

## APPENDIX B

### Summary of Public Comments on Proposed National Instrument 81-106 and Companion Policy 81-106CP

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#### **Part I Background**

On September 20, 2002, the CSA published for comment National Instrument 81-106 *Investment Fund Continuous Disclosure* (NI 81-106 or the Rule). The comment period expired on December 19, 2002. The CSA received submissions from the 56 commenters listed at the end of this table.

The CSA have considered the comments received and thank all commenters for providing their comments.

The questions contained in the CSA Notice to NI 81-106 (the original notice) and the comments received in response to them are summarized below. The item numbers below correspond to the question numbers in the original Notice. Below the comments that respond to specific questions in the original Notice, we have summarized numerous other comments on proposed NI 81-106.

The section references in this summary are to the sections in NI 81-106 as originally published.



	Comments	Responses
	<b>Comments in response to questions in the original Notice</b>	
	<i>Question: Will the quarterly management reports of fund performance achieve the goals that they are intended to achieve?</i>	
	<p>Eight commentators told us that we needed to determine how many investors would want to receive quarterly Management Reports of Fund Performance and how much detail average investors would want in such reports, bearing in mind the costs involved. Three commenters suggested that investors were currently not interested in receiving semi-annual financial statements and by extrapolation would not be interested in receiving the quarterly Management Reports of Fund Performance.</p> <p>As one commenter observed however, investor disinterest in disclosure material forwarded to them in the past may have stemmed from investors not understanding the nature of the documents that were being sent to them, the reason for the delivery of those documents and what part of those documents pertained to their particular investment.</p>	<p>The CSA commissioned Compas to conduct a survey of average mutual fund investors across Canada. The details of that survey follow this summary of public comments as part of Appendix B to the CSA Notice. This survey found that investors on average (68%) wanted to receive or have access to a report containing a written analysis of how their fund as a whole had done, even with due consideration to costs.</p> <p>The survey supported this comment. When investors were asked whether they were satisfied with the mutual fund reports they received, on average the investors expressed a relatively weak level of satisfaction.</p>
	<p>Two commenters stated that they did not believe that the cost benefit analysis justified the production of quarterly Management Reports of Fund Performance.</p> <p>Seventeen commenters felt that the CSA had greatly underestimated the time and cost of producing such reports. These commenters felt that the added costs of translation, printing and delivery of the management reports, aggregating fund proxy voting information for quarterly reporting outweighed the potential cost savings that would accrue from allowing investors to choose whether they wished to receive a fund's financial statements and management reports.</p> <p>Two commenters indicated that the costs associated with quarterly production of these reports would increase fund expenses and put an upward pressure on MERs.</p>	<p>The CSA believes that the costs and other restrictions on the activities of investment funds that will result from the Rule are proportionate to the goal of timely, accurate and efficient disclosure of information about investment funds. For more discussion of this, see the section entitled Summary of Rule and Anticipated Costs and Benefits in the original Notice. Furthermore, we have made a number changes to the Rule in consideration of the comments we received that we believe will reduce costs. For example, we have moved from a quarterly reporting regime to semi-annual reporting.</p> <p>We also note that larger funds already provide the portfolio holdings and the performance figures on a regular basis.</p>

	Comments	Responses
		<b>Question: <i>Should there be more or less frequent disclosure of fund performance information and why?</i></b>
	<p>Five commenters argued that there was no clear evidence that investors would benefit from more frequent disclosure or any justification for requiring the delivery of quarterly reports when the interim financial statements were still filed only on a semi-annual basis. In contrast, one commenter suggested that there should be a minimum of quarterly reporting and the Management Reports of Fund Performance should be filed within 10 business days after the end of the financial quarter.</p>	<p>We recognize that “current” types of information such as financial highlights, the top 10 holdings and performance data don’t belong in the prospectus disclosure, which funds update only on an annual basis and so is stale-dated for most of the year. We also believe that current investors and not just new investors should have access to this information on a regular basis.</p> <p>We also agreed with the twelve comments we received, recommending only semi-annual and annual Management Reports of Fund Performance.</p> <p>In addition to these semi-annual and annual reports, we will require funds to prepare a quarterly reporting of their portfolio holdings and their total NAV. We will not require them to file this information, but only to post it on their web site and make it available upon request.</p> <p>The Compas survey also supported a semi-annual reporting regime.</p>
	<p>Two commenters were concerned that 45 days would not be a sufficient amount of time to produce management reports if they were to be based on quarterly financial statements. A number of commenters anticipated difficulties for the publicly offered fund of funds especially where the underlying funds were not subject to the same reporting requirements or had different year-ends.</p>	<p>We believe that the move to semi-annual reporting of management reports in conjunction with the current semi-annual reporting of financial statements should partially address these comments. We are also allowing a transition period for the shortened timelines for filings. We believe that if the funds are given sufficient time by way of a transition period, they will be able to deal with most of the requirements without too much difficulty.</p>
	<p>Commentators expressed the view that quarterly Management Reports of Fund Performance might be disadvantageous to funds for a number of reasons:</p> <ul style="list-style-type: none"> <li>• Six commenters suggested that quarterly Management Reports of Fund Performances would promote and encourage “front-running/ “free-riding” by sophisticated fund outsiders.</li> </ul>	<p>This concern about abusive practices arose largely because of the quarterly disclosure of portfolio holdings proposals. We discuss this later with the comments concerning that specific issue.</p>

	<b>Comments</b>	<b>Responses</b>
	<ul style="list-style-type: none"> <li>• Four commenters stated that if the Rule caused foreign sub-advisers to make more frequent or detailed disclosure in Canada than they would in their respective local jurisdiction, they might be reluctant to advise Canadian funds.</li> <li>• Eleven commenters were concerned that the increased frequency of disclosure could promote an inappropriate bias towards short-term performance and market timing, with portfolio advisors’ taking inappropriate risks in order to show good quarterly performances even if those positions would be detrimental to the funds’ medium and long term performance.</li> <li>• Two commenters stated that this requirement for frequent disclosure by the fund manager fails to address the fact that advisors and investors are more concerned with the manager’s strategic approach, than with the short-term adjustments they make to their portfolios.</li> </ul> <p>Two commenters felt that a quarter was too short to assess a fund’s track record.</p>	<p>Because the United States, home jurisdiction of the majority of foreign advisers, currently requires quarterly reporting of portfolio holdings and will be requiring semi-annual shareholder reports with Management Discussion and Analysis disclosure, the CSA does not believe that this will be a material concern.</p> <p>The CSA expects fund advisors and their managers to act in the best interest of investors at all times and not be swayed by inappropriate considerations.</p> <p>The CSA believes that the Management Discussion and Analysis and much of the other disclosure provided in the Management Reports of Fund Performance is a real opportunity for funds to provide investors with greater insight into a manager’s strategic approach, as it translates in practice.</p> <p>We agree, and as stated have moved to semi-annual reporting.</p>
	<p><b>Question: Should there be quarterly reporting of management reports for all investment funds?</b></p>	
	<p>Commenters felt that that the CSA should exempt the following funds from the requirement to issue quarterly management reports:</p> <ul style="list-style-type: none"> <li>• Index funds. Two commenters felt that index mutual funds that track broad, widely recognized indices do not need the same mandated level of disclosure for investors to understand their investments as would be required of active funds. The proposed disclosure regime, they state, introduces additional costs without adding any real value.</li> <li>• Issuers of asset-backed securities and split share and other similar products. One commenter thought that the policy</li> </ul>	<p>As one commenter stated, and we agree, many investors who invest in mutual funds also invest in a broader array of investment fund products. As a principle, the CSA believes that all investment funds have a similar reporting regime. In the Compas survey, investors indicated that what they desire is consistency, so they can compare the performance of different investment funds. The Rule only requires disclosure of material facts. This should make this reporting less burdensome.</p> <p>Some CSA members agree that investment funds that are distributed using exemptions should be treated differently than more conventional investment funds. The requirements in the rule will not apply to investment funds in these provinces, including</p>

	<b>Comments</b>	<b>Responses</b>
	<p>rationale behind the disclosure requirements for other investment funds is not necessarily applicable to these passive flow-through vehicles.</p> <ul style="list-style-type: none"> <li>Investment funds distributed in the exempt market. Four commenters thought that given that investors in these products have different continuous disclosure needs and better access to financial information than retail investors, these investors should be allowed to make investment decisions based on agreed upon, rather than imposed, continuous disclosure.</li> </ul>	<p>British Columbia, Alberta, Manitoba, and Newfoundland and Labrador.</p>
	<p>One commenter felt that Labour Sponsored or Venture Capital Fund (LSIF) investors would not find the information mandated in the Management Reports of Fund Performance helpful because of the timing of the most investments in LSIFs, and limits on the entitlement to tax benefits associated with these investments.</p>	<p>While investors in LSIFs may find themselves constrained in their investment decisions because of incentives to adhere to a particular investment pattern, we don't believe this means that investors in LSIFs should not have that information available to them.</p>
	<p><b><i>Question: Does the proposed type of information allow an investor or an adviser to make informed investment decisions?</i></b></p>	
	<p>Four commenters welcomed the introduction of Management Reports Of Fund Performance, provided that the proposed amendment to NI 81-101 removes the financial highlights, top 10 holdings and performance data from the simplified prospectus.</p>	<p>We will make the proposed amendments to NI 81-101.</p>
	<p>One commenter thought the risk profile of a fund was more appropriately described in the simplified prospectus rather than a Management Report of Fund Performance, because it was unlikely that the risk profile of a fund would exhibit a significant or material change during a year.</p>	<p>We decided to place the risk profile discussion, and the investment objective, in the Management Reports of Fund Performance as a reminder for investors. We believe this information helps to put the commentary on performance in perspective.</p>
	<p>One commenter was concerned with our recommendation of a preferred length for Management Reports of Fund Performance. They noted this could result in some investment funds sacrificing significant disclosure to investors.</p>	<p>The preferred length is a guideline. It is not mandatory.</p>
	<p>One commenter thought that the financial statement disclosure, in</p>	<p>We have eliminated the duplication.</p>

