



# **CIFSC Policies and Procedures Manual**

**March 31, 2008**  
(Updated by May 29, 2009)

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## **CIFSC POLICIES AND PROCEDURES MANUAL**

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## SECTION A – GENERAL OPERATIONS

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### PART 1 – GENERAL OPERATIONS

#### 1.1 Mission

To help Canadians make better investment decisions by developing and monitoring standards for the classification of investment funds.

#### 1.2 Charter

1. The CIFSC will be made up of both voting and non – voting members. A member can be either an individual or a firm. Each voting member has one vote. A voting member may have more than one representative involved in CIFSC activities, however that voting member still has only one vote.
2. The voting members shall elect, effective with the November regular CIFSC meeting, a chair person who is responsible for coordinating and directing the CIFSC’s activities. To stand for election as chair a member must have attended 5 of the 6 previous regular meetings in person. The chair must be approved, by secret vote, by more than 50% of then current voting members of the CIFSC. The elected chair shall have the discretion to appoint a vice - chair who will act in the elected chair’s absence.
3. Potential new members of the CIFSC must be recommended for membership by a current member of the CIFSC. To be approved for membership a recommended individual or firm must be approved, by vote, by more than 75% of then current voting members of the CIFSC. When granting membership the CIFSC will designate if it is the individual or the firm that is being approved. (The criteria for membership are that the potential new member have a demonstrable familiarity with the investment funds industry, be capable of contributing to the activities of the CIFSC and not be employed by an investment fund manager, sponsor or dealer).
4. All members are required to use the CIFSC category assigned to a particular fund, in their services. Failure to do so is grounds for immediate dismissal from the CIFSC. (FundSERV’s exemption from this rule is to be grandfathered pending the development of a facility that will enable them to incorporate the CIFSC category assignments into the FundSERV “set up” file)
5. Any member of the CIFSC who fails to attend 2 regular meetings in a calendar year and further fails to provide a proxy for his / her vote shall be dismissed from the CIFSC. In addition, any member who is represented by proxy more than 3 times in a calendar year shall be dismissed from the CIFSC,
6. All CIFSC category assignments must be reviewed at least quarterly.
7. The CIFSC category schema must be reviewed at least annually. The annual category schema review must be completed by the end of March and made available for public

discussion and consultation until the end of May. Implementation of the new schema will be effective July 1 with the release of July data in August.

8. Any change to the CIFSC category schema requires approval, by secret vote, by more than 75% of then current voting members of the CIFSC
9. Any change to the charter provisions requires approval, by secret vote, by more than 75% of then current voting members of the CIFSC.

### **1.3 Meeting Rules**

1. A quorum for meetings shall require the attendance of 75% of the voting members in person, by phone, by proxy or by substitute attendee.
2. For decisions of the CIFSC related to the assignment, classification or re-classification of investment funds a simple majority of the voting members in attendance is sufficient for a motion to be approved.
3. A member may not be represented by more than 3 representatives at any meeting.

## SECTION B – CLASSIFICATIONS

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### PART 1 - TERMINOLOGY AND APPLICATION

#### 1.1 Terminology:

“CIFSC data points” means the calculated values for an investment fund that are used to classify a fund under the current CIFSC category system;

“class” or “series” of an investment fund means a version of a class of securities of an investment fund that is referable to a specific portfolio of assets;

“fundamental investment objectives” means the investment objectives of an investment fund that define the nature of the investment fund and the fundamental investment features of the investment fund that distinguish it from other investment funds;

“manager” means a person or team of people who are directly responsible for the investments decisions of a fund.

“investment fund” means a collection of series’ or classes of investment funds that are related by their fundamental investment objectives, and are referable to a specific portfolio of assets. Each section, part, class or series of a class of securities of an investment fund that is referable to a separate portfolio of assets is considered to be a separate investment fund. This includes pooled and segregated funds;

“performance data” means a rating, ranking, quotation, discussion or analysis regarding an aspect of the investment performance of the investment fund, an asset allocation service, as security, an index or a benchmark;

“portfolio” means the collection of all assets of an investment fund;

“portfolio asset” means an asset of an investment fund;

“regular business” means new fund reviews and classification reviews;

“regular meeting” means the committee’s monthly meeting at which regular CIFSC business is attended to;

“significant change” means a change in the business, operations or affairs of an investment fund that would be considered important

- i. by a reasonable investor in determining whether to purchase securities of the investment fund, or
- ii. by a reasonable security holder of the investment fund in determining whether to continue to hold securities of the investment fund;

“segregated fund” means a pool of investments that is held and managed separately from other similar pools or funds and the general funds of a life insurance company;

## 1.2 Application of CIFSC Classifications:

The CIFSC will apply its classifications to any security that:

- i. as deemed by the CIFSC, is similar in nature to an investment fund and therefore to which the CIFSC classification system would easily and meaningfully apply, and
- ii. is tracked by one of the CIFSC member firms.

