BY ELECTRONIC MAIL: comments@osc.gov.on.ca
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March 9, 2016

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
The Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Office of the Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Office of the Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor,
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs/Mesdames:

**RE: CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts and ETF Facts – Proposed Amendments to NI 81-102 *Investment Funds* and related Consequential Amendments (the "Proposed Amendments")**

Thank you for the opportunity to provide comments to the Canadian Securities Administrators (**"CSA"**) on the Proposed Amendments.

Fidelity Investments Canada ULC ("**Fidelity**", "**we**", "**our**" or "**us**") is part of the Fidelity Investments organization in Boston, one of the world's largest financial services providers. Fidelity currently manages over $112 billion in mutual funds and institutional assets and offers approximately 200 mutual funds and pooled funds to Canadian investors.

Please find below our executive summary as well as our general and specific comments on the Proposed Amendments.

**EXECUTIVE SUMMARY**

We support the CSA's revised standardized risk classification methodology. We are happy that the CSA decided to extend the application of the Proposed Amendments to exchange-traded funds ("**ETFs**"). This will allow investors to more meaningfully compare risk between mutual funds and ETFs. We encourage the CSA to work with the insurance regulators to recommend the same risk methodology be used to measure the overall risk of segregated funds, a large percentage of which in Canada invest in underlying mutual funds. Retail investors will be better off if they can easily compare all like products together before making investment decisions.

**GENERAL COMMENTS**

*Use of a reference index for funds that have less than 10-years of performance history*

The CSA proposes the use of a reference index to be used as a proxy for funds that do not have a 10-year performance history. We agree with this approach. However, we believe that not all of the guiding principles provided contribute to the most important criteria of index selection; specifically that the reference index have returns that are expected to be highly correlated to the fund and that the reference index have risk and return characteristics similar to the fund. In our view, it would be difficult, if not impossible, to identify indices that meet all of the criteria listed.

*(b) has returns highly correlated to the returns of the mutual fund*

Some funds, like new or young funds, do not have a performance track record from which to calculate correlation. Therefore, we believe that the wording of this principle should be revised to read "has returns expected to be highly correlated to the returns of the mutual fund", and we would also add "has risk and return characteristics that are expected to be similar to the mutual fund".

*(c) contains a high proportion of the securities represented in the mutual fund's portfolio with similar allocations*

A proxy index that best represents a fund's volatility may not necessarily contain a high proportion of securities represented in the fund's portfolio. For example, the MSCI All Country World Index ("MSCI ACW Index") has over 2,300 securities listed, whereas an actively managed fund that uses the MSCI ACW Index as its benchmark index may have a much smaller proportion of securities held. In this and in other similar circumstances, the selection of the MSCI ACW Index would not necessarily contribute to the objective of using a proxy index that best represents the expected volatility risk of the fund. Therefore, we believe this principle should be removed.

*(f) has security allocations that present invested position sizes on a similar pro rata basis to the mutual fund's total assets*

We believe that only index mutual funds would be able to meet this criterion. Therefore, we believe this principle should also be removed.

*The index used in a fund's management report of fund performance can also be used as a proxy to determine a fund's risk rating*

In addition, the CSA has said that the index or indices used in a fund's management report of fund performance ("**MRFP**") can also be used as a proxy to determine the investment risk level of the fund, if the index or indices meet the principles set out in the Proposed Amendments. We are of the view that this would, in some cases, lead to the inappropriate selection of a reference index.

The MRFP guidance for the use of a "broad-based securities market index" is not, in our view, designed to fulfill the fundamental selection criteria of "high correlation" and have risk and return characteristics similar to the fund. Rather, it was designed to provide a broad market proxy for comparison. In many circumstances, a fund's best fit "broad-based securities market index" may be neither highly correlated to the expected returns of the fund nor have risk and return characteristics expected to be similar to the fund. Accordingly, we recommend that this guidance be removed or clarified.

## SPECIFIC COMMENTS

We have reviewed the specific amendments to NI 81-102 contained in Annex B of the Proposed Amendments. In addition to our suggested changes outlined above in our general comments, we suggest the following revisions:

### *(1) All Items*

We believe that the word "annualized" should be inserted immediately before the term "standard deviation" is referenced. This would ensure consistency with the stated standard deviation formula to be used (i.e. the formula annualizes standard deviation of monthly returns).

### *(2) Item 4 Mutual Funds with less than 10 years of history*

Subsection 2(b) mandates that fund managers disclose in its prospectus a brief description of the reference index, if used, and if the reference index has changed since the last disclosure, details of when and why the change was made.

We acknowledge that the purpose of the Proposed Amendments is to adopt a standardized methodology that is consistently applied across funds and ETFs. If a reference index is used or changed by a fund, the disclosure requirements in subsection

2(b) leaves open the opportunity to be interpreted and applied differently by fund managers. We ask that the CSA provide sample wording of what would be acceptable disclosure for the use of or change in a reference index.

**CONCLUSION**

Fidelity fully supports the revised risk methodology as set out in the Proposed Amendments. However, we are concerned that the criteria provided for using a reference index are too restrictive and practically unworkable. We believe that the conditions for reference index selection must be sufficiently flexible to source an appropriate risk proxy with emphasis on selecting a volatility proxy expected to be highly correlated with the investment fund and exhibit materially similar return and risk characteristics.

We thank you for the opportunity to comment on the Proposed Amendments. As always, we are more than willing to meet with you to discuss any of our comments or provide any further examples.

Yours truly,

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