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**BY 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
New Brunswick Securities Commission
Superintendent of Securities, 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

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| **Attention:** | The Secretary<br>Ontario Securities Commission<br>20 Queen Street West<br>22nd Floor, Box 55<br>Toronto, ON M5H 3S8<br>Fax : 416-593-8145<br>Email: comments@osc.gov.on.ca | -And- | Me Anne-Marie Beaudoin<br>Corporate Secretary<br>Autorité des marchés financiers<br>800, square Victoria, 22e étage<br>C.P. 246, Tour de la Bourse<br>Montréal, (Québec) H4Z 1G3<br>Fax : 514-864-6381<br>Email: consultation-en-cours@lautorite.qc.ca |

Dear Sirs and Mesdames:

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

CI Investments Inc. ("CII") is pleased at the opportunity to respond to the Canadian Securities Administrators' ("CSA") request for comment regarding a standardized mutual fund risk classification methodology for use in the Fund Facts documents (the "Proposal").

CII is generally supportive of the CSA's efforts to introduce the Proposal and welcomes a standardized process to classify mutual fund risk for all mutual fund companies to follow. CII, however, wants to ensure that the process is fair, implementable, and does not create more confusion to advisors and the investing public. We have chosen to submit a comment letter that addresses our general areas of concern.

*Standard Deviation*

CII agrees with the CSA's proposed use of standard deviation as a measurement of risk for risk rating. However, we have some concerns with the proposed method of calculation of standard deviation. CII recognizes that the process of selecting a time period by which to measure standard deviation requires the consideration of many factors, but respectfully submits that the proposed use of 10-year performance returns is too long of a time period, and is likely to increase investor confusion over the use of a shorter timeframe. Instead, CII proposes the use of 3-year performance returns.

The use of 10-year performance to returns to calculate standard deviation, while providing investors with a larger amount of data about the fund's history, would fail to achieve the purpose of the Proposal - transparency and consistency in the risk rating of mutual funds - and in our opinion would increase the opportunity for investors to be misled. Using a 10-year period for many funds would include data about market fundamentals that are no longer relevant and, furthermore, could underweight current market information. For example, the Toronto Stock Exchange had higher resource sector representation during the 2000s and before that, relatively higher technology sector representation during the 1990s.

Many mutual funds do not have a 10-year performance history. The Proposal would allow for funds that do not have a 10-year history to use an index return to impute the missing monthly total return for the calculation of the standard deviation. CII disagrees with the use of imputed index returns for the purposes of risk rating. We note that imputed index returns would be inconsistent with the performance data requirements in National Instrument 81-102 – *Investment Funds* ("NI 81-102"). Except for index mutual funds, Section 15.6(d) of NI 81-102 does not allow performance data for a period that is before the time when a mutual fund offered its securities. Allowing new funds to use index data over a 10-year time period would result in new funds' risk ratings being heavily weighted by the hypothetical information. This method of calculation would allow for the possibility of new funds manipulating their risk ratings, as the portfolio manager's actual investment strategy could be "hidden" by the index data. Instead of using index data for the calculation of standard deviation, CII believes that it would be more transparent for new funds to follow the method used by the Investment Funds Institute of Canada ("IFIC"), whereby new funds are assigned to a fund category until they can use actual data to calculate their standard deviation.

In addition, a 10-year period would increase the instances of portfolio manager turnover or other material changes being captured within the data period, thereby affecting the quality of the data. This would lead to instances where the current investment strategy does not match the risk rating but is not recognized because it is “hiding” behind materially different data.

While it is recognized that the advantage of longer-term data is that risk indicators fluctuate less, CII feels that the use of shorter-term data, for example, our proposal of 3-year performance returns, would result in more transparent and consistent disclosure across the industry. The use of a 3-year annualized standard deviation model would decrease the ability of funds to obfuscate their risk rating and allow for better comparability across all mutual funds, as more funds would possess this complete return history. The 3-year time period would also result in new funds achieving the complete return history and reflecting their true performance quicker, decreasing the time period for which they would use either imputed data as the Proposal suggests, or be assigned to one of the risk categories as per our suggestion.

