March 8, 2016

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

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marches financiers
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C.P. 246 tour de la Bourse
Montréal QC H4Z 1G3
By email: consultation-en-cours@lautorite.qc.ca

The Secretary
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Toronto, Ontario M5H 3S8
Attention: The Secretary
By email: comments@osc.gov.on.ca

Dear Mesdames and Sirs:

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**RE: CSA MUTUAL FUND RISK CLASSIFICATION METHODOLOGY
FOR USE IN FUND FACTS AND ETF FACTS
PROPOSED AMENDEMENTS TO NATIONAL INSTRUMENT 81-102 *INVESTMENT FUNDS***

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INTRODUCTION

Thank you for this opportunity to comment on proposed amendments to NI 81-102 pursuant to Risk
Classification Methodology.

My colleagues and I commend staff efforts to introduce and standardize the important concept of risk to investors. This first step can only lead to more informed decisions by investors and their advisors. We encourage extending risk analysis to include investor portfolios, a move that can benefit most investors in the shortest time, specifically moving the industry beyond suitability to a more relevant standard. Our interest is as practitioners using risk extensively in decision making.

PŮR Investing Inc. specializes in risk analysis and portfolio construction for individual investors. The ETF screener, designed and powered by PŮR and available for free on the TMX Money website, http://www.tmxmoney.com/en/investor_tools/etf_screener.html, allows the public to examine, screen and compare Canadian-traded exchange traded funds on an array of important characteristics. We plan to include mutual funds on the same platform during 2016. The firm's ePAT™ portfolio allocation tool that helps investment advisors build and analyze constant risk-based portfolios is a global first. Our peer-reviewed papers on the use of risk-based portfolios for individuals (Rotman International Journal of Pension Management), has led to PŮR's reputation as a global thought leader in defined contribution (DC) pension design (van Wyck and Ezra, 2015).

EXECUTIVE SUMMARY

The use of standard deviation (SD) is a sound foundation for examining and measuring risk. However, considering how this information is to be used (Fund Facts), and given the characteristics and limitations of both SD and investor and advisor comprehension, we believe the risk methodology as proposed for NI 81-102 can be improved to be more consistent with the principles of full, true and plain disclosure, promote transparency and reduce conflicts of interest arising from use of reference indices for funds with less than 10 years of data. Investors and advisors would also benefit from seeing how their prospective or existing investments compare with a) a benchmark that is relevant and b) other investments in the same asset class(es). Specifically, to improve the legitimacy of risk disclosure, we recommend that:

- only actual performance be used for SD calculations to improve confidence in the process;
- a single universal benchmark index (UBI): like 60% equities (20% Canadian/ 20% U.S./ 20% International) and 40% Canadian bonds be introduced to help investors/advisors understand/explain relative risks.

DISCUSSION

Only actual performance should be used for SD calculations because:

- 80% of funds do not have 10 years of performance history;
- actual performance is more credible than hypothetical performance.

Using a 10 year average helps smooth variability, but the use of "reference indices" by 80% of funds without actual full period returns, means that a preponderance of subjective variables will be introduced to what should be a completely quantitative measure. Product proliferation, in particular new ETFs, will exacerbate an already suboptimal situation. Minimizing product provider input, even if the ten instruction points were rigorous (Annex B Item 4 (2)(a) (ii)) would limit perceived conflicts of interest particularly if 42% will not achieve even 5 years of performance history. Survivorship for key

asset classes in the five-year period ending June 2015 was only 58.11% for Canadian equity funds , 66.32% (U.S. Equity), 75.56% (International Equity), and 68.53% (Global Equity). Fully 42% of Canadian equity mutual funds were merged or closed in the past 5 years. (SPIVA). Confidence in risk ratings should and would be low. Risk ratings that lack legitimacy will not be used by serious practitioners.

A problem is that investors, advisors and regulators want stable long term risk ratings. But SD is not static. NI 81-102's proposed fixed five category investment risk level grid will lead to risk rating changes over time that will confuse many investors and their advisors. Example: By 2020, 2008-2009 market volatility drops off 10 year averages and, assuming volatility remains even at today's somewhat elevated levels, all risks will fall and reverse the increases to which some observers have referred in comments to the initial proposal.

