

Naomi Solomon
Managing Director
nsolomon@iiac.ca

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

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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)
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

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

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

Dear Sirs / Mesdames:

Re: CSA Request for Comment - CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts and ETF Facts (the "Proposed Methodology")

The Investment Industry Association of Canada (the "IIAC") appreciates the opportunity to provide additional input on the Proposed Methodology. The IIAC is the national association representing the investment industry's position on securities regulation, public policy and industry issues on behalf of our 144 investment dealer member firms ("IIAC Members") that are regulated by the Investment Industry Regulatory Organization of Canada ("IIROC"). These dealer firms are the key intermediaries in Canadian capital markets, accounting for the vast majority of financial advisory services, securities trading and

underwriting in public and private markets for governments and corporations that is fundamental to economic growth.

The IIAC commends the CSA for retaining the standard deviation risk indicator and adopting a five-category scale as part of the Proposed Methodology, given the concern over impact to dealers and their clients that would occur from changes in investment risk levels for mutual funds. Implementation of the Proposed Methodology should provide investors with consistency and stability of measures necessary for more meaningful evaluation of risk for these products. We are also pleased to see that the CSA has adopted a more reasonable annual frequency for determining the investment risk level of a mutual fund rather than monthly, to mitigate the possibility of dealer and investor confusion from frequent risk rating changes.

While the Proposed Methodology is generally improved, the IIAC recommends that the CSA refine it further as indicated in the comments below, to ensure a positive investor experience and an efficient and effective implementation.

Use of a Reference Index for Funds with Less than 10 Years of History

The IIAC supports the CSA's decision to remove a list of criteria considered acceptable as a reference index, however we also urge the CSA not to require the reference index principles to be followed uniformly as impractical in certain circumstances. Particularly in the case of innovative and actively managed investment funds where it would be necessary to build an index, if investment fund managers (IFMs) cannot create a reference index to meet the principles, such as highly correlated returns or a high proportion of securities represented with similar portfolio allocations, the lack of flexibility would likely curtail manufacture of these products as an unintended consequence. Imposing the reference index principles uniformly thus risks constraining product innovation to the investor's detriment.

The IIAC agrees with the recommendation made by certain IFMs or other commenters in the previous comment period, that the selection of a reference index or blend of indices not be prescriptive in all cases and that it allow the IFM to retain discretion to determine what reasonably represents the fund's risk rating. This acknowledges the IFM's fiduciary responsibilities, their position to best assess risk and how it applies to the fund and allows flexibility to appropriately accommodate innovative products. Moreover, as acknowledged by the CSA, the reference index is in any event subject to regulatory scrutiny through continuous disclosure review. We agree with the suggestion made by the Investment Funds Institute of Canada (IFIC), that the use of discretion be disclosed in the description of the reference index to be included in the Management Report of Fund Performance (MRFP).

Mechanism for Maintaining Relevance of Fund Risk Classification Methodology

Whereas IFIC engaged a fund risk classification task force to conduct a yearly review IFIC's fund risk methodology to ensure it retained relevance, a similar mechanism would be useful for the CSA to

employ to ensure that standard deviation ranges in the Proposed Methodology remain relevant through periods of higher and lower general market volatility. We would recommend that a CSA committee open to industry stakeholders be established and that an annual review of the methodology be conducted. We would also like to confirm that any future proposed changes to the methodology would be subject to the CSA's public comment process.

Transition

The IIAC notes that the CSA's proposal respecting "ETF Facts" disclosure has provided for a risk-rating section. We recommended in response to the ETF Facts proposal, among other things, that it be coordinated with the Proposed Methodology which is intended to apply to ETFs as well. Given that the ETF Facts amendments are not finalized, the timeframe for implementation of ETF Facts is not yet established, and that the ETF Facts filing deadline was proposed to be around 2 years from final publication of amendments, we question how the accelerated implementation of the Proposed Methodology by the fall of 2016 can be applied in the case of ETFs. We recommend that the final Proposed Methodology be effective only once the transition period for the ETF Facts has elapsed so that all funds will be applying the risk rating methodology consistently.

We appreciate your consideration of our comments on the Proposed Methodology and would be pleased to discuss this further should there be any questions.

Yours sincerely,

"Naomi Solomon"