	Comments	Responses
	particular, the financial highlights and summary of investment portfolio contained significant duplication and redundancy.	
	<p>Two commenters suggested that we should also include the following items in the Management Reports of Fund Performance:</p> <ul style="list-style-type: none"> <li>• A statement of investment portfolio and not just a summary of investment portfolio;</li> <li>• The role of a governance agency to approve financial statements prior to release;</li> <li>• Comparison of pre-tax returns to the applicable total return benchmark index and category quartile ratings over the performance measurement periods required by regulation;</li> <li>• Current and historical (5 years) brokerage commissions (ideally these would be part of MER calculation) in tabular form along with other financial metrics;</li> <li>• Formal explanation of any litigation or material conflict of interest breaches. This commenter’s experience has been that mutual fund companies do not disclose what actions, if any, they are taking on behalf of unitholders via moral suasion, share voting, class actions or otherwise, to recover losses due to fraud;</li> <li>• Ethics policy, governance policy and share voting policies disclosed upon request;</li> <li>• Information on portfolio manager (such as name(s) and</li> </ul>	<p>This information will be provided twice a year in the financial statements.</p> <p>The Rule requires approval of financial statements prior to release. Most governance issues are dealt with in an investment fund’s annual information form.</p> <p>Because most mutual funds distribute income and do not pay income tax, most funds are comparable to a benchmark index. The CSA does not believe that it is appropriate to include category quartile ratings in the Management Reports of Fund Performance because they are not standardized. Interested investors can always obtain this information from other sources.</p> <p>Brokerage commissions are disclosed in the notes to the financial statements. We do not believe that they belong in the MER.</p> <p>Litigation matters are already required by GAAP. Conflicts that directly relate to the fund manager are already disclosed in the annual information form</p> <p>We will be amending the annual information form to require the disclosure of proxy voting policies. Funds must already disclose their ethics and governance policies in the annual information form.</p> <p>The annual information form already includes most of this</p>

	<b>Comments</b>	<b>Responses</b>
	<p>professional credentials and tenure with the fund), the compliance officer, governance committee members and the lead external auditor (such as names and contact information)</p> <ul style="list-style-type: none"> <li>disclosure of the extent to which funds take into consideration social, environmental, ethical and labour rights when making investment decisions.</li> </ul>	<p>disclosure.</p> <p>The investment objective and strategies of a fund is disclosed in the simplified prospectus and the Management Report of Fund Performance. If these issues are relevant to the fund’s investment objectives, then the fund should provide this disclosure. To the extent that these issues are material considerations when making investment decisions, funds will have to determine whether disclosure is required based on that materiality.</p>
	<p>Four commenters believe that the proposed disclosure in the Management Reports of Fund Performance will be outdated by the time it reaches the investors’ hands. They noted that investors could easily access the same information on a timelier manner. Sometimes for a small cost, every month, investors can have access to performance surveys, risk measures, MERs and independent commentary or independent web-sites that permit them to screen mutual funds on a variety of criteria.</p>	<p>The CSA believes that the manager should be responsible for providing this type of information and for the accuracy of such information. Investors indicated in the Compas survey that they want to receive some information from the fund manager. We would not discourage investors from also learning to utilize other sources of information as part of investor education.</p>
	<p>Four commenters were concerned that to avoid the risk of not complying with the rule, fund managers may comment on all items whether material or not resulting in a litany of useless information. They thought that the guidelines should be more general and left to the discretion of the fund mangers to determine which points they would discuss in the reports.</p>	<p>We are encouraging filers to be concise and relevant in their reporting and have suggested guidelines as to the length of these reports. The threshold is based on materiality and interim reports should note only changes from the previous annual report.</p>
	<p>One commenter was concerned that some of the proposed content may well be too sophisticated even for the experienced investor.</p>	<p>The management report of fund performance was designed to provide information that is relevant and useful to investors of various levels of experience.</p>
	<p>One commenter asked the CSA to complete the initiative to amend fund of funds regulation before finalizing the Rule. Under the current rules, it was felt that it would be extremely difficult for a top fund manager to prepare a meaningful Management Report of Fund Performance.</p>	<p>The fund of fund amendments are now in force.</p> <p>With respect to clone funds and branded funds, their management discussion of fund performance can refer to or copy the material of the bottom fund with financial highlights and MER etc. specific to the top fund. We have made no change to the requirements for</p>



	<b>Comments</b>	<b>Responses</b>
	<p>Four commenters raised questions with respect to the reporting requirements for funds of funds. The commenters sought guidance as to whether the level of reporting would be at the top fund level or at the level of the underlying funds. Commenters inquired into whether third party fund companies would be obligated to provide top funds with the required information regardless of whether or not their reporting periods coincide with that of the top fund.</p>	<p>regular fund of fund structures.</p>
	<p><b><i>Question: Does the Rule meet the needs of the users of the financial statements?</i></b></p>	
	<p>Several commenters questioned the usefulness of public filings of private mutual funds' audited financial statements. Three commenters further questioned the necessity of having those financial statements audited, and the necessity of providing interim financial statements to security-holders. They believe that these requirements should be left to the discretion of the funds. It was noted that the Business Corporation Act (Ontario) and the Canada Business Corporations Act do not require the delivery of interim statements to securityholders of corporations that are not reporting issuers, and that shareholders of such corporations may agree each year that an auditor need not be appointed.</p>	<p>Some jurisdictions have excluded mutual funds that are not reporting issuers (pooled funds) from the rule entirely. In other jurisdictions, pooled funds have now been excluded from the requirement to publicly file their financial statements.</p>
	<p>Several commenters asked the CSA to reconsider some of the proposed content of the financial statements, such as the financial highlights disclosures, for limited partnerships and hedge funds on the basis that they are only relevant for investors in conventional mutual funds.</p>	<p>The CSA generally considers this information to be important to all investors.. We have excluded privately held funds from this disclosure.</p>
	<p><b><i>Question: Does the amount of detail provided in the proposed National Instrument assist with the preparation, consistency and comparability of the financial statements?</i></b></p> <p><b><i>Question: Is the proposed National Instrument too detailed? Is more detail or specific direction necessary?</i></b></p>	
	<p>Eight commenters suggested that the details in a fund's financial statements should be based on the "materiality" concept in Canadian GAAP. Five commenters thought that proposed</p>	<p>"Materiality" in Canadian GAAP and GAAS is largely a quantitative concept. Investment funds usually tend to have one very large asset, the portfolio investments. Due to the size of this</p>

	<b>Comments</b>	<b>Responses</b>
	<p>additional line items were not needed.</p> <p>One commenter reminded the CSA that the term “material” is difficult to interpret and sought further guidance.</p>	<p>asset, other items may be considered immaterial. We believe that certain mandatory details in investment funds’ financial statements are essential to ensure a more meaningful financial statement presentation and it should not be left completely to a materiality threshold.</p> <p>We received several comments supporting our direction. Mandatory details provide standardization, and this we believe will improve consistency and comparability between investment vehicles.</p> <p>The Companion Policy now includes additional guidance on the concept of “material” in the context of both the financial statements and the management reports. We have also removed the 5% threshold requirements for financial statement line items and have tried to emphasize, as much as possible, the qualitative aspect of materiality.</p>
	<p>One commenter stated that the comparative information should be consistent with Canadian GAAP.</p> <p>Two commenters suggested that highlights be eliminated from financial statements and only appear in the management reports.</p> <p>One commenter was of the opinion that there are many deficiencies in Canadian GAAP compared to U.S. GAAP.</p>	<p>We have made sure that the Rule is consistent with Canadian GAAP.</p> <p>We have made this change.</p> <p>The Rule will provide clarification, based on fundamental accounting principles, for those areas where Canadian GAAP and the CICA Handbook are silent. While we will from time to time refer to U.S. GAAP for information, Canadian fund issuers will use Canadian GAAP only.</p>
	<p>One commentator suggested that the “Notes to Financial Statements” for each series or class must disclose:</p> <ul style="list-style-type: none"> <li>• the sales charge as a percentage of the purchase amount;</li> <li>• the maximum management fee as a percentage of the net asset value of the class or series;</li> <li>• the actual management fee as a percentage of the net asset value of the class or series;</li> </ul>	<p>All of the suggested disclosure can be found either in the simplified prospectus, or can be determined from the content of the financial statements. For items such as the management fees and incentive fees calculations, the basis of these calculations should be disclosed in the notes to the financial statements .</p>

	Comments	Responses
	<ul style="list-style-type: none"> <li>• the method used to calculate the management fee;</li> <li>• the trailer fee paid to dealers as a percentage of the net asset value of the class or series;</li> <li>• the method used to calculate the trailer fee;</li> <li>• the incentive or performance fee paid to management as a percentage of the net asset value of the class or series; and</li> <li>• the method used to calculate the incentive or performance fee.</li> </ul>	
	<p>Six commenters thought that a Summary Statement of Investment Portfolio would be more useful, than a Statement of Investment Portfolio and that the requirement of two statements was redundant.</p>	<p>We acknowledge that there is overlap in the portfolio disclosure requirements. We have reduced much of the redundancy in our revised Rule, however, the complete statement and the summary statement are necessary, as they are in different reports, and investors may request one, but not the other.</p>
	<p><b><i>Question: The majority of investment funds currently prepare and file six-month interim financial statements. Should all investment funds be required to prepare and file quarterly financial statements in addition to the proposed quarterly management reports of fund performance?</i></b></p>	
	<p>We received several comments suggesting that investment funds should not be required to prepare and file quarterly financial statements for the following reasons:</p> <ul style="list-style-type: none"> <li>• Section 1751 of the CICA Handbook imposes significant amount of reporting requirements for interim financial statements.</li> <li>• regardless whether quarterly financial statements are technically required the content of such statements would be needed for preparing and supporting quarterly management reports.</li> </ul> <p>investors are not interested in receiving interim financial statements.</p>	<p>While a few commenters supported the idea of increased reporting frequency, underscoring the importance of timely delivery of information, the majority of the comments were opposed to quarterly interim financial statements. As a result we will not be proposing such requirements. We believe the introduction of the quarterly portfolio disclosures will address the issue of timely delivery of that information.</p>