A 20 year average would be better but is impractical. We offer an alternative approach. Funds with fewer than ten years of data should be required to:

1. report SD based on actual DAILY performance after one year for new funds (consistent with one year performance reporting standards) or for the longest available period, i.e., 2 years, 3 years, 4 years to 10 years;
2. provide parallel period SD for a universal benchmark index (UBI) calculated using daily returns over the same period;
3. graphically show resulting product SD as a percentage difference from UBI SD for the longest available period with a 1 year minimum (i.e., Product SD 17.2, UBI SD 10.0: Product is 72% more volatile than the UBI) see illustration for XIU next page;
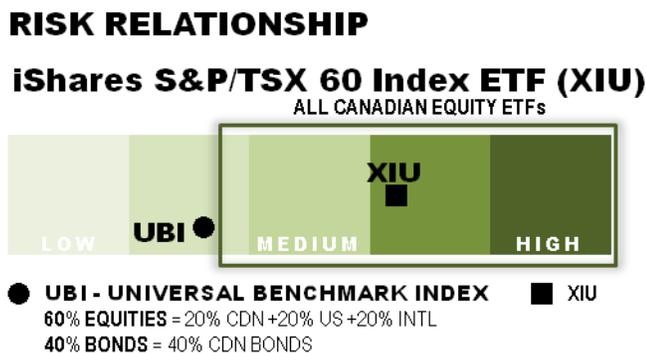4. provide a range of SD for the appropriate asset class for comparison purposes .

ADVANTAGES

UBI SD establishes a reference point against which all investment products, including individual securities, can be compared over all time periods;

*   Investors/advisors can compare the SD of an investment relative to the SD of the UBI - better than showing an SD number that will be meaningless or confusing to most readers.
*   The new product's SD *relative* to the UBI can be used as a proxy with additional periods providing confirmation. Daily data for one year provides 251 data points providing a 95% confidence level that the estimate is within 10% - better than monthly data over 10 years using 120 data points albeit without the smoothing of time.
*   Fund companies and ETF sponsors already calculate and maintain unit values daily, so SD calculations will not be difficult or expensive.
*   A single reference benchmark is less confusing than multiple benchmarks (i.e., one for each asset class).
*   The relationship between the SD of a new fund (or any fund with less than 10 years history) and the UBI SD is relatively stable but importantly is unlikely to *underestimate* the relative risk rating during short term periods of higher volatility. See example below.

Example: iShares S&P TSX 60 Index ETF (XIU) with a 10 year SD of 17.2 is shown relative to the UBI SD of 10.0. During the financial crisis, 2008-2009, UBI's one year average SD spiked to over 24 and XIU's SD spiked to 57. Had XIU been launched in 2007 its SD would have been 137.5% higher than UBI's SD

[(57/24) -100]. Using UBI's 10 year average SD of 10 as a reference point, XIU would have been rated "High" (>20). This would have been appropriate given the volatility at that time. In the illustration of Risk Relationship below, three key pieces of information are the position of UBI, the position of XIU relative to UBI, and the relative position of XIU to all Canadian Equity ETFs defined by the rectangle. The implied information is that XIU is riskier than the diversified UBI but slightly below median among all Canadian equity ETFs.

RISK RELATIONSHIP
iShares S&P/TSX 60 Index ETF (XIU)
ALL CANADIAN EQUITY ETFs

XIU

UBI ●   MEDIUM   HIGH
LOW

● **UBI - UNIVERSAL BENCHMARK INDEX**   ■ XIU
60% EQUITIES = 20% CDN +20% US +20% INTL
40% BONDS = 40% CDN BONDS

Other categories: U.S. equity, International equity, global equity, emerging market equities, Canadian bonds, International bonds, emerging market bonds, diversified fund strategies. The fewer the categories the better.

SUMMARY

Using standard deviation is a good first step to improving investor risk disclosure. Employing actual performance increases the legitimacy of the measure and improves its credibility. Conversely, the use of a reference index for funds with less than 10 years of actual performance data is a disservice to investors because it encourages subjectivity and is vulnerable to conflicts of interest, providing numbers with little validity and no reliability. Using a relative measure like a UBI gives context and meaning to the otherwise opaque concept of risk. Extending the idea to measure each investor's portfolio would further improve disclosure and expectations and promote better and more appropriate portfolio construction.

Yours truly,

Mark S. Yamada
President & Chief Executive Officer
PŮR Investing Inc.