March 12, 2014

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

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
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Me Anne-Marie Beaudoin
Secrétaire Générale
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec
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Re: CSA Notice 81-324 and Request for Comment – Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts

Dear Sirs and Mesdames:

We are writing in regards to Canadian Securities Administrators' ("CSA") Notice 81-324 and Request for Comment - Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts ("the Proposed Methodology"). As a member of the Investment Funds Institute of Canada ("IFIC"), Northwest & Ethical Investments L.P. ("NEI") supports each of the comments in the letter dated March 12, 2014 signed by Joanne De Laurentiis on behalf of IFIC member firms to the Ontario Securities Commission and the Autorité des marchés financiers ("the IFIC response"). Like IFIC, NEI believes that that the CSA should adopt a principles-based approach to the industry with respect to fund risk classification methodology and that the industry itself should continue to administer any actual methodology.

While our position on the various matters related to this topic are substantially captured in the IFIC response, as a medium size independent fund manufacturer that operates without proprietary distribution capabilities, we feel that it is important to provide the CSA with an additional perspective to consider as some of the potential issues and implications associated with the implementation of the Proposed Methodology as highlighted in the IFIC response will, in our opinion, be exacerbated for NEI and similar industry constituents. As such, we believe that the CSA should contemplate the potential for different outcomes in light of the Proposed Methodology whereby more modestly sized independent fund managers that do not have direct control or influence over the distribution of their products will be impacted to a greater extent than fund companies owned and operated by larger financial institutions that are organizationally and strategically aligned with affiliated investment dealers.

Like IFIC, NEI believes that in addition to being extremely disruptive, should the Proposed Methodology be mandated, its application will be highly confusing to all stakeholders since, based on IFIC's survey of its members, a majority of funds are likely to see their risk rating labels increase despite no actual change in risk. This will have profound implications for suitability determination among investment dealers since a majority of client accounts will need to be reviewed and re-evaluated.

Our concern is that fund managers and dealers that fall under the same corporate umbrella, for example those owned by the banks, will benefit from their inherent alignment of organizational and strategic interests which will allow them to mitigate any potential disruption to their businesses and operations. For example, changes in the framework for suitability determination and supervision at any given dealer firm necessitated by the implementation of the Proposed Methodology can be managed concurrently between the fund manager and the investment dealer and in accordance with a consistent overarching strategic directive.

By contrast, independent fund companies that do not own proprietary distribution have a pure manufacturer-supplier relationship with investment dealers typically characterized by independent and sometimes mutually exclusive interests. As such, implementation may present additional challenges for independent fund managers insofar as the new prescribed framework could influence distribution decisions at dealer firms. For independent fund companies, each fund's risk rating is a critical input in terms of gaining approval on the various dealer distribution platforms. Any industry development that would have the effect of making it more challenging for dealers to list a manufacturer's products, perceived or actual, has the potential to introduce an additional layer of complexity which would be unfavorable and constitute a competitive disadvantage for companies such as NEI.

In summary, NEI strongly supports the recommendations outlined in the IFIC response. Additionally, we also urge the CSA to contemplate the circumstances of all stakeholders with the full range of business models across the industry, in particular small and medium-sized independent fund companies that do not operate with proprietary distribution capabilities, since the issues and implications of implementing the Proposed Methodology as outlined in the IFIC response are likely to be heightened for such firms.

We appreciate the opportunity to comment on this important topic.

John Kearns
CEO
NEI Investments

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