March 12, 2014

Delivered By Email: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario, M5H 3S8

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, H4Z1G3

Dear Sirs/Mesdames:

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

I write in regard to the above-referenced proposed mutual fund risk classification methodology (the “Proposed Methodology”) on behalf of ScotiaFunds.

Introduction

ScotiaFunds are managed by 1832 Asset Management L.P., which offers a range of wealth management solutions – including mutual funds and managed asset programs – for private and institutional clients. 1832 Asset Management L.P. is a limited partnership, the general partner of which is wholly owned by Scotiabank. It is a member of The Investment Funds Institute of Canada (“IFIC”) and assisted with the preparation of IFIC’s comment letter regarding the Proposed Methodology. As such, and in addition to the comments below, we support the comments provided by IFIC on behalf of its members.

Scotia Plaza
44 King Street West
Toronto, Ontario
Canada M5H 1H1

Disruption and Confusion to Investors, Financial Advisors and Dealers

Financial advisors recommend investments for their clients that are suitable and in accordance with each client's risk profile. When considering a mutual fund as a potential investment for a client, a financial advisor would consider, among other things, a fund's risk rating in order to recommend suitable investments that align with a client's investment risk profile. A change to the existing mutual fund risk rating may result in investors unnecessarily selling certain investments, rather than maintaining their set investment strategies.

The initial implementation of the Proposed Methodology would cause significant disruption and confusion to dealers and investors due to what will no doubt be a large number of funds shifting their respective risk categories. An IFIC survey indicates that all firms would be required to make an upward change (in terms of risk classification) for a large portion of their funds, some as high as 60% or more of their respective funds.

Currently, a mutual fund with a "medium" risk rating would be suitable for a client with a "medium" investment risk profile. Should the Proposed Methodology be implemented, that same mutual fund may have to shift its risk rating from "medium" to "medium-to-high," resulting in the same investment taking on a new risk profile but with no change to the underlying investments. As a result, a formerly suitable investment could, under the Proposed Methodology, become an unsuitable investment, and, as noted above, may encourage mutual fund customers to engage in unnecessary selling, and, in some cases, to prematurely incur capital gains or losses.

Transition Period

If the Proposed Methodology becomes mandatory, we support IFIC's recommendation that there be two segmented transition periods for fund managers and dealers. Fund managers will need an appropriate and reasonable amount of time in which to generate new risk ratings based on adopting a new risk classification methodology firm wide. While dealers will need to address other consequential and significant challenges relating to suitability assessments such as dealer communications and operational challenges. IFIC estimates that fund managers will need a one to two-year transition period, and a transition period for dealers of up to three years.

Fund Manager Discretion

We believe fund managers must have the discretion to classify their funds at either higher or lower levels of risk than as may be indicated by the respective volatility categories as long as such discretion is exercised in order to more accurately reflect the qualitative *and* quantitative factors relating to the mutual funds at issue.

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I appreciate the opportunity to comment on the Proposed Methodology. Should you wish, I would be pleased to discuss this proposal further and answer any questions you may have.

Yours truly,

Neil Macdonald
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