CAPITAL GROUP™

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BY EMAIL: comments@osc.gov.on.ca;
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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)
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 Territory
Superintendent of Securities, Nunavut

Attention: The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor, Box 55
Toronto, ON M5H 3S8

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

Dear Sirs/Mesdames:

Re: CSA Notice 81-324 and Request for Comments on Proposed CSA Mutual Fund Risk Classification Methodology (the "Proposal")

Capital International Asset Management (Canada), Inc. ("CIAM") is pleased to have the opportunity to present its comments on the Proposal.

As background, CIAM is part of The Capital Group Companies, Inc., a global investment management firm originated in 1931. CIAM serves as the manager and trustee to the Capital International mutual funds, which are subadvised by Capital Research and Management Company and Capital Guardian Trust Company (part of Capital Group International, Inc.), which are both wholly owned subsidiaries of Capital Group. The Capital Group companies manage equities through three investment divisions that make investment and proxy voting decisions independently. Fixed-income investment professionals provide fixed-income research and investment management across the Capital organization; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups. Capital International funds are distributed primarily through third-party distributors in Canada.

CIAM is currently registered as an investment fund manager and portfolio manager in Ontario as well as an exempt market dealer in the provinces of Ontario, Quebec, Alberta, British Columbia and Nova Scotia. Please note our comments below on the Proposal.

General Comments

Overall, CIAM is in agreement with the intent of the Proposal to enforce a standardized risk classification methodology in order to provide consistency, transparency and improved comparability of investment fund products. We also agree with the CSA's clarified disclosure in the Fund Facts stating that the risk scale is meant to measure volatility risk.

We believe that, rather than implementing a prescribed methodology as detailed in the Proposal, the industry needs to have a high-level principle-based regime which is based on the existing methodology as recommended by the Investment Funds Institute of Canada ("IFIC").

Our comments below are in addition to the ones submitted by IFIC in their comment letter (the "IFIC letter") dated March 12, 2014. CIAM generally supports the comments noted in IFIC letter and would like the CSA to also consider the following:

Other Investment Fund Structures

The Proposal indicates that the CSA is working on introducing a summary disclosure document for ETFs, similar to the Fund Facts. Given the ETFs are similar to mutual funds and are generally structured as mutual fund trusts, we believe the Proposal should also apply to such products. Consistent application of the risk methodology across like investment products would enable investors in making better, informed decisions when comparing products such as mutual funds and ETFs. Investor education and decision-making would be further enhanced by extending this risk classification protocol to products such as bank notes and segregated investment funds.

Standardized Risk Classification Methodology

If the CSA intends to mandate a risk classification methodology, we believe the IFIC Methodology meets the objectives set out in the CSA Proposal. CIAM, along with several other fund managers, is already using the IFIC Methodology for risk classifications.

We appreciate the CSA's objective to minimize subjectivity and fund manager discretion regarding risk ratings; however, we believe that investment fund managers should have some discretion in the risk classifications to address the various scenarios and types of investment funds that are currently available. Material changes such as fund mergers, changes to funds' investment objectives or funds that do not have a 10-year history all require some discretion when applying risk ratings. Additionally, certain fund mandates and investment strategies may have unique considerations that may not necessarily conform with the CSA's prescribed methodology. Unlike the IFIC Methodology, the CSA Proposal does not allow for qualitative factors or discretion, which we believe are warranted in these types of scenarios.

Frequency of Risk Classification

The Proposal suggests that risk classifications be assessed on a monthly basis using two tests to adjust the risk ratings as necessary. The tests would involve a determination of the 10-year standard deviation calculated for the past month as well as a determination of the 12-month average risk classification, calculated from the current and preceding 11 monthly risk classifications. If the 10-year standard deviation for the past month results in a change of two risk bands (whether up or down) from the fund's risk band classification, the fund manager is required to do a material change filing which includes a press release and amendment to the Fund Facts indicating the change. If this is not the case, then the second test must be applied by looking to the 12-month average risk band classifications which could also lead to similar material change filings.

We believe that monthly monitoring of risk classifications will not only be onerous to implement, but also impractical as the data will generally not fluctuate from one month to another, with the exception of certain borderline funds that may be near the range limit. Consistent with IFIC letter, we believe semi-annual monitoring would be sufficient to accurately reflect risk classifications without placing an undue burden on fund managers. To address anomalies or exceptional circumstances, fund managers could also be given the flexibility to calculate the risk classifications more frequently at their own discretion, where appropriate.