	<b>Comments</b>	<b>Responses</b>
	<ul style="list-style-type: none"> <li>may not be useful or practical in longer term funds, such as labour sponsored funds and funds that have a guarantee feature after a minimum period that are similar to segregated funds.</li> </ul>	
	<p>One commenter questioned the practical benefits of disclosing of risk/volatility for investors as such information is backwards looking and has limited practical utility. Two commenters agreed that some disclosures of longer term risk and volatility is appropriate (e.g. One year, three and five years).</p>	<p>We believe that some disclosure of risk and volatility information is important, as an investment’s return is a function of risk and volatility. As one commenter observed, information on performance as well as risk is significant for the analysis and assessment on an investment based on the risk tolerance, time horizon and other investment needs of a particular investor. We believe that it is important that there be consistent and meaningful presentation of such information if it is to serve its intended purpose.</p>
	<p>There were also those commenters who believed that the current disclosure contained in a simplified prospectus is already sufficient. Another suggested that as there was a lack of industry and academic consensus on risk and volatility disclosures, no particular disclosure should be required. Several commenters thought that any additional disclosure would only confuse investors.</p>	<p>The lack of consensus on risk and volatility disclosure is one of the reasons why we developed a minimum standard for such disclosure. One commenter suggested that there should be an industry committee created to consider and to establish a standardized approach in measuring risk and volatility for mutual funds as well as an emphasis placed on investor education. We see both of these suggestions as compatible with the direction we have taken on this issue and would encourage these initiatives.</p>
	<p>One commenter stated that any performance information such as year by year returns or annual compound returns is more useful if provided in the context of a benchmark. Without a benchmark, such disclosure could mislead investors as to the true performance of a fund.</p> <p>Another commenter supported the correlation disclosure of a fund to a benchmark index, as the commenter felt that the correlation information would be useful to determine whether a fund manager was a “closet indexer”. Another commenter thought that the correlation calculation may be difficult to obtain and that comparison to a benchmark index would become more complex</p>	<p>In this Rule, we have tried to address the needs of the main users of various financial and management reports for investment funds. Despite the argument that conventional mutual funds are relative return products, we feel that most investors are also interested in both the absolute returns of their fund investments and how well their fund investments are performing compared to a relevant benchmark.</p> <p>We agreed with the comments that a comparison to a benchmark is beneficial to investors only if there is a standard to determine which indexes should be used.</p>

	<b>Comments</b>	<b>Responses</b>
	<p>and less relevant in situations where a fund's investments are across different indexes.</p> <p>Finally, one commenter pointed out that there is no relevant benchmark index for labour sponsored venture funds.</p>	<p>In the Rule we expect the Management Reports of Fund Performance to include a discussion of a fund's performance when compared to relevant benchmarks. Details of this discussion will vary based on the investment objectives of different funds.</p>
	<p>Although one commenter supported mandatory disclosure of a fund's best and worst quarter returns, five commenters questioned the effectiveness of reporting a fund's best and worst quarter without providing an overview of the general market condition at the time. These commenters believed that a fund would need to give a detailed explanation of the circumstances.</p>	<p>In the Rule, we are proposing that a fund disclose the best and worst six month periods so as to provide some volatility information to investors. However, we leave the decision of whether to explain the best or worst periods up to the fund issuers.</p>
	<p>One commenter suggested the following items would be useful for investors:</p> <ul style="list-style-type: none"> <li>• A fund's highest and lowest net asset values per share/unit for each class or series of the fund's securities, and the dates on which they occurred, for each of the five previous financial years ending with the date of the report;</li> <li>• Average trailing price-to-earnings (P/E) ratio and the price-to-book (P/B) ratio for an equity fund, the disclosure of the average duration for a bond fund, the disclosure of the average trailing P/E and P/B ratios for the equity component of a balanced fund, and the disclosure of the average duration for the bond component of a balanced fund, all as of the date of the report.</li> </ul>	<p>We believe that our proposal to disclose the best and worst six month periods will provide similar volatility information, as would disclosure of the highest or lowest net asset values.</p> <p>We understand that information on a fund's average trailing P/E and P/B ratios, as well as duration, depending on the fund's investment objective, could be useful for investors to assess the fund's risk profile. However, we feel that mandating such disclosure would result in a significant reporting burden.</p>

Other Comments

Section	Issues	Comments	Responses
1.1	<i>Definitions</i>	<p><b>“fair value” and “market value” –</b>            One commenter felt it was unclear how the sale concept to establish the value of a liability would work in all cases.</p> <p>Another commenter asked the CSA to amend the definitions of <b>“fair value”</b> and <b>“market value”</b> to acknowledge the obligations with respect to valuation of Employee Venture Capital Funds should a province prescribe a method for establishing value of such assets. The commenter proposed that the CSA to add the following to the definitions: “or in the case of employee venture capital funds, means the value established in accordance with the valuation methods and principles prescribed by statute or regulation or set out under its employee venture capital plan.”</p>	<p>The specific definitions of “fair value” and “market value” in the Rule have been removed. The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) recently issued accounting guideline AcG-18 <i>Investment Companies</i> which requires all investments to be “fair valued”. The Rule requires that investment funds prepare their financial statements in accordance with GAAP.</p>
		<p><b>“investment fund” and “non-redeemable investment fund”</b>            One commenter raised concerns regarding the Rule’s application to the Community Small Business Investment Funds “CSBIFs”. The commenter noted to the fact that the CSBIFs are generally funds with a very small number of institutional investors who are capable of bargaining for the level of financial disclosure that they wish to receive and that the CSBIFs are not available for sale to the public. Accordingly, the commenter asked the CSA to confirm that the Rule is not intended to apply to such entities.</p>	<p>In some jurisdictions, the Rule will apply to investment funds that are issuing securities in the exempt market. However, in these jurisdictions, the Rule continues to impose the requirement to prepare financial statements for the investors of the non-reporting investment funds, but will not require non-reporting funds to file those statements.</p>
		<p>One commenter asked for clarification with respect to the use of the terms <b>“investment portfolio”</b> and <b>“portfolio investments”</b> as there was concern that the terms are being used interchangeably. “Investment portfolio” would include all investments, including a venture portfolio, whereas</p>	<p>We have clarified how these terms are used.</p>

Section	Issues	Comments	Responses
		<p>“portfolio investments” would be a smaller subset of investments, essentially money that is waiting to be invested in venture investments.</p>	
		<p>One commenter pointed out that the definition of “<b>management fees</b>” precludes the concept of an “all-inclusive” fee.</p>	<p>We believe that for the statement of operations to be meaningful to investors there needs to be a certain level of detail. Fees paid to the manager are the most significant expense. The Rule does not prohibit the concept of an “all inclusive” fee, but it does require that for reporting purposes that there be a more meaningful description of the fee.</p>
		<p>One commenter suggested that we should define the term “<b>Material Information</b>”.</p>	<p>We have provided a discussion of materiality in the Form.</p>
		<p>One commentator noted that the problems with determining “<b>current value</b>” in certain circumstances were discussed at length with IFIC’s Fair Valuing Working Group. Accordingly, the commenter disagreed with the need to prescribe the manner of valuation, as it does not provide flexibility to allow companies to calculate what they deem to be “fair value”.</p> <p>One commenter complained that the definition of “<b>current value</b>” was unworkable in the context of private company securities that have no reported quotation or obvious market value and for which the time remaining until they become “unrestricted” is unknown.</p> <p>Another commenter pointed out that the use of current value would be a departure from their current accounting policy where “investments are carried at cost or amortized cost” such that realized gains and losses are deferred and amortized to income over five years. These unrealized gains and losses are not recognized in the carrying value of the</p>	<p>The Rule requires that the investment fund be valued at “current value”. The definition of “current value” sets out alternatives for valuing different financial instruments. We have removed the definitions of “fair value” and “market value” from the Rule. Investment funds are to use the definitions of “fair value” and “market value” as set out in the CICA Handbook. The definition of “current value” is consistent with the requirement to “fair value” under GAAP.</p> <p>We have removed the requirement to value restricted securities in accordance with section 13.4 of NI 81-102. The CSA recognize that there are certain problems with this definition and have removed this section until further study is completed in the area of valuation. The study of investment valuation is the second phase of the NI 81-106 project.</p> <p>Investment funds are reminded that section 1100 of the CICA Handbook has removed “industry practice” from the definition of GAAP. The ACSB exposure draft “Investment Companies” requires entities that meet the definition of “investment company” to value their investments at “fair value”. Financial statements</p>

Section	Issues	Comments	Responses
		<p>investments in Scholarship Plans but are instead disclosed in the notes to their financial statements.</p> <p>The same commenter was concerned that if the investments in the Scholarship Plans were to be reported at current value, this policy change would lead to volatility in earnings from operations, It was felt that given the long-term nature of the investment programs associated with Scholarship Plans, the accounting policy and disclosure currently in place would present more meaningful disclosure for investors.</p> <p>One commenter stated that the references to “<b>net asset value</b>” did not work for hedge funds that contain long and short positions. The commenter suggested that long and short positions be treated separately.</p>	<p>prepared under the Rule must be prepared in accordance with GAAP.</p> <p>The Rule will be in accordance with GAAP. The CSA believes that investments should be reported at current value and notes that there are other funds that have a long term focus that report at current value.</p> <p>We have added disclosure requirements for short positions and have kept the requirement to disclose the overall NAV as we believe that this would still be useful for investors in these products.</p>
		<p>One commenter was concerned that the disclosure of each portfolio company at “fair value” would greatly disadvantage the fund and the private companies in which the fund invested. The preference was to group the fund’s venture investments, as the fund deemed appropriate and provide disclosure with an aggregate adjustment from cost to current value for each group.</p>	<p>The CSA acknowledges that disclosure of “fair values” for investments in private companies may harm the private company. Therefore, section 8.3 of the Rule provides labour sponsored funds with an alternative for disclosing each portfolio investment at “fair value”. We have also changed the definition of labour sponsored fund to include other similar funds that operate in some provinces.</p> <p>GAAP requires fair value. However, as a proxy for the fair value disclosure and to provide investors with a certain level of assurance and transparency, labour sponsored funds are permitted to show their “venture investments” at cost with an aggregate portfolio adjustment to “fair value” provided that an annual independent valuation is performed. An individual or company that is not related or associated with the investment fund must perform the independent valuation.</p>
1.2(5)	<i>Application</i>	<p>One commenter asked for of the reason for excluding BC entities from the requirements of Part 9 of the Rule.</p>	<p>After further considering the rule, and informal comments it received from the government agency responsible for labour sponsored funds in British</p>