## PART 2 - CLASSIFICATION PRINCIPLES

### 2.1 Guiding Principles of Fund Classification

1. The CIFSC classifications are based on a combination of both quantitative and qualitative factors. Due to the number of funds in the Canadian investment fund universe, the classification process is largely a quantitative exercise. However, the final category assignments are up to the judgment of the CIFSC committee.
  - a. *Quantitative factors:* Funds are classified based on the way they actually invest. In many cases a fund's name or stated intentions do not reflect the way the fund is actually invested. For this reason, the CIFSC classification process rests heavily upon the holdings data for each fund. Thus, if the CIFSC member firms do not have holdings data for a fund, the committee cannot assign the fund to a category and will place the fund in the Miscellaneous category.
  - b. *Qualitative factors:* The committee will review any other information it believes is relevant to assessing a fund's risk profile and making an appropriate classification. For example the committee will factor in the impact of currency hedging positions for fixed income holdings since this impacts the risk profile of the fixed income security. Another common example is considering the intentions of the fund manager: For instance, a fund with 89% Canadian equity exposure that falls just shy of the 90% minimum to meet the Canadian Equity category, could be reclassified if the manager demonstrates that he or she has made changes to meet the 90% limit and intends to manage the fund to the category rules. These are just two examples of qualitative factors that the CIFSC considers when classifying investment funds.
2. The most appropriate category classification for any given fund is one that:
  - a. Places a fund in a category with the most similar risk factors (e.g. sector risk, liquidity risk, pre-payment risk, credit risk, etc). Note that risk factors are not equivalent to volatility measures such as standard deviation or beta. While the CIFSC in no way suggests that such volatility measures be ignored, for classification purposes, emphasis must be placed on the risk factors that a fund is subject to.
  - b. Allows for the most relevant performance comparisons

## PART 3 - CLASSIFICATION PROCEDURES

### 3.1 New Fund Review:

1. An investment fund is considered “new” from the date of its inception. Once the fund has registered with at least one of the data provider firms on the CIFSC, the fund is brought to the next regular meeting for placement into the most appropriate category. The committee will estimate the most appropriate category based on the fund’s stated intentions (as described in the fund’s investment objective and strategy). If the committee cannot approve or deny placement of a fund into the requested category due to a lack of detailed information in the investment objective, the fund will be placed into the Miscellaneous category. The fund will remain in the Miscellaneous category until such time that the committee receives enough information about the fund’s investment objective to assign it to a category.
2. After the fund has been placed in the most appropriate category, the fund will remain in this category for a period of no longer than 12 months since inception, after which it will become subject to quarterly fund reviews. The 12 month period is given to allow time for the fund to build its portfolio to a point that is reflective of its ongoing fundamental investment objective, and to allow time for the fund to provide the CIFSC with regular statements of its portfolio data. At any point during this 12-month period, the fund’s category may be changed by way of the rules governing classification reviews (see section 3.4).
3. After a new fund decision has been made, each CIFSC member will implement the decision such that it is reflected in the member’s next month-end data release. If the fund has not appeared in a CIFSC member’s database at the time the decision is made, the member will implement the decision such that it is reflected the month-end data release that follows the fund’s appearance in the member’s database.

### 3.2 Requests for Classification Reviews:

1. At each regular meeting, the committee will consider and decide upon all requests for classification reviews that have been submitted up until 5 business days prior to the meeting date. The committee will attempt to review any request received during the 5 business days prior to the meeting date, however, it does not guarantee that a decision will be reached. If the committee is not able to review these requests, they will be deferred until the following regular meeting. The 5 business day time period is required to give the CIFSC enough time to conduct the research needed to make a decision.
2. A request for a classification review may be submitted by anyone that believes a fund is inappropriately classified according to the CIFSC category rules and our classification philosophy (see section 2.1). The individual submitting the classification review request must submit their request through the CIFSC website (<http://www.cifsc.org/en/reclassification.php>) and supply relevant rationale to warrant a review. Keep in mind, that the CIFSC will only conduct a review where a rationale and supporting evidence are provided. Anyone interested in submitting a request for a

classification review is encouraged to familiarize themselves with the category rules and CIFSC's classification philosophy before submitting their request.

3. For each classification review, the committee will consider both the reasons provided for the review, and the investment fund's historical portfolio data in order to reach a decision. The final decision of the review may be reached due to a number of reasons such as prior precedent, lack of data, or a significant change to the fundamental investment objective of the fund. A case study document will be made available to the public in order to provide insight into how decisions are made.
4. Any fund whose classification review resulted in a change of category will be assigned an exception period, excluding it from further classification reviews. The duration of this period will be assigned on a case-by-case basis.
5. Any fund whose request for a classification review is deferred will have that request re-considered at the next regular meeting, as long as a rationale and supporting evidence have been provided.
6. After a classification review decision has been made, each CIFSC member is required to implement the decision before each member's deadline date for the release of month-end data. Note that any investment fund category change will apply to all series and classes, and segregated versions of funds that are related by their fundamental investment objectives and investment holdings (refer to definition of "investment fund" in section 1.1).

