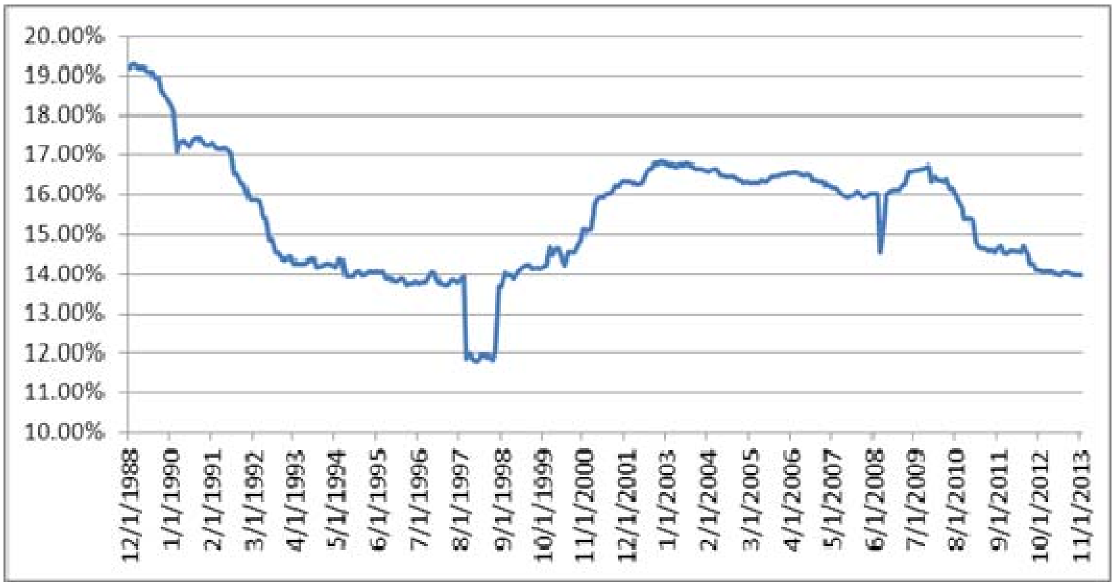
Do you agree with the proposed process of risk rating monitoring? Keeping the criteria outlined in the introduction above in mind, would you propose a different set of parameters or different frequency of monitoring risk rating changes? If yes, please explain your reasoning. Please supplement your recommendations with data/analysis wherever possible.

We consider the proposed frequency of monitoring risk rating changes (i.e. on a monthly basis) to be excessive and burdensome. Standard deviation provides a relatively stable evaluation of risk and, as such, frequent monitoring is unnecessary.

Based on our analysis, it is very unlikely that the risk band could vary by two risk bands from the most recent risk classification within a short period of time.

The example below illustrates how an extreme one-month event would not materially change the SD band.

This is how the 10-year (annualized, based on monthly returns) of the TSX Composite Index has drifted. The figure has drifted between 12 and 19 SD band break points as we have moved through time. Each data point is based on the previous 10 years of data.



We analyzed how an extreme event to the benchmark would affect a 10-year standard deviation number. We took the actual 10-year standard deviation figure for the TSX, 13.98%, and then "changed reality" by inserting a -25% return for the most recent month. The "alternate reality" standard deviation increased only to 16.18%. The -25% figure is useful, as it approximates what happened in the October 1987 Stock Market crash, basically the worst month in living memory.

We propose that the frequency for monitoring be aligned with the Fund Facts filing whether through renewal activities or amendments, or in instances where there is a material change to the business, operations or affairs of a fund (e.g. change of fundamental investment objective, merger, etc.).

We also believe that the issuance of a press release and filing of an amendment within 10 days of the last calculation of a fund's standard deviation would be very difficult to achieve. The preparation, translation, and approval of revised Fund Facts combined with the standard deviation analysis and review within 10 days is not realistic. We note that CSA has extended the time frame from 30 to 60 days for the disclosure of certain information in the Fund Facts; acknowledging that fund managers needed greater flexibility in complying with the disclosure requirements.

Finally, we would require clarification regarding the requirement to calculate the 12-month average risk classification from the current and preceding 11 monthly risk classifications as a 12-month average standard deviation may differ significantly from a standard deviation over 3, 5 or 10 years.

Records of standard deviation calculation

Is a 10 year record retention period too long? If yes, what period would you suggest instead and why?

We believe that a 10-year record retention period is too long and suggest that a seven-year record retention period is sufficient and consistent with usual CSA record retention requirements.

Transition issues

Please comment on any transition issues that you think might arise as a result of risk classification changes that are likely to occur upon the initial application of the Proposed Methodology. How would fund managers and dealers propose to minimize the impact of these issues?

From a dealer perspective, the major transition issue would be to address investment suitability issues that are created when funds held by clients are adjusted to a higher or lower risk category. The impact of this issue could be minimized by adopting the IFIC Methodology already used by the vast majority of the industry.

If the Proposed Methodology was adopted, it is our view that a lengthy transition period would be necessary in order to ensure that all clients whose accounts were impacted by the change are contacted and any suitability issues are addressed.

We appreciate this opportunity to provide our comments on the Proposed Methodology. Please do not hesitate to communicate with the undersigned at the number appearing above should you have any questions regarding the foregoing or wish to discuss it further.

Yours truly,

/s/ Geneviève Ouellet

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