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			Columbia, the BC Securities Commission is now proposing to adopt this part of the rule.
1.3(1)	<i>Interpretation</i>	One commenter asked for further clarification on multi-class interpretation between sections.	Section 8.2 of the Rule provides clarification of the preparation of multiple class investment fund financial statements. A discussion of the issue has also been added to the Companion Policy.
s.1.3(4)	<i>Interpretation</i>	One commenter suggested that the seed capital exemption should be included in this section.	We removed this section. A discussion about the independent valuation of investments can be found in the Companion Policy.
s. 2.1	<i>Filing of Annual and Interim Financial Statements</i>	<p>A significant number of commenters expressed concerns over the proposed timelines for financial statements filings. Eight commenters asked the CSA to maintain all current timelines. Four commenters asked the CSA to maintain the current 60 days for the semi-annuals and the quarterly Management Reports of Fund Performance.</p> <p>Four commenters stated that investors do not generally use financial statements in making informed investment decisions and the CSA should only expedite the delivery of information that the investors actually use and consider in making investment decisions. Two commenters voiced concerns that the shortened timeframes might cause the quality of financial reporting to suffer with little or no corresponding benefits.</p> <p>With respect to LSIFs, two commenters felt that the shortening the delivery period by 15 days was irrelevant in monitoring an investment with an eight year time horizon and would provide no meaningful benefit to LSIF investors. They thought that the tighter deadlines would only mean added costs that would be passed on to LSIF shareholders, particularly since many LSIFs outsource back-office and administrative functions that are commonly delivered in-house by traditional mutual fund managers.</p>	<p>We continue to believe that there is a need for timely and useful financial information for investors to make informed decisions. Financial statements are the main source of this information. Our belief is echoed by initiatives elsewhere. In the United States, investment funds are currently required to file 90 and 60 day after the year-ends and interim period ends. The SEC is currently proposing to shorten further those filing timelines to 60 days and 45 days for annual and interim financial statements respectively. Our timeline proposal is less stringent for annual financial statements than in the United States.</p> <p>National Instrument 51-102 – Continuous Disclosure Obligations, which comes into force shortly, also shortens the reporting timelines. We will be consistent with that rule, and continue to propose 90 and 45 day reporting periods for annual and interim financial statements and management reports.</p> <p>We do not expect that these shortened timelines should significantly increase financial statements preparation costs.</p>
s. 2.1	<i>Filing of Annual</i>	Commenters stated that a significant amount of the work that	We believe that in an environment that increasingly

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	<i>and Interim Financial Statements</i>	<p>is required in preparing and delivering the actual statements has been largely out-sourced to parties unrelated to fund managers and over whom fund companies would have no direct control. As a result, twenty commenters found the proposed timelines aggressive and unrealistic.</p> <p>One commenter suggested the CSA consult suppliers/vendors of related service providers to fund companies, such as auditors, printers, mail and post companies, to determine if shorter timelines across the entire industry are realistic. Three commenters thought that their auditors might not be able to complete the necessary audit work within the proposed time frames. Two commenters thought the proposed timeline would create additional pressure and pose problems for the translation of English based financial statements to French and other languages.</p> <p>Another commenter pointed out that the proposed timelines make the filing requirements consistent between investment fund issuers and other reporting issuers and noted that this would likely put considerable operational strain on fund managers.</p>	<p>demands, and is capable of furnishing more timely information, the current filing deadlines are inadequate. We understand that there will be transitional issues arising from the shortened filing timelines. Four of the commenters who supported the proposed timelines also suggested we have a transitional period to allow funds to adjust to the new reporting requirements. Five commenters suggested that the transitional timelines be 120 days and 60 days for annual and interim financial statements respectively</p> <p>After careful consideration of all relevant comments, we are proposing to have a transitional year where the filing deadlines for the first year of annual and interim financial statements is 120 days and 60 days respectively. Based on our understanding of the industry and our consultation with relevant third party service providers, we believe that the proposed timelines are reasonable and achievable. The demand for timelier financial reporting is evident in the move by other regulatory bodies to shorten timelines. We believe that a full transitional year will allow the fund industry to make necessary changes to meet the proposed timelines.</p>
2.1 and 3.1	<i>Filing of Annual and Interim Financial Statements</i>	One commenter suggested that we can help the industry meet the proposed filing timeline by removing the simultaneous delivery requirement for the respective financial statements to securityholders, and to allow for electronic dissemination (i.e. email or web-site) of the financial statements and management reports to investors.	The Rule requires that investment fund send materials to securityholders no later than ten days after filing.
2.2 and 3.2	<i>Delivery of Annual and Interim Financial Statements</i>	One commenter proposed that the subsection should read “at no <u>direct</u> cost to the shareholder”	We have clarified the delivery requirements.
2.2(1)	<i>Annual Solicitation of Investor</i>	Twelve commenters strongly supported the fundamental change proposed in the Rule since it gave the investor the choice to receive any or all of a fund’s financial statements	The CSA agrees that mandatory delivery of financial statements to all securityholders, whether or not they wish to receive them, is not necessary. At the same time,

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	<i>Preferences</i>	and Management Reports of Fund Performance. Two commenters submitted that there should be no change in the delivery of the materials unless the recipient expressly asked for the change. They thought that a change by default (i.e. in the absence of a response) was not appropriate.	<p>we believe that reporting issuers should consult their securityholders as to their wishes. For this reason, we are continuing to require delivery only on request, but requiring reporting issuers to either provide their securityholders with a request form each year, or if they have standing instructions from securityholders, to send a reminder each year indicating the securityholder's current election and instructions as to how to change that election if they wish.</p> <p>This approach reflects advancements in technology and communication (including the SEDAR website) since the introduction of the requirement to deliver. It will also eliminate the unnecessary paper delivery of information by requiring delivery only to securityholders that indicate they want paper copies.</p> <p>The Compas survey found that fifty-two percent of investors thought that annual financials and reports should only be mailed if requested, taking into account the costs and appreciating that this information is all posted on the internet and available by other means. Forty-five percent of investors felt that annual financials and reports should be automatically mailed out to all fund holders because these reports were important for fund holders to have.</p>
2.2(1)	<i>Annual Solicitation of Investor Preferences</i>	One commenter cautioned that if we require printing and distribution of financial documents to shareholders and other stakeholders only on a 'demand' basis, it would lead to a loss of over 1,150 (50% of 2,300) Canadian jobs.	We note that another commenter for the printing industry recognized that keeping administrative costs to a minimum is a priority for the mutual fund industry and investors. This commenter supports the Rule despite the fact that it would result in less print manufacturing for its members and the industry at large.
2.2(1) and(2)	<i>Annual Solicitation of Investor Preferences</i>	Eight commenters noted the inconsistencies between the delivery requirements under NI 81-106 and those of NI 54-101. Six commenters suggested that we should only require investment funds to send the request form to the beneficial	It is anticipated that invest funds would canvass current securityholders as to their election during the mailing of the first year's Management Reports of Fund Performances and financial statements. Funds would then

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		<p>owners of its securities in accordance with the requirements of NI 54-101 that say, "provided that an investment fund shall not send the request form to beneficial owners who have declined in accordance with NI 54-101 to receive financial statements and annual reports."</p> <p>Two commenters said that there should be no regulatory constraints imposed upon the choice of solicitation vehicle, whether it is in the annual statement, a separate mailing or otherwise to reduce the costs that would be associated with a separate 'request form'.</p> <p>One commenter expressed concern that beneficial owners who choose to receive materials (whether an objecting beneficial owner or a non-objecting beneficial owner) might never receive a request form, because many investment fund companies did not mail to beneficial owners every year. There was also concern that objecting beneficial owners may never receive a request form if they are not prepared to pay to receive materials and neither the issuer nor the intermediary has volunteered to do so. They suggested that the Rule could resolve this, by requiring annual solicitation of investor preferences.</p> <p>On the converse side one commenter noted that if this section were left as is, despite their request not to receive annual financials statements under NI 54-101, investors holding mutual funds securities through a dealer would, nevertheless, receive an annual solicitation form.</p>	<p>follow this up with the annual reminder, advising investors of their current election and indicating what they would need to do if they wished to change that election. We believe that this would address the current cost issues under NI 54-101, with fund companies obtaining an updated objecting beneficial owners list annually, and would also address the concerns raised about NI 54-101 concerning the requirement in some circumstances for objecting beneficial owners to have to pay for receiving certain materials.</p> <p>In the Compass survey when asked to suppose annual statements and reports were mailed only if requested, and whether mutual funds should have to tell fund investors that they can ask for these reports to be mailed to them, sixty-four percent of investors said that mutual funds should have to tell investors this every year. Thirty-one percent said that mutual funds should only have to advise investors of this at the time of their investment.</p>
2.2(1)		<p>One commenter stated that the section required the mailing of a request form for financial statements for the <u>current</u> financial year. The commenter requested an exemption from this requirement or in the alternative, a modification of the form so that it would relate to receiving financial statements for the following financial year thereby allowing the issuer to have only one shareholder mailing per year.</p>	<p>We have rectified this problem.</p>

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2.2.(3)	<i>Delivery</i>	One commenter proposed that this section should define “return delivery options” and “returning a completed request” should allow for 1-800/web-based replies exclusively. The commenter sought further clarification on the application of this section to new clients.	The CSA view is that delivery options cannot be limited to only telephone or web-based options. There are still investors who either do not have a computer or are not comfortable using these technologies.
2.2(4)	<i>Delivery</i>	<p>One commenter suggested that the Rule be amended such that the delivery of financial statements to either SEDAR, or investment fund’s web-site would satisfy both filing &amp; delivery requirements, while a paper copy would be available only upon request.</p> <p>One commenter however expressed concern that the disclosure of financial information would ultimately suffer because the Rule is proposing to displace a proven and accepted communication vehicle with a passive electronic source too rapidly.</p>	<p>The CSA believes that the requirement in the Rule to only deliver financial statements and Management Reports of Fund Performance on request is an adequate substitute for the access equals delivery proposal. Shareholders will likely only request copies of the financial statements and Management Reports of Fund Performance if they do not have convenient Internet access or are unable or unwilling to download or print disclosure from the Internet.</p> <p>The Compas survey found that sixty percent of fund holders never visit fund web-sites. It would not be appropriate to apply an “access equals delivery” approach to those shareholders.</p> <p>It would also not be sufficient to file on SEDAR exclusively as the public is still not aware of SEDAR, and those that are aware of the site do not use it a great deal. According to the Compas survey, eighty-nine percent of the surveyed investors are not aware of SEDAR. Among the investors that are aware of the site, forty percent have never visited it.</p>
2.2(4)	<i>Delivery</i>	One commenter advocated that the Rule should allow for the electronic delivery of information for investors that choose to receive it in that manner.	As indicated in the Companion Policy, a fund can use electronic delivery if it follows the requirements of National Policy 11-201.
2.3(1) (d) and 3.3.(d)	<i>Contents of Annual/Interim Financial Statements</i>	Two commenters recommended this new statement replace the statement of investment portfolio rather than supplement it. Moreover, the commenters suggested that the disclosure of portfolio holdings should be limited to the top 10 holdings of the portfolio plus any holding that exceeds 5% of portfolio value.	We have changed the contents of the financial statements to require that only the complete statement of investment portfolio be included in the financial statements. The summary of investment portfolio is part of the management report of fund performance and the requirements have been modified to include only the top