Use of a Reference Index

With respect to funds that do not have a sufficient performance history, the CSA Proposal suggests the use of a reference index as a proxy. The CSA has proposed specific criteria when using a reference index including specific prospectus disclosure, recordkeeping requirements and written policies and procedures regarding monitoring of the appropriateness of the reference index. While we agree with allowing fund managers some discretion in selecting an appropriate reference index, we have some concerns with some of the CSA's principles for choosing a reference index including, (i) having returns that are highly correlated to the returns of the fund; (ii) containing a high proportion of the securities represented in the fund's portfolio with similar portfolio allocations; and, (iii) having a historical systemic risk profile similar to the fund. The application of these principles may be problematic when used to determine risk ratings for new funds without any performance history.

In addition to the principles, the CSA Proposal lists a set of criteria to be used if the reference index is considered to be acceptable, including that: (i) it should be publicly available; (ii) be in existence, widely recognized and available during the data period; and, (iii) be administered by an unaffiliated organization. As mentioned above, there are several types of mandates and investment strategies in existence which may not necessarily be comparable to standard, publicly available indices meeting the specific CSA criteria. As an example, certain investment funds may actively manage risk through diversification and a comprehensive analysis of volatility. Using a publicly-available benchmark may not necessarily be consistent with the investment strategies of the fund and may potentially misstate the level of risk to which the fund may be exposed. Another example would be certain fund of fund structures where the fund investing in an underlying fund does not have sufficient performance history; whereas, the underlying fund may have been in existence for a longer time period. In this case, using the returns of a reference index would not be a meaningful representation of a fund's risk level since the underlying fund in which it invests may have been in existence for a longer time period and may have a risk level that could be materially different from that of the reference index.

Accordingly, in allowing fund managers discretion when selecting appropriate indices, we believe that fund managers should also be afforded the flexibility of using the relevant criteria provided there is appropriate disclosure of this analysis in the funds' disclosure documents.

Additionally, the CSA Proposal expects annual monitoring, at a minimum, of the appropriateness of the reference index. As most investment funds renew their prospectuses annually, if a fund's risk rating changes due to fluctuations in the reference index prior to a prospectus renewal, we are concerned that this may trigger material change filings including prospectus amendments. This would also potentially create undesirable outcomes for investors as additional suitability reviews may be required which could unnecessarily alarm investors even though the fund's investment strategies would not have changed.

Risk Category Scale and Monitoring

The CSA has also proposed moving from the current five-category scale to a six-category scale ranging from "Low" to "Very High" with monthly monitoring of the fund's risk classification to monitor risk band changes. As proposed in the IFIC letter, if the CSA intends to change the risk bands, we urge the CSA to consider an alternate labeling system with categories ranging from "Very Low" to "High". We believe the alternate labeling would limit unnecessary material change filings, prospectus amendments and suitability reviews which would ultimately be more cost-effective and minimize confusion for investors in this area. We are also concerned with the CSA's Proposal to implement monthly monitoring and recordkeeping of the risk classifications. In proposing the risk band boundaries, the CSA references some of their objectives in the Proposal, one of which was to "minimize the implementation burden for managers" to the extent possible. We believe that monthly monitoring will be impractical, costly and will impose a significant burden on fund managers with little or no benefit to investors.

Anticipated Costs and Benefits

We agree with the CSA that the development of a standard methodology for risk classifications would be beneficial for both investors and the capital markets. We strongly disagree, however, with the CSA's comments that the costs of complying with the proposed methodology will be minimal. More frequent monitoring of risk classifications, initial and ongoing changes to risk levels and related material change filings would increase regulatory filing and compliance costs for fund managers. Similarly, the costs to dealer firms would also rise due to an increase in suitability assessments, updating client account documentation, changes to portfolio allocations and implementing technology changes to accommodate the proposed changes. There is no indication in the Proposal that the current industry standard methodology is insufficient. As mentioned above, we believe that allowing some judgment and subjectivity as suggested in the IFIC Methodology actually helps to promote meaningful risk disclosures without an additional cost burden to the industry.

Conclusion

We strongly urge the CSA to consider the above comments as well as the IFIC letter prior to implementing such changes which, we believe, will have a significant impact on investors, dealer firms as well as fund managers. We appreciate the opportunity to comment on this Proposal. Thank you.

Yours truly,

CAPITAL INTERNATIONAL ASSET MANAGEMENT
(CANADA), INC.

(signed) "Mark Tiffin"

Mark Tiffin
President