Scotia Plaza
40 King Street West, 13th Floor
Box 4085, Station "A"
Toronto, Ontario
Canada M5W 2X6
Tel: (416) 863-7411

ScotiaMcLeod®

March 14, 2014

Via E-Mail

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

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
consultation-en-cours@lautorite.qc.ca

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

Dear Sirs/Mesdames:

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

ScotiaMcLeod welcomes the opportunity to provide comments on the proposed mutual fund risk classification methodology (the "Proposed Methodology") as outlined in the CSA Notice (the "CSA Notice") referenced above. As a full-service brokerage division of Scotia Capital Inc., an IIROC Dealer Member, we feel that we can offer an investment dealer perspective that CSA members will find to be of some value.

We whole-heartedly support and commend the CSA for its continuing efforts with respect to investor protection and the fostering of fair, efficient and vibrant capital markets. While we also support the CSA objective of a uniform principles-based methodology for determining mutual fund risk ratings, we would like to express our concerns with the specific methodology in which the CSA proposes to accomplish this objective.

The impact of wide-scale risk band adjustments on dealer activities within ScotiaMcLeod will be significant. With respect to clients' mutual funds holdings, our suitability assessments link clients' risk tolerance – as recorded on KYC forms – with the relevant corresponding risk ratings disclosed in the respective mutual fund prospectuses. Changing the risk classifications for a significant number of mutual funds will likely result in funds that are currently appropriate for a client's portfolio no longer being suitable when viewed as against IIROC Dealer Member Rules, without there having been any material change to either the mutual fund or its holdings. In fact, an entire client portfolio, comprised of a myriad of investment products, may require rebalancing as a result of just one change to a mutual fund's risk rating. Therefore, even seemingly minor changes in risk classification could necessitate comprehensive client account reviews, re-papering of client accounts, and/or changes to client portfolio allocations. In addition, investment dealers would need to amend supervisory and compliance processes and systems technology to reflect the changes and to address the investor confusion that would inevitably result from the adoption of the Proposed Methodology.

We ask that the CSA carefully consider both the direct and indirect implications of the Proposed Methodology for investors, investment dealers and the mutual fund industry before changing the number of risk bands and the risk band break-points. In addition, it is important to ensure that there are no unintended consequences for Canadian capital markets in moving to a mandated approach. We believe that the objectives underpinning the establishment of the Proposed Methodology of consistency, comparability and transparency, as outlined in the CSA Notice, can be met without having to reclassify a large number of funds across the industry. As acknowledged in the CSA Notice, the majority of fund managers have adopted The Investment Fund Institute of Canada's ("IFIC") Voluntary Guidelines for Fund Managers Regarding Fund Volatility Risk Classification (the "IFIC Methodology") which is reflected in existing Fund Facts risk categories and break-points. In our view, the IFIC Methodology achieves the CSA's main objectives without causing investor confusion and industry disruption.

If the CSA wishes to mandate the use of the Proposed Methodology, there should be further consultation and assessment of the objectives, rationale, impact, and benefits of the proposed changes, including ongoing discussion with and guidance for securities industry participants on how mutual fund and investment dealers can, in a cost-effective manner, reassess suitability following changes to risk classifications. We would welcome the opportunity to engage in this dialogue and to provide further input into a standardized methodology that improves investors' understanding of investment risk, results in better decisions by investors and improves investment outcomes.

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We thank you for considering our comments. As noted above, we believe that the CSA's objective of establishing a uniform risk classification methodology can be better realized through the adoption of the IFIC Methodology. We encourage the CSA to engage in further industry consultations on this very important issue.

On behalf of ScotiaMcLeod, I would be pleased to discuss any of the comments or suggestions in this letter and can be reached at (416) 945-4859.

Yours truly,

"*Alex Besharat*"

Managing Director & Head of ScotiaMcLeod