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			25 long and short positions.
2.3(1) (g) and 3.3 (g)	<i>Contents of Annual/Interim Financial Statements</i>	One commenter submitted that imposing prescriptive format requirements on financial statements was contrary to the evolutionary nature of GAAP. Instead, the financial statements should be flexible as long as they are not inconsistent with management reports.	The financial statement requirements set out in the Rule are similar but shorter to the requirements currently set out in Regulation 1015 of the Securities Act (Ontario) and in most other provinces. They are also consistent with the CICA research report “Financial Reporting by Investment Funds”, and with the Handbook.
2.4(2)	<i>Approval of Annual Financial Statements</i>	One commenter suggested that the Rule should define the term “manager” in “manager...of an investment fund” and that we include “the board of directors of the Manager” in this subsection.	We have added a definition of “manager” .
2.5	<i>Auditor’s Report</i>  <i>“without reservation concept”</i>	One commenter noted that this “without reservation” concept was not in existing securities legislation in all provinces.	The concept of an auditor’s report “without reservation” is currently in National Policy Statement 50 – <i>Reservations in Auditor’s Report</i> (NP 50). This requirement has been moved to the Rule and also proposed NI 52-107 <i>Acceptable Accounting Principles, Auditing Standards and Reporting Currency</i> . NP 50 will be revoked once both NI 81-106 and NI 52-107 come into force.
3.1(2)	<i>Filing of Interim Statements</i>	One commenter asked for clarification on whether the comparative information in a subsequent interim financial statement should include the financial information for a previously undisclosed interim period.	The reporting periods for a change in year-end have been added to this Rule.
3.3 (a)	<i>Contents of Interim Financial Statements</i>	Three commenters suggested that the requirements of this section should be in accordance with GAAP (comparative statements should be for the last audited statement of net assets). They noted that the CICA Handbook paragraph 1751.16(a) required the comparative statement of net assets to be as at the end of the immediately preceding financial year and section 2.2 of the Companion Policy to the proposed National Instrument stated: “...investment funds must ensure that interim financial statements comply with both Section 1751 of the Handbook and the Instrument.”	We amended the Rule to reflect section 1751 of the CICA Handbook.

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4.2	<i>Statement of Net Assets</i>	One commenter asked the CSA to confirm that disclosure of dividends and accrued interest receivable, other assets, total assets, other liabilities and total liabilities is no longer required.	The Rule sets out minimum disclosure for the financial statements. The investment fund must ensure there is enough information to make the financial statements meaningful. The financial statements must also comply with general GAAP standards. Therefore you will need to add to your statements whatever other elements you believe are necessary to comply with GAAP.
4.3	<i>Statement of Operations</i>	<p>By way of additional line items:</p> <ul style="list-style-type: none"> <li>• Two commenters noted that it would be useful for the CSA to indicate explicitly what costs are meant to be included here.</li> <li>• One commenter asked for confirmation that the disclosure of other revenue, salaries and other expenses is no longer required.</li> <li>• One commenter proposed that the Rule require the disclosure of the revenue from securities lending, if material.</li> <li>• One commenter suggested that the filing fees paid to Securities Commissions should be a mandated line item.</li> <li>• One commenter queried about the different treatment of “securityholder information costs” and “transfer agency fees”.</li> <li>• One commenter suggested that net investment income (loss) should come before capital taxes, and a line item “total expenses” should be added. In addition, a further line item “net investment income (loss before provision for income tax” should be added before “provision for income tax, if applicable”.</li> </ul>	<p>See the response for the Statement of Net Assets.</p> <p>A discussion of materiality has been added to the Companion Policy.</p>

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4.3	<i>Statement of Operations</i>	<p>One commenter asked the CSA to define the term “Securityholder information costs”.</p> <p>One commenter noted that “waived expenses” should not be included in the Statement of Operations as they are not part of a fund’s results and should be addressed in the notes to the financial statements. Another commenter felt that that inclusion of waived expenses was particularly detrimental to LSIFs because in many LSIF management agreements, these fees were paid to the LSIF Manager and the management fee was reduced by the same amount. This arrangement benefited the LSIF shareholders because the fund got the benefit of the fee and also saved GST that would have otherwise been payable on the management fee that had been reduced.</p>	<p>Securityholder information costs would generally include the costs associated with the printing and mailing of the financial statements and any other required securityholder document.</p> <p>The inclusion of amounts waived has been added to show investors the amount of potential additional expenses that would have had to be paid by the investment fund had the manager not waived or absorbed these amounts. The amounts waived are generally discretionary and may be discontinued in the future. Disclosure in the statement of operations is consistent with the CICA research report with respect to format.</p>
<p>4.4(1)</p> <p>4.4(4) (7) and (9)</p>	<i>Statement of Investment Portfolio</i>	<p>Two commenters raised their concerns about the requirement in the statement of investment portfolio to disclose the designation of each security held by non-reporting issuers, mutual funds and labour sponsored funds. These entities frequently hold several classes of securities of single issuers and the requirement for disclosure of each designation is seen as superfluous information which is not useful to securityholders because they do not have access to the financial statements of the invested companies.</p> <p>The commenters proposed that for private company holdings, the fund be allowed to aggregate designations of equity and debt into a reduced number of items where the designation differences are deemed not material. This disclosure would be accompanied with the disclosure of the aggregate number of shares or face value of debt instruments and cost of these securities with an annotation that discloses these aggregated private company holdings.</p> <p>One commenter indicated that there should not be a need to disclose the credit rating of the counter-party if it were at or</p>	<p>The requirement to disclose the designation of each security is a current requirement in certain jurisdictions for all reporting and non-reporting mutual funds. The “designation” requirement is not intended to be lengthy but is necessary for the securityholders to understand what the fund holds in its investment portfolio. The aggregation of debt and equity securities of the same issuer is not complete disclosure.</p> <p>We have changed the requirement to disclose the credit rating of the counterparty to require disclosure only when</p>



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		above the approved credit rating level.	the credit rating of the counterparty falls below the approved credit rating.
4.5	<i>Statement of Change in Net Assets</i>	One commenter asked for clarification on whether or not it is acceptable to summarize security activities for several classes of funds together	Sections 8.2 of the Rule and 2.4 of the Policy clarify that financial statements of different classes of an investment fund that is referable to the same portfolio may be combined together or prepared separately. If combined together, those statements that would be different for each class, such as the statement of operations, must be separated.
4.6	<i>Statement of Cash Flows</i>	<p>One commenter thought that the Statement of Cash Flows was not meaningful for investors in a fund as a financial entity</p> <p>Another commenter asked for confirmation that it is not required to provide a statement of cashflows. The commenter submitted that a statement of cashflows was unnecessary and redundant since currently LSIFs did not include a statement of cashflows in their financial statements as all that information is contained elsewhere in the financial statements.</p>	The requirement for the statement of cash flows is set out in the CICA Handbook. The Rule specifically states in sections 2.3 and 3.3 that the statement of cash flows need only to be prepared if required by the CICA Handbook. The Rule also clarifies that if a fund prepares a statement of cash flows then they do not need to prepare a statement of changes in net assets .
4.7	<i>Notes to Financial Statements</i>	<p>One commenter disliked the extent of detail required in this section for classes, preferring a simple overview of the differences between classes or series, in the interests of clarity.</p> <p>Two commenters noted that information on soft- dollars specifically, allocation brokerage transactions requirement, was not available on a per fund basis and sought clarification as to how allocation to specific funds would be made if based upon aggregate trades placed.</p> <p>One commenter asked the CSA to confirm that total brokerage commissions (including soft dollars) were contemplated versus separate disclosure of the soft dollars (as a subtotal of brokerage commissions).</p>	<p>The class disclosure is a current requirement in certain jurisdictions and is similar to that which companies have to disclose under GAAP.</p> <p>While the CSA encourages the disclosure of soft dollar transactions on a per fund basis, we will permit the aggregation of soft dollar transactions on a fund complex basis in the short run. The CSA believes that it is possible to estimate the per fund soft dollar transactions since the total soft dollar transactions and the actual transaction costs per fund are known.</p> <p>The Rule contemplates the separate disclosure of brokerage commissions and soft dollars.</p>

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		<p>One commenter asked for confirmation that it would be required to provide “details of commissions” in the case where its core investments were venture capital investments most commonly in private companies. The commenter acknowledged that it might pay some commissions on investments. However, these investments were generally with funds that are pending investment in “eligible businesses” under the EIA.</p> <p>Three commenters recommended that immaterial amounts to temporary overdrafts due to either redemptions or trade errors be excluded from the disclosure requirements of this section.</p>	<p>Commissions paid to brokers/dealers are a “hidden” cost of the fund since these commissions are accounted for as a credit to the cost of the investment. The CSA believes that these costs should be disclosed.</p> <p>We have clarified the note disclosure on borrowings to exclude non-material operational overdrafts during the period.</p>
4.8	<i>Inapplicable Line Items</i>	Two commenters suggested “nothing material” should replace “... for which there is nothing for ...”. They also recommended that disclosure and exemption from disclosure should be based on materiality.	Please see our discussion on materiality in the Companion Policy.
6.6	<i>Exemptions for Short-periods</i>	One commenter asked for clarification on the “period subsequent to non-disclosed 3 month period”. The commenter queried whether this was meant to be 5.5 months or 3 months and 2.5 months reported only as part of YTD?	This section has been clarified. The first management report of fund performance prepared after the period that was not reported on must include the period that was not previously reported on.
7	<i>Specific Financial Statement Requirement</i>	One commenter opposed the inclusion of the accounting requirements in the Rule. In that commentator’s opinion, each of sections in Part 7 gave “short shrift” to the topic covered and did not provide an adequate foundation for interpretation and application of the requirements. By comparison, the commenter noted, the securities lending arrangements and repurchase agreements were addressed in considerable detail in Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The commentator suggested that this Part be relegated to the Companion Policy or to a CSA Notice, where the guidance can be readily amended or deleted, as relevant Canadian accounting standards become effective.	The CSA has set out certain disclosure requirements where the CICA Handbook is silent. The disclosure relating to securities lending, repurchase agreements and reverse repurchase agreements relate to presentation within the financial statements only. Similarly, the requirements for the incentive arrangements set out the financial statements presentation. The Companion Policy sets out the CSA’s interpretation of GAAP for the costs of distribution of securities and trailing commissions.