### **3.3 Quarterly Classification Reviews**

1. The CIFSC will conduct quarterly classification reviews of all investment funds in order to ensure the correct categorization of each fund. There will be three quarterly reviews (and one annual review - see section 3.4) in each one-year period, with the reviews being conducted based on data for the quarter-end dates of September 30, December 31, and March 31.
2. 10 business days after each quarter-end date, CIFSC members that possess the necessary resources will recalculate the CIFSC data points, based on the data they have available at that date. Using these recalculated data points, each member will present to the committee at the next regular meeting, those funds that have moved categories. The committee will then review each fund and reach a final decision on which funds will be reclassified.
3. If applicable, funds are to be excluded from the quarterly review by way of the rules governing new funds (section 3.1) and classification reviews (section 3.2).
4. After the quarterly review has been completed, each CIFSC member is required to implement the changes wit before each member's deadline date for the release of month-end data. Note that any investment fund category change will apply to all series and classes, and segregated of funds that are related by their fundamental investment

objectives and investment holdings (refer to definition of “investment fund” in section 1.1).

### **3.4 Annual Classification Reviews**

1. The CIFSC will conduct annual classification reviews of all investment funds in order to ensure the correct categorization of each fund under the revised category system. The review will be conducted based on data available as of June 30.
2. 10 business days after June 30, CIFSC members that possess the necessary resources will calculate the revised CIFSC data points, based on the data they have available at that date. Using these data points, each member will present to the committee at the next regular meeting, the recommended categorization of each fund. The committee will then review each fund and reach a final decision on the final classifications.
3. All funds are to be included in the annual review, however, funds under 12 months old will be placed in the most appropriate category based on its fundamental investment objective.
4. After the annual review has been completed, each CIFSC member is required to implement the changes before each member’s deadline date for the release of month-end data. Note that any investment fund category change will apply to all series and classes, and segregated of funds that are related by their fundamental investment objectives and investment holdings (refer to definition of “investment fund” in section 1.1).
5. If, as a result of the annual classification review and category revisions, a fund submits a request for a classification review, it may be granted a transition period to rebalance its holdings in order to meet the new category requirements. At the end of the transition period, the fund will be required to submit its holdings as proof of its intention to meet the definition of the requested category. This transition period will be determined on a case-by-case basis and will only be given to funds whose classifications were affected by material changes in the CIFSC category definitions.

## **SECTION C – COMMUNICATIONS**

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### **PART 1 – COMMUNICATIONS SUBCOMMITTEE**

#### **1.1 Guidelines for Communications Subcommittee**

1. The CIFSC will establish a permanent subcommittee for handling the communication of CIFSC business and news.
2. The committee will be made up of a minimum of 3 representatives from 3 different member firms, one of which will be the committee Chair.
3. The members of the subcommittee will remain in place for a period of 1 year, after which a new subcommittee will be formed.
4. Membership for the subcommittee will be on a volunteer basis, and will be formed in conjunction with the election of the new Chair.
5. Members are not restricted from remaining on the subcommittee for multiple terms.

### **PART 2 – STANDARDS FOR COMMUNICATING GENERAL BUSINESS**

The Communications Subcommittee (“subcommittee”) will follow these guidelines when communicating regular business:

#### **2.1 New Funds**

1. The subcommittee will communicate the classification of new funds by posting the decisions on the committee’s website within 5 business days of the decision date.

#### **2.2 Requests for Classification Reviews**

1. The subcommittee will send an email confirmation of receipt to the party that submitted the request within 5 business days of receiving the request. The email confirmation will include an initial review, indicating if the request is valid (i.e. a rationale and supporting evidence have been included).
2. The subcommittee will notify the party that submitted the request of any decisions within 5 business days of the decision date. The notification will include the decision itself, along with an explanation of the decision.
3. The subcommittee will post all reclassification decisions on the committee website within 5 business days of the decision date.

### **2.3 Quarterly Review**

1. The subcommittee will communicate the results of the quarterly reviews by sending an email to all fund company contacts whose funds were affected by the results of the quarterly review. This communication will take place within 5 business days of the results being finalized.
2. The subcommittee will post the results of the quarterly reviews on the committee website within 5 business days of the results being finalized.

### **2.4 Annual Review**

1. The subcommittee will post the results of the annual reviews on the committee website within 5 business days of the results being finalized.

## **PART 3 – STANDARDS FOR COMMUNICATING OTHER BUSINESS**

The Communications Subcommittee (“subcommittee”) will follow these guidelines when communicating other business:

### **3.1 Feedback Form**

1. The subcommittee will respond to all feedback inquiries within 10 business days of receiving the feedback.

### **3.2 Chair Election**

1. Results of the election of the committee chair are to be communicated to the media by way of a news release, and within 3 business days of the results being final. The results will also be posted on the committee’s website.

## **PART 4 – MEDIA COMMUNICATIONS**

1. CIFSC news events are only to be disseminated by the Chair, or some other member as designated by the Chair.
2. The subcommittee will assist the Chair in crafting and disseminating CIFSC news releases.