*Rating Categories*

CII respectfully submits that the proposed risk categories’ standard deviation bands do not properly classify mutual funds and that this will lead to increased investor confusion. The rating bands that the Proposal recommends are not consistent with industry accepted standard deviation thresholds of different types of funds. For example, under IFIC’s methodology many funds made up of government and investment grade bonds are low risk, and yet the “Low” category outlined by the proposed standard deviation bands, will only apply to money market funds and some short term bond funds as their current standard deviation will not fit into the proposed standard deviation bands. CII has analysed the impact of the Proposal’s rating bands and has concluded that their adoption would result in the change of a large number of CII’s mutual funds’ risk ratings. It is CII’s belief that this result would also impact other fund companies in a similar way. We submit that it may be confusing for investors, who had previously purchased a fund with a lower risk rating, to be told that their fund’s risk rating has risen, even though no change has actually occurred. CII submits that the Proposal’s rating categories also result in industry accepted asset classes being divided into different risk ratings. It is our position that this will potentially confuse investors, as funds with similar characteristics (e.g. equity, balanced, etc.) will be rated differently. CII proposes that instead of the Proposal’s risk categories, a risk classification methodology similar to that developed by IFIC, which the Proposal recognizes as the predominate risk classification methodology currently used by fund managers, be adopted. Not only are the IFIC standards already used by many fund companies, they have the advantage of reflecting the industry accepted fund categories and are based upon actual market data and are therefore more useful to investors trying to establish the risk of a fund.

The Proposal’s risk rating bands fail to mirror the generally accepted fund category risks. As market fundamentals change, risk rating bands need to change to reflect these or else investors will be subject to repeated risk rating changes unnecessarily. CII would like to see that rating bands be adjusted in the future for market data.

CII suggests that the CSA also consider the impact the Proposal will have on investment dealers and their capacity to co-exist with the regulatory requirements imposed on dealers by their respective self-regulatory organizations (“SROs”).

*Monitoring Program*

CII respectfully submits that the monthly monitoring program set out in the Proposal may not achieve the intended effect the CSA is seeking, and furthermore, has the potential to be highly confusing to investors. The Proposal recommends a monthly monitoring scheme whereby the risk classification of a fund should be reassessed and reclassified, if necessary, on a monthly basis. This is not a practical undertaking as normal monthly market movements may cause a fund to cross rating thresholds relatively frequently, especially if a fund's rating is positioned on the cusp of a rating band. CII believes that the Proposal is inconsistent with the majority of the mutual fund industry's disclosure requirements. The Fund Facts documents are only required to be updated yearly (or upon a material change); however the Proposal suggests monthly monitoring for the risk rating alone. We submit that this type of monitoring regime would be unnecessarily concerning and potentially confusing to investors. CII suggests an annual review and reassessment as is done under IFIC's methodology and with the Fund Fact documents.

If the Proposal's monthly monitoring scheme is adopted it would have a major impact on the investment dealer's suitability obligations; it has the potential to result in advisors' suitability assessments for their clients being impacted on a month-to-month basis. Situations would arise whereby investors would be informed by their advisors that, due to a change in the market they could no longer purchase units of a fund that they had purchased the month previous, even though there had been no change in the makeup of the fund. Furthermore, the Proposal's monthly scheme could result in higher risk funds becoming unsuitable for an investor under his or her suitability analysis due to short term market fluctuations. We submit that this would not only be confusing for investors but also detrimental to investors' confidence in the capital markets. The mutual fund industry is geared to providing investors with safer long-term investments, however pinning risk ratings to monthly market data has the effect of shortening the timeframe of the data relevant to the calculation. We suggest that when combined with the 10-year performance history suggested for the calculation of standard deviation above, the two aspects of the Proposal are actually deleterious to each other's purpose.

*Qualitative Analysis*

The Proposal "does not allow for qualitative factors or investment fund managers' discretion to impact the risk ranking process". CII respectfully submits that qualitative analysis currently plays a small role in determining a fund's risking rating and that it is necessary as a fund's characteristics are not always standardized. If the Proposal's recommendation to exclude qualitative analysis from the risk ranking process is adopted, factors such as changes in a portfolio manager, changes in an investment style, and changes in the currency hedging strategy of a fund will not factor into the risk rating process. As such, it is CII's position that qualitative factors can account for fundamental differences in the risk rating of a fund and we therefore suggest that qualitative factors be considered.

*Conclusion*

CII is very supportive of the adoption of a standardized risk classification methodology as we believe that it will contribute to investors' ability to compare mutual funds across the industry and, therefore, to confidence in the market generally. The Proposal, however, requires further consideration regarding imputing of index data, risk classification bands, the monitoring scheme and the consideration of qualitative factors.

Yours very truly,

**CI INVESTMENTS INC.**

*"David C. Pauli"*

David C. Pauli
Executive Vice-President, Chief Operating Officer