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		<p>One commenter questioned the application of Part 7 to pooled funds.</p> <p>One commenter asked the CSA to define the term “collateral” with regard to the concept of control over securities and/or cash.</p>	<p>This Part relates to presentation only. The jurisdictions that have reporting requirements for pooled funds, want the reporting to be consistent.</p> <p>The term “Collateral” is addressed in NI 81-102, sections 2.12 through 2.14.</p>
7.2(1)	<i>Repurchase Transactions</i>	Two commenters suggested that there should be no requirement to name the counter-party; instead the investment fund should be required to disclose the counter-party’s credit rating.	The requirement to disclose the credit rating of the counterparty has been changed to require disclosure only when the credit rating of the counterparty falls below the approved credit rating.
7.3	<i>Reverse Repurchase Transactions</i>	The same commenters suggested that only the credit rating of the counter-party but not its name should be disclosed. They asked the CSA to permit the aggregation of individual positions if they are immaterial.	The requirement to disclose the name of the counterparty has been removed. The section has been amended to permit the aggregation of individual positions.
7.4	<i>Incentive or Performance Fees</i>	<p>One commenter felt that the inclusion of performance fees within the expense ratio was not appropriate and could be misleading to investors. A performance fee is only obtained when a fund has positive performance as opposed to a management fee, which is applied regardless of the performance. Accordingly, a fund that had a very strong net performance would by definition, have a higher management expense ratio (due to the inclusion of the performance fee).</p> <p>The commenter thought incentives should be disclosed as a separate item or the Rule could require the disclosure of a second MER that included only operational (non-IPA) items when there was an IPA expense and the LSIF would provide additional disclosure to help shareholders distinguish between performance fees and other MER components.</p>	<p>The CSA believes that there should only be one MER calculation for all investment funds. As a financial ratio, and one that is used often by investors, this MER calculation should be based on the financial statements, which are prepared in accordance with GAAP. For comparability only this one MER should be disclosed.</p> <p>The Rule does permit the disclosure of a breakdown of the MER in the management report of fund performance. This can also be done in the Notes to the Financial Statements. There will however, only be one MER calculation provided. We have also amended the Rule to include a new Part on the calculation of MER largely imported from NI 81-102.</p>
7.5	<i>Costs of Distribution of Securities</i>	One commenter sought clarification on transitional rules i.e. changes in accounting policy under GAAP normally should be accounted for retroactively with restatement of prior	For LSIFs that pay sales commissions within the fund, this issue has been addressed either by staff notices, such as OSC Staff Notice 81-706 dated September 30, 2003

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		<p>be accounted for retroactively with restatement of prior periods. The commenter stated that with respect to investment funds, this change was clearly not practical and additional guidance was necessary. In addition, the commenter requested the OSC provide blanket relief with respect to the orders that would terminate by the implementation of the Rule.</p> <p>One commenter speculated that this section was based on the assumption that cost and benefits occurred in the same fiscal year. The commenter noted that the benefits relating to the issue of shares of LSIFs were realized over the eight-year hold on those shares. As such, the commenter asked to be permitted to continue applying the matching principle and amortizing commissions and fees to retained earnings on a straight-line basis over an eight-year period.</p>	<p>as OSC Staff Notice 81-706 dated September 30, 2003, or in the manner described in the prospectus of the funds, in provinces such as Manitoba and British Columbia.</p>

Section	Issues	Comments	Responses
8.1	<i>Binding</i>	<p>Two commenters queried whether the use of columnar format for financial statements will be prohibited.</p> <p>Six commenters cautioned that separating the fund commentary from the financials would make it difficult to keep the connection between different kinds of related information intact and would hamper the effectiveness of investor communication. If the intent of the proposal is to move away from generalized commentary covering all funds, it was felt that the provisions of Form 81-106F1 would clearly accomplish that goal.</p> <p>Two commenters proposed the Rule include language encouraging “householding” as a means for reducing costs.</p> <p>One commenter criticized this prohibition, as it was not consistent with the treatment of other prescribed documents such as the simplified prospectus or financial statements. Three commenters recommended that the manner in which disclosure documents were bound together should be left to the discretion of the Manager.</p> <p>Seven commenters criticized the requirement as being too prescriptive and costly.</p> <p>One commenter raised concerns stemming from the frequency of production and indicated that the binding prohibition might create situations where investors would not be provided with the most recent versions of documents.</p>	<p>The use of columnar format for financial statements is prohibited when it results in the information of several funds being combined in parallel columns on the same page. The mixing together of information for many funds makes it hard to extract the useful information from the financial statements.</p> <p>The management report of fund performance and the financial statements should be complete, comprehensible documents on their own. The idea is that the investor will choose <b>only</b> those documents that they wish to receive. Investors may wish to receive only the management reports, or only the financial statements or both.</p> <p>With the new delivery regime introduced by this Rule, where documents are only provided upon request, we need to ensure the right of each individual securityholder to determine what he or she will receive. Householding would not be helpful in this regard.</p> <p>We will not allow management reports of fund performance for different funds to be bound together so as to avoid “telephone books” being sent to investors. We are also concerned that if management reports of fund performance are bound together, over time they may begin to deviate into group discussions rather than providing only fund specific information.</p> <p>We believe that the changes we are proposing will reduce costs.</p> <p>We believe that having moved to a semi-annual reporting regime addresses this concern to the degree that it is a material issue.</p>



Section	Issues	Comments	Responses
		<ul style="list-style-type: none"> <li>• the definition of “education savings plan” and the definition of “scholarship award” should refer to the payment of an “educational assistance payment” rather than a scholarship award; and</li> <li>• the defined term scholarship award should be replaced with educational assistance payment to align this definition with the federal government terminology.</li> </ul>	<p>We have not made this change.</p> <p>We did not feel that this change was necessary.</p>
9	<i>Formal Valuations</i>	<p>One commenter voiced its concerns about the alternatives for meeting disclosure requirements of section 4.4 with regards to securities for which a market value is not readily available. The commenter thought that these two alternatives suggested a different level of assurance being provided by the auditor’s report on the financial statements that would only serve to cause confusion in the marketplace.</p> <p>One commenter inquired into the rationale behind the requirement for the LSIFs to obtain a “formal valuation” in addition to the annual valuation report (net asset value per share) that LSIFs are currently required to obtain from their independent valuers under the CSBIF Act (Ontario). The existing valuation report effectively provided the third party validation of an LSIF’s valuation of its venture portfolio. Therefore, there should be no need to require a second report, which would inevitably result in additional costs to LSIF shareholders.</p>	<p>The CSA notes that Part 9 of the Rule only applies to labour sponsored funds, as defined. Section 8.3 has been clarified to refer to the valuation reports. We have modified the disclosure of the valuation reports to require an explanation of why the valuation report was obtained.</p> <p>The valuation report is only required if the labour sponsored fund chooses to aggregate the venture portfolio. The valuation report requirements were designed to not conflict with provincial acts governing labour sponsored funds. Many provincial acts require an independent valuation. The CSA wishes to make it clear that a report of compliance with valuation policies and procedures is not considered to be an independent valuation report under this Rule.</p>
9.1(1)	<i>Independence of Valuator</i>	Two commenters noted that section 4.2 of the Companion Policy did not establish whether an LSIF’s auditors qualified as independent.	<p>The CICA currently has a project underway on auditor independence. The CSA will adopt the recommendations of the CICA with respect to the ability of an auditor to perform the valuation as set out in Part 9 of the Rule. The Companion Policy contains a discussion on independence.</p> <p>We have not changed the requirements in this regard.</p>

Section	Issues	Comments	Responses
9.1(2)		<p>One commenter proposed that if auditors did not have the ability to perform the formal valuation as set out in Part 9 of the rule, whether consideration could be given to allowing a formal valuation each 2 or 3 years to reduce costs.</p> <p>One commenter explained that during fund audits, auditors used experts, either in house specialist or outside consultants, to assist in auditing the current value of the private investments. The valuation report that is prepared under provincial labour sponsored fund legislation is a by-product of the audit and not a formal valuation on the investment portfolio for other purposes. The commenter recommended that the CSA consider requiring more disclosure in the prospectus on the valuation methodology followed by the fund, including the inherent risks associated with the valuation.</p> <p>One commenter asked the CSA to prescribe the required qualifications for valuers. One commenter queried whether LSIFs that have their own valuation specialists that are supposed to be separate from the investment side of the fund by the “Chinese wall” could be considered independent. The concern is that a formal valuation may be expensive but may not necessarily be a better valuation, as these individuals know the investments better than an outsider valuator would.</p>	<p>The CSA is of the view that a report of compliance with valuation policies and procedures is not an independent valuation report under this Rule. The valuation policies and procedures are established by the investment fund or the fund manager. A report of compliance with these valuation policies and procedures does not address the appropriateness of the policies and procedures.</p> <p>We believe that it should be up to the fund manager to decide who would be independent. We do provide some guidance in the Companion Policy.</p>
9.2	<i>Disclosure Concerning Valuator</i>	<p>Three commenters queried whether it was a question of fact whether a valuator was qualified and independent as contemplated by section 9.1(2). They also inquired into the rationale behind the requirement for parts (a), (d) and (e) of section 9.2 as this information provided no additional benefit or comfort to shareholders.</p>	<p>The CSA have clarified the disclosure relating to the valuator in section 8.4 of the Rule.</p>



