

March 14, 2014

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

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

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario 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 and Mesdames:

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

Introduction

We are writing to provide comments on behalf of HollisWealth (a division of Scotia Capital Inc.) and HollisWealth Advisory Services Inc. in connection with the Canadian Securities Administrators' ("CSA") *Notice 81-324 and Request for Comment – Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts* published on December 12, 2013 (the "**Proposals**").

HollisWealth (a division of Scotia Capital Inc.) is an investment dealer and member of the Investment Industry Regulatory Organization of Canada. HollisWealth Advisory Services Inc. is a mutual fund dealer and a member of the Mutual Fund Dealers Association of Canada.

The comments below represent the collective views of both HollisWealth entities.

Comments

As a general comment, HollisWealth is supportive of the objectives set forth by the CSA in Annex A to CSA Notice 81-324. For example, we support the objective of establishing a uniform (but principles-based) methodology for determining mutual fund risk rating and that risk categories, based on the measurement of standard deviation over time, are an appropriate and practical means for determining mutual fund risk rating.

However, HollisWealth does not agree with the specific manner in which the CSA proposes to accomplish these objectives as particularized under certain of the Proposals.

IFIC Methodology

The CSA seeks to mandate (or alternatively, adopt as guidance) the use of a fund risk classification methodology that utilizes a system of six standard deviation bands with corresponding risk categories (defined in the Proposals as the “**Proposed Methodology**”).

While the Proposals acknowledge the work done by the Investment Fund Institute of Canada and its Fund Risk Classification Task Force (which developed and revises on an on-going basis the *IFIC Voluntary Guidelines for Fund Managers Regarding Fund Volatility Risk Classification* (the “**IFIC Methodology**”)), the CSA chose not to adopt the IFIC Methodology and its system of five standard deviation bands and corresponding risk categories.

The IFIC Methodology has been in place for over 10 years and, we believe, is well understood and represents the current standard for the vast majority of the Canadian mutual fund industry. Therefore, the adoption of the Proposed Methodology and its six standard deviation bands would represent a substantive change to the current disclosure regime on fund risk classification and would impact dealers and their clients in a significant way.

Accordingly, we urge the CSA to adopt the IFIC Methodology (instead of the Proposed Methodology) for purposes of meeting those objectives set forth in Annex A to CSA Notice 81-324.

Dealer Challenges Arising From the Proposed Methodology

If adopted, the Proposed Methodology will require investment fund managers to re-calculate fund risk categories using new standard deviation bands. According to IFIC, this would have a profound impact on a majority of fund managers in Canada with the result that risk profiles on many funds would be “reclassified” with an apparent higher risk category without any corresponding change in that fund’s actual risk profile.

The downstream impact on dealers and their clients would be significant:

- Dealers may be required to conduct a suitability analysis for each and every current client that holds a “reclassified” fund despite the fact that there occurred no material

change to that fund or its investment portfolio.

- In order to mitigate investor confusion, significant dealer resources and investor time would be required in order to explain why the fund was “reclassified” as a higher risk investment.
- Depending on the results of the suitability analysis, substantive portfolio re-allocations may need to be implemented in the client account in order to accommodate or liquidate the “reclassified” fund.
- Most importantly, investors may be inclined to reduce their exposure to equity and other investments in order to “de-risk” their investor portfolio in a manner that may be inconsistent with their risk / return profile and their long-term performance objectives.

We ask that the CSA be mindful of the significant cost and resources that would be required in order to comply with the Proposed Methodology when, in our view, investor protection can be achieved to the same extent by adopting the IFIC Methodology.

Transition

In the event the CSA proceeds to adopt the Proposed Methodology, dealers will require a lengthy transition period in order to implement the new risk rating regime. For example, dealers would be required to, among other things, educate their dealing representatives, resolve suitability challenges with investor accounts, modify systems, change account opening documentation and modify compliance policies and procedures.

Conclusion

For the reasons set out above, we believe that the CSA can accomplish its goals set out in CSA Notice 81-324 by adopting the IFIC Methodology as the uniform methodology for determining mutual fund risk classification.

We are grateful for the opportunity to comment on the Proposals.

Regards,

HOLLISWEALTH (a division of Scotia Capital Inc.)



HOLLISWEALTH ADVISORY SERVICES INC.

