



MURRAY J. TAYLOR
President and Chief Executive Officer

March 14, 2014

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

Me Anne-Marie Baudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Email: consultation-en-cours@lautorite.gc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8
Email: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

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

We are writing to provide our comments on the recent proposal (Staff Notice) of the Canadian Securities Administrators (CSA) regarding mutual fund risk classification methodology for use in Fund Facts.

Investors Group Inc. (Investors Group) is a diversified financial services company and one of Canada's largest managers and distributors of mutual funds, with assets under management of over \$70.0 billion at February 28, 2014. Investors Group distributes its products through approximately 4,500 Consultants engaged with its subsidiaries Investors Group Financial Services Inc. and Investors Group Securities Inc., which are members of the Mutual Fund Dealers Association of Canada (MFDA) and the Investment Industry Regulatory Organization of Canada (IIROC) respectively.

General Comments

We are very supportive of the key elements of the Staff Notice, namely requiring standardized risk classifications in Fund Facts, mandating periodic updating of risk rankings and prescribing a specific methodology that all funds must use.

However, we are concerned about the specific CSA proposal which would require a change to the definition of existing risk classification bands for a majority of mutual funds and the related confusion for existing clients that would result. For this reason, we believe that the proposal set out in the Staff Notice should be modified by refining the current methodology developed by the Investment Funds Institute of Canada (IFIC), which is already used by almost all managers and understood by investors, and then to make its use mandatory.

The following are our specific comments on the proposal:

1. Effect on Existing Fund Risk Classifications

An initial analysis conducted by Canadian investment fund managers indicates that a significant percentage of existing mutual funds (in the case of Investors Group, approximately 61%) would have their risk ranking reclassified to a higher category under the methodology proposed in the Staff Notice, without any change in the funds' portfolio investments. This has significant potentially negative compliance ramifications. Dealers use a fund's risk ranking in their suitability models to assess holdings against clients know your client (KYC) information, to ensure they are consistent with their investment objectives and personal circumstances. A wholesale change in the risk ranking would mean that many clients' portfolios may suddenly be deemed unsuitable with the KYC information maintained by the servicing MFDA or IIROC dealer. This would require the advisors who serve those clients to review these accounts and consult with them to determine whether their KYC information should be revised to conform with their holdings or to rebalance their holdings to reflect their KYC. This can only cause confusion on the part of clients and would not be a useful exercise for anyone involved, since the real risk will not have changed.

2. Monthly Recalculation of Risk Ranking

We believe that managers should be required to recalculate risk rankings for their funds only on a semi annual basis and not monthly, as the Staff Notice proposes. Monthly recalculation could result in frequent shifts of funds between two adjacent risk categories based on minimal changes in composition of its portfolio. This has potential ramifications for IIROC and MFDA dealers in light of their KYC obligations – raising the same suitability concerns and potential client confusion

issues discussed in the previous paragraph – and, in addition, may result in Managers being required to amend fund documentation if this were considered to be a material change. Semi annual calculation would address the objective of ensuring that ongoing monitoring takes place while addressing some of the negative consequences that more frequent reassessment could generate.

3. Adjusting Risk Rankings

The proposal would prohibit managers from adjusting a risk ranking determined through the standard deviation methodology based on other factors. A prospectus and fund facts impose civil liability, of course, so it is crucial that a fund sponsor be comfortable with the risk classification assigned to a particular fund. In the situation where a fund manager is of the opinion that fund's historical volatility misrepresents the fund's risk, the manager should have the discretion to adjust a risk ranking based on appropriate considerations, provided that this is done on a consistent basis under a written policy, with the supporting analysis for each such adjustment being documented in all cases. In those exceptional situations, the actual standard deviation measure should be reported in Fund Facts with appropriate wording identifying that the manager has placed the fund in a risk category different than that indicated by the historical standard deviations (see Additional Consideration below).

4. Standardizing Risk Ranking

We support making the use of a standardized risk ranking methodology mandatory. However the risk rankings proposed by the CSA are not an improvement over those currently used in the IFIC methodology. Therefore we strongly believe the better approach would be to mandate that mutual funds use the existing method developed by IFIC, which is already widely used by the industry and understood by clients. We acknowledge that changes would be required to amend the methodology to meet some of the concerns identified in the Staff Notice, but we believe this is the better approach in that it would meet all of the objectives underlying this initiative without the disruptions and confusion identified above.

Additional Consideration

The CSA should give consideration to a modification of the proposal that we believe would significantly improve the usefulness of the risk classification process. As the proposed approach would standardize the method fund managers use to calculate a fund's risk, we would recommend the resulting numerical value be made available to advisors and investors by including the fund's standard deviation on the Fund Facts document. The standard deviation value would be most meaningful to investors if it was reported within a labeled scale, as illustrated below.

Standard Deviation of this Fund

This Fund : 15.0%



We believe such an approach has the advantage of being a much more meaningful indicator of risk than a risk classification label in isolation. It makes comparability of fund risk very straightforward, and it provides a clear and precise indication of the magnitude of the difference in risk between two funds.

Reporting the standard deviation measure would also provide more fulsome fund information that can be used by investors and advisors to better reflect the overall risk level of an investment portfolio construction. This additional information would provide an opportunity for the self regulatory organizations that oversee dealers and the execution of their KYC obligations to refine their rules on client suitability.

Thank you for the opportunity to provide comments on the Staff Notice. Please feel free to contact David Cheop (david.cheop@investorsgroup.com) or myself, if you wish to discuss this further or require additional information.

Yours truly,

INVESTORS GROUP INC.

Murray J. Taylor
President and Chief Executive Officer