Section	Issues	Comments	Responses
9.4	<i>Filing of Formal Valuation</i>	<p>Two commenters objected to the formal valuation requirement as the filing of a valuation report was a requirement of the tax program of relevant provincial legislation, and this report should not be publicly disclosed. In their opinion, securityholders' ability to obtain the valuation report on SEDAR did not provide any further level of comfort since every LSIF was already required to have this report. In addition, they noted that this requirement increased the audit risk and inevitably would result in an increase of costs to the funds.</p>	<p>The filing of a valuation report in the manner prescribed by the Rule is optional. The CSA believe that investors need either full disclosure of current values of investments to make their own judgment on the investments or as a proxy, full disclosure of the independent valuation.</p>
10.1	<i>Requirement to File an Annual Information Form</i>	<p>Two commenters suggested that clearer language be used to better convey the scope and requirements of this section. Further, the commenters sought a clearer explanation of the exceptions and how they operated in relation to the existing NI 81-101 requirements to file an Annual Information Form.</p> <p>In one commenter's opinion, this section required a significant new disclosure document from LSIFs that were no longer in distribution.</p> <p>Two commenters stated that given that a) any new material concerning scholarship plans that were not actively being sold under prospectus but that might still have investors plans would be included in the management reports provided to investors, and b) that many aspects of an Annual Information Form were not relevant to Scholarship Plans, these plans should be exempt from the requirement to file an Annual Information Form.</p>	<p>We have tried to make the requirements to file an annual information form clearer. Those investment funds currently in distribution are not required to prepare an annual information form. The annual information form is only required for those funds that have ceased distribution of their securities.</p> <p>The requirement to file an annual information form is a current requirement under the Act in certain jurisdictions. The purpose of this requirement is to keep the public record up to date.</p> <p>No change has been made in this regard.</p>

Section	Issues	Comments	Responses
10.3	<i>Preparation of an AIF</i>	Two commenters cautioned the CSA that not permitting combined and bound Annual Information Forms would result in a considerable repetition of information.	The Rule has been amended to remove the restriction preventing annual information forms from being consolidated, combined or bound together.
13.1	<i>Restricted Share Disclosure Requirements</i>	<p>Two commenters sought clarification as to whether the restricted shares mentioned in this section were referring to the shares in fund's capital or to those that were part of its portfolio assets. It was noted that if this Part was intended to apply to the portfolio shares, virtually all shares of a venture capital fund would meet the definition of "restricted share" as set out in National Instrument 51- 102.</p> <p>Two commenters stated that the information required by NI 51-102 has never been provided to investment fund securityholders in the past and they queried why it would be required now. In their opinion, this requirement could amount to substantial increase in information to securityholders by certain funds, which was unwarranted and not useful or relevant to fund securityholders. Thus, they asked the CSA to remove this requirement.</p>	<p>Restricted shares refer to the investment fund's own securities. The Rule has been changed to exclude investment funds, which is consistent with the practice today.</p> <p>This section no longer applies to investment funds.</p>
14	<i>Change of Auditor</i>	<p>Three commenters raised the point that many investment funds do not hold annual general meetings and the requirement to have security- holder approval for a change in auditors was not consistent with acting in the best interests of the securityholders given the costs.</p> <p>They proposed that the requirement to have security-holder vote to change auditors be removed and replaced with a requirement to notify security-holders of such change. They also sought the removal or revision of the requirement in section 5.1 of NI 81-102, which required securityholder approval to change the auditor of a mutual fund. They invited the CSA to consider this issue as part of the Fund Governance Project.</p>	The issue of securityholder approval for a change in auditor is outside the scope of this Rule.
15.2(2)	<i>Documents Available on</i>	Two commenters, in consideration of the extensive involvement of third party service providers, asked the CSA	The Rule has been amended to require delivery of documents as soon as practicable after the receipt of the

Section	Issues	Comments	Responses
15.2 & 15.3	<i>request</i>	<p>to revise this section to read “deliver requested documents to read as soon as practicable” or “within a reasonable time after receipt of request’.</p> <p>One commenter was concerned about the scope of the delivery requirement. The commenter stated that the Rule required funds to deliver or send copies of its financial statements and management reports of fund performance at no cost to any person or company. The Rule does not require the recipient to be a securityholder or have any other relationship with the investment fund. The commenter believed that this was a more onerous obligation than other reporting issuers with costs implications. The commenter questioned why the SEDAR filing would not suffice as these sections only applied to reporting issuers.</p>	<p>request.</p> <p>Mutual funds are public vehicles. These documents are incorporated by reference into the simplified prospectus and must be available to the public and not just securityholders. Reliance on SEDAR to effect the delivery requirement is not considered acceptable in today’s environment. The investor survey results indicated that many investors were not aware of SEDAR and do not necessarily use the internet for investment research.</p>
16.1(1)	<i>Additional Filing Requirements</i>	<p>One commenter noted that the Rule did not define what constituted material information.</p>	<p>The section on “additional filing requirements” has been amended to be consistent with NI 51-102 <i>Continuous Disclosure Obligations</i> with modifications for Investment Funds</p>
17.1	<i>Filing of Material Contracts</i>	<p>One commenter questioned the benefits of this requirement to investors. The commenter referred to the current regime and noted that an existing non-redeemable investment fund, which is a reporting issuer, is only required to make the material contracts available for review while in distribution. The commenter queried why the Rule required these funds to file a wider range of contracts on SEDAR even when the fund is not in distribution. The commenter submitted that this would be an onerous task and undue burden to investment funds since it did not apply to other reporting issuers.</p> <p>One commenter raised confidentiality concerns about the application of this requirement to the non-reporting issuers.</p>	<p>The section on “filing of material contracts” has been amended to be consistent with NI 51-102.</p> <p>The CSA note that this section does not apply to non-reporting investment funds.</p>

<b>Section</b>	<b>Issues</b>	<b>Comments</b>	<b>Responses</b>
Form 81-106F1	<i>General Discussion</i>	One commenter recommended that the text be shorter	The Form has been amended to move some of the discussion to the relevant sections of the Form.
Part A Item 2	<i>First Page Disclosure</i>	One commenter suggested that the reference to documents being provided “at no cost” should be changed to read “at no direct cost”.	The CSA does not believe that this disclosure would clarify the disclosure without additional explanation as to the meaning of “at no direct cost”.
Part B Item 1.2	<i>Results of Operation</i>	<p>One commenter</p> <ul style="list-style-type: none"> <li>proposed that subsection (d) only require a discussion of significant changes but not significant components;</li> <li>queried whether the reference to “Results of Operations” in subsection (e) meant performance and asked the CSA to define this term;</li> <li>suggested the CSA add to subsection (g): “other than normal operating activities, otherwise disclosed in the notes (e.g. management fees etc); and</li> <li>suggested the amendment of subsection (j) to specifically exclude overdraft amounts and margin and/or short selling situations.</li> </ul>	<p>The CSA notes that the management discussion of fund performance is subject to a materiality standard. As such, the CSA is making no changes to subsection (d) since we are providing guidance as to the issues that may be discussed.</p> <p>“Results of Operations” refers in general to the Statement of Operations of the investment fund; performance is discussed elsewhere.</p> <p>The CSA agree with the comments on related party transactions and borrowing disclosure.</p>
Part B Item 1.2(h)	<i>Results of Operation -- Proxy Voting</i>	<p>Many commenters, from the fund industry, strongly opposed a requirement for funds to provide disclosure of its actual proxy vote cast.</p> <p>They argued that:</p> <ul style="list-style-type: none"> <li>shareholders are not interested in this disclosure.</li> <li>this would deny funds the ability to vote confidentially and would subject funds to pressure from corporate management to influence proxy-voting decisions. With one commenter suggesting that the CSA mandate secret balloting so that funds can vote without fear of retribution.</li> <li>this would subject them to orchestrated campaigns by special interest groups with social or political agendas different from those of fund shareholders.</li> </ul>	<p>The CSA believes that transparency of voting information would facilitate accountability on the part of fund managers in voting proxies in the best interest of fund shareholders. Several mutual fund complexes currently voluntarily provide information to investors about the policies and procedures they used to determine how to vote proxies. Investors, we believe, have a fundamental right to know how their fund has voted proxies on shareholders behalf.</p> <p>The CSA received the largest number of comments from individual investors on this one issue. Most who commented believed that the Rule did not go far enough, whereas most members of the fund industry felt the contrary to be the case.</p>

Section	Issues	Comments	Responses
		<ul style="list-style-type: none"> <li>• the costs of collecting and disclosing the information would be substantial and would exceed any benefit to shareholders from the disclosure.</li> <li>• this would undermine in their ability to change corporate governance practices of issuers through “behind the scenes” private communications.</li> <li>• this disclosure adds no value.</li> </ul> <p>Nine commenters suggested that disclosure of proxy voting policies or guidelines as opposed to the actual votes be required.</p> <p>Three commenters recommended a list of only of those proxy votes that were against management recommendations or deviated from their own guidelines be disclosed.</p> <p>Two commenters proposed that the requirement be subject to a materiality threshold; e.g. disclosure of the proxy vote only if the security represented more than 5% of total value of the portfolio of the fund should the proxy vote be disclosed.</p> <p>One commenter thought the disclosure of this issue should be upon request but not publicly.</p> <p>One commenter suggested that funds be required to provide a summary of their proxy voting guidelines in the Management Reports of Fund Performance and indicate that a copy of the guidelines is available on SEDAR or in hard copy at the investor’s request.</p> <p>On the other hand, seven commenters recommended that mutual funds disclose the following:</p> <ul style="list-style-type: none"> <li>• The policies and procedures used to determine how they vote proxies relating to portfolio securities; and</li> <li>• The actual votes (i.e. each shareholder proposal voted on; who proposed the shareholder resolution; whether and how the fund cast its vote, and whether the fund</li> </ul>	<p>In response to comments that investment funds should also be required to disclose their proxy voting policies, we have adopted this change and now require funds to disclose in their annual information form, a summary of their proxy voting policies and procedures and indicate how a complete copy of these policies could be obtained. We will not however require proxy voting policies and procedures to address specific areas such as environmental issues.</p> <p>The intent of the Rule is to promote transparency with respect to proxy voting, not mandate the content of fund policies and procedures though the Rule does set out what the policies should look like.</p> <p>In response to the argument that investors are not interested in proxy voting disclosure, this is to some extent belied by the comments received from individual investors and the survey results. When investors were asked, whether they would like to receive reports about the way in which their mutual funds cast their votes, 21% indicated interest in knowing how their funds vote on all issues, 48% indicated interest in knowing how their funds vote on major issues and only 24% stated that funds should be free not to report how they vote.</p> <p>After consulting with industry, the CSA is proposing that funds disclose 100% of their proxy votes to securityholders.</p> <p>On the issue of confidential voting, the principle of confidential voting is intended to protect shareholders from having their votes disclosed prior to the shareholder meeting. What we are proposing would only require disclosure of votes 60 days or more after the end of the period to which the proxy voting record pertains, a significant period of time after any shareholder’s</p>

