



Canadian Foundation *for*
Advancement *of* Investor Rights

June 27, 2011

Maureen Jensen
Executive Director and CAO
Ontario Securities Commission
20 Queen Street West, Suite 1903
Toronto, ON M5H 3S8

Dear Ms. Jensen

Re: Investment Risk Classification Methodology Disclosure Requirements of National Instrument 81-101 Mutual Fund Prospectus Disclosure

We would like to bring to the attention of the CSA the fact that mutual fund companies are not providing the disclosure that is required in accordance with National Instrument 81-101, particularly Item 9.1 of Form 81-101F1 Contents of Simplified Prospectus.

Point of sale requirements include, among other things, that the mutual fund company disclose its investment risk classification methodology. The relevant provision of Form 81-101F1 is:

“Item 9.1: Investment Risk Classification Methodology

- (1) Briefly describe the methodology used by the manager for the purpose of identifying the investment risk level of the mutual fund as required by Item 5(2) in Part I of 81-101F3.
- (2) State how frequently the investment risk level of the mutual fund is reviewed.
- (3) Disclose that the methodology that the manager uses to identify the investment risk level of the mutual fund is available on request, at no cost, by calling [toll-free/collect call telephone number] or by writing to [address].

INSTRUCTION: Include a brief description of the formulas, methods or criteria used by the manager of the mutual fund in identifying the investment risk level of the mutual fund.”

Mutual fund companies are purporting to provide this disclosure in their Simplified Prospectuses by stating that the methodology used to determine each fund’s investment risk classification for purposes of disclosure in the fund’s Fund Facts:

- is the methodology recommended by the Fund Risk Classification Task Force of The Investment Funds Institute of Canada (IFIC)¹, or
- is based on IFIC’s recommended methodology².

¹ See for example, SEI Investments Canada Company’s Preliminary and Pro Forma Simplified Prospectus for SEI Funds dated May 24, 2011, online: <<http://www.sedar.com/DisplayProfile.do?lang=EN&issuerType=02&issuerNo=00005033>>.

² See BMO’s Simplified Prospectus dated April 15, 2011, online: <http://www.bmo.com/pdf/mf/prospectus/en/SP-April-15-2011_EN.PDF>.

However, we have found that several mutual fund companies are not providing a brief description of the formulas, methods or criteria used by the manager of the mutual fund in identifying the investment risk level of the mutual fund. The only disclosure regarding the methodology provided in these simplified prospectuses is: "The Task Force concluded that the most comprehensive, easily understood form of risk in this context is historical volatility risk as measured by the standard deviation of fund performance"³.

Further, as required by Item 9.1(3), the Simplified Prospectus of the mutual fund company will state that the methodology that the manager uses to identify the investment risk level of each fund is available upon request by calling a toll free number or writing to them. However, when FAIR Canada and other consumer advocates contacted a particular mutual fund company, we were not provided with any document which sets out the mutual fund company's methodology nor have we been provided with IFIC's Task Force report which sets out their methodology. Instead, we have either been asked to contact IFIC directly for their methodology or told to contact an advisor who is licensed and could provide the methodology. The advisor is not a member of IFIC and will not have access to this information either.

FAIR Canada did contact IFIC and was advised that the IFIC Task Force Report is only available to members and that IFIC would not provide a copy to FAIR Canada.

FAIR Canada would like to bring this non-compliance with NI 81-101 to the attention of securities regulators so that you can take appropriate action to remedy the deficiencies in the disclosure of the investment risk classification methodology by mutual fund companies in respect of their funds. In order for the disclosed level of risk to have any meaning to an investor, it is essential for the investor to have access to the methodology used by the mutual fund company to come to the determination that the risk is "low" or "high" as disclosed on the Fund Facts document.

If mutual fund companies are using the methodology recommended by IFIC's Task Force instead of their own methodology, then FAIR Canada believes that the IFIC document should be filed with the appropriate regulators and be incorporated by reference into simplified prospectuses of funds that use it for their methodology.

We look forward to the response of the CSA to this letter. FAIR Canada would welcome the opportunity to meet with you and other interested parties to discuss this important issue. Feel free to contact me at 416-572-2728 or at marian.passmore@faircanada.ca.

Sincerely,



Marian Passmore, Associate Director
FAIR Canada

Cc: William Rice, Chair, CSA
Cc: Joanne De Laurentiis, President & CEO, IFIC
Cc: Rhonda Goldberg, Director, Investment Funds, OSC
Cc: Ermanno Pascutto, Executive Director, FAIR Canada

³ SEI Investments Canada Company's Preliminary and Pro Forma Simplified Prospectus for SEI Funds dated May 24, 2011. BMO's Simplified Prospectus is substantially the same.