Section	Issues	Comments	Responses
		<p>and how the fund cast its vote, and whether the fund cast its vote for or against management in addition to votes) on funds' web-sites.</p> <p>One commenter proposed that rules on proxy voting be incorporated into a new proposed National Instrument for adoption by OSC and CSA members across Canada, and that this new National Instrument be circulated for comment in 2003.</p> <p>One commenter thought the Rule should require mutual funds to disclose voting policies on social and environmental proxy issues and shareholder proposals</p>	<p>meeting.</p> <p>While we respect the view that proxy voting disclosure may politicize the process of proxy voting of funds by special interest groups, we are not persuaded at this time that this will in fact be the case or that it will occur to such a degree as to negate the benefits this disclosure would provide.</p> <p>On the issue of excessive costs we note that several fund complexes currently provide disclosure of their complete proxy voting records. While we believe there may be some start-up cost for compliance systems, we continue to believe that the cost of disclosure is reasonable.</p> <p>Disclosure of proxy voting is not inconsistent with behind the scenes communications and would not force funds to disclose those communications. Requiring this disclosure may in fact encourage more funds to become engaged in corporate governance matters involving the issuers they hold in their portfolio.</p> <p>Finally, we note that the SEC has introduced full reporting of all proxy votes and voting policies.</p>
Part B Item 1.2(h)	<i>Proxy Voting</i>	<p>Considering the fact that this disclosure is to appear in the annual Management Reports of Fund Performance along with many other items, and the limit on the length of the Management Reports of Fund Performance, one commenter has concluded that any discussion by the mutual fund of its voting record would have to be brief and very general. Thus, the commenter believes that the Rule is wholly inadequate to achieve meaningful reform in this area.</p>	<p>We have changed the proxy voting disclosure.</p>
Part B Item 1.2		<p>One commenter pointed out the similarities between 1.2(f) and s. 1.6 and queried whether this provision should be in s. 1.6.</p>	<p>The Form has been amended to eliminate duplication.</p>

Section	Issues	Comments	Responses
Part B Item 1.3	<i>Risk</i>	Three commenters have stated that this requirement duplicates the obligation set out in section 1.2(f).	The CSA has clarified subsection 1.2(f) and Item 1.3.
Item 1.4	<i>Performance</i>	Two commenters asked the CSA to amend the instructions to require a discussion of any material changes to reported ratios.	The management reports do require the disclosure of these material changes, because any material item has to be disclosed in any event.
Item 1.5	<i>Recent Developments</i>	One commenter agreed that planned material transactions should be disclosed but questioned whether the CSA required pro forma information by requiring disclosure of the “effects” of material transactions.	The discussion of recent developments reflects past and planned material transactions. Investment funds should not prepare pro forma information.
Item 2	<i>Financial Highlights</i> Net Asset Value per [Unit/Share]:	<p>One of the commenters voiced a concern regarding the interaction of tax issues and disclosure requirements under the Rule. The commenter noted that this section required a fund to make quarterly updates to the table concerning the source of a fund’s distributions. However, since the tax status of a fund can only be determined annually, the breakdown of distributions should only be disclosed annually.</p> <p>Two commenters submitted that the statement of financial highlights was duplicated in the financial statements. In the commenters’ opinion, the financial highlights would be important added value for investors in understanding the Management Reports of Fund Performance and suggested that the Management Reports of Fund Performance should be clear by itself if explained concisely and in plain language.</p> <p>Two commenters indicated that the “Total revenue and total expenses per security” figure did not add meaningful information. They referred to the US GAAP and the CICA Research Report “Financial Reporting by investment Funds” and reminded the CSA that the disclosure of this figure is not required under either. Accordingly, they suggested only “net</p>	<p>The CSA notes that the Rule has been changed to require semi-annual management reports of fund performance. The distribution disclosure will remain in the semi-annual management reports since some funds distribute to investors on a monthly or quarterly basis.</p> <p>The CSA has amended the requirements to eliminate duplication. The statement of financial highlights is only required in the management report of fund performance.</p> <p>The CSA believe that since the management report of fund performance may be delivered to investors separately from the financial statements, a certain level of detail is necessary to help the investor understand the financial results in a meaningful manner and which corresponds to the discussion of operating results.</p>

Section	Issues	Comments	Responses
		<p>investment income (loss) per security” be disclosed in the Statement of Financial Highlights.</p> <p>Two commenters queried whether it was mandatory to present the required information in a particular order. Also, the commenters sought clarification on the mechanics of this disclosure (\$/Unit) when unit values change from start to finish and when the period in question is less than 12 months. Moreover, the commenters had concerns about the treatment of realized and unrealized gains (and losses).</p> <p>In these commenters’ opinion, these numbers were not stand-alone items and should be reviewed together as representing market action. In this context, the benefit of proposed disclosure to investors was questioned. Accordingly, the commenters asked the CSA to explain why these figures have been split and recommended that necessary amendments be so that these amounts would be shown together in a single line item.</p> <p>One commenter made the following suggestions:</p> <ul style="list-style-type: none"> <li>• Change - Distributions: “From net income” - to read “from other net income”;</li> <li>• Change - Distributions: “from dividends” - to read “from Canadian dividends”;</li> <li>• Change - Distributions: “from realized gains” to read “from gains”; and</li> <li>• Add “or both” to “Distributions were [paid in cash/reinvested in additional units/shares] of the Funds”</li> </ul> <p>One commenter criticized the separation of gains/losses from securities from gains/losses on foreign exchange related to securities. In this commenter’s opinion, the aggregate figure was a balancing amount that was necessary to reconcile the change in net asset value per security with the other per security information provided. Most accounting systems were not capable of separating gains/losses on securities and</p>	<p>The general instructions to the management report of fund performance indicate that the Form generally does not mandate the use of a specific format with the exception of financial highlights and performance data. The per unit data present very important information required by section 1650 of the CICA Handbook</p> <p>As for the mechanics of this disclosure (\$/Unit), we have clarified this in the Form. On the treatment of realized and unrealized gains (and losses), the CSA believes that this information is essential to enable investors in understanding the performance of the fund. We are not prepared at this time the make the change recommended.</p> <p>The CSA has made some amendments to the statement of financial highlights in keeping with some of the suggestions.</p> <p>Section 1650 of the CICA Handbook requires that the foreign exchange gains and losses be disclosed separately. The CSA reminds investment funds that section 1100 of the CICA Handbook removes “industry practice” from the definition of GAAP.</p>



Section	Issues	Comments	Responses
		<p>were not capable of separating gains/losses on securities and foreign exchange on foreign denominated securities. The commenter believed this new method was contrary to the current industry practice and neither required under U.S. GAAP nor recommended in the CICA Research Report.</p> <p>One commenter inquired whether it was required to show financial highlights for each class of a multi class fund since selected financial information must be shown individually for each class anyway.</p>	<p>To the extent that the financial highlights are different for each series or class of an investment fund, then the fund should make separate disclosure.</p>
	<p><i>Scholarship Plans:</i></p>	<p>One commenter questioned the requirement that assets, income and expenses of scholarship plans were expressed in terms of dollars per unit as in this commenter’s opinion such disclosure is not meaningful and may be potentially misleading to investors and other users of this information. Instead, the commenter suggested that the financial highlights relating to these plans be presented only in terms of aggregate dollars.</p> <p>Based on the fact that scholarship plans are unitized based on unit valuation related to the end of the contract rather than the beginning scholarship plans (and thus, different from other funds), one commenter opposed to the standardized financial reporting with respect to how the plan’s net asset value should be disclosed. The commenter requested that for group scholarship plans, the fund’s total value statistics be required.</p>	<p>The CSA agrees with the comment and has made the appropriate changes to the Form and created a new table to address the concerns of scholarship plans.</p>
	<p><i>Ratios and Supplemental Data:</i></p>	<p>One commenter sought specific instructions for funds that calculate the NAV on a weekly or less frequent basis in order to report the MER in the appropriate manner.</p> <p>One commenter proposed that the disclosure of “total return” be required in this chart where total return figures were included as part of financial statements.</p>	<p>The Rule has been revised to clarify the calculation of the “average net assets during the period” for funds that calculate NAV less frequently than daily.</p> <p>The Form requires that the total return be shown in the bar chart format.</p>

Section	Issues	Comments	Responses
		<p>One commenter sought clarification on the impact of the restriction against disclosing portfolio turnover rates for money-market funds on the disclosure of the portfolio turnover rates for derivatives or passive index funds (as these funds invest in money market instruments).</p> <p>Two commenters suggested that disclosure of portfolio turnover rate not be required for RRSP clone funds, futures funds or fund of fund structures where the turnover rate is not a meaningful piece of information. Another one commenter asked for better direction with respect to the calculation of portfolio turnover for funds that were in part dependent on actively managed derivative strategies</p> <p>One commenter pointed out the inconsistent formatting requirements pursuant to Items 2.1(7) and 3.2. (Item 3.2 - most recent year on the "right" and Item 2.1(7) - most recent financial year on the "left").</p>	<p>There has been no significant change from that set out in NI 81-101. This will continue to apply to hedge funds and index funds as we see some merit in the information provided.</p> <p>The CSA has provided more guidance in the Rule on the calculation of the portfolio turnover ratio when the portfolio contains derivative instruments.</p> <p>There has been no change in this regard.</p>
Item 3	<i>Past Performance</i>	<p>One commenter pointed out that the requirement for the y-axis to start at 0 precluded the presentation of negative returns. The commenter suggested wording that would require the x-axis to intersect the y-axis at 0.</p> <p>One commenter criticized the application of this requirement to scholarship plans, since these plans were not unitized in the same manner as other funds and units were more indicative of the final value of the contract, rather than the current value. The commenter stated that measuring performance based on the change in income attributable to the investors in the plans, which was based on the performance of the underlying investments, by using the current income recognition rules would be a more appropriate alternative. The commenter noted that the current income recognition rules did not recognize unrealized gains and losses, with realized gains or losses amortized over some period in the future.</p>	<p>The Form has been amended to reflect this suggestion.</p> <p>The CSA acknowledge the differences in the structure of scholarship plans and has amended the Rule and the Form to reflect these differences.</p>

Section	Issues	Comments	Responses
		<p>One commenter had concerns that the rate of return does not include the income tax credits, and that the calculations are not based on the average units or shares in the period.</p> <p>Two commenters sought clarification as to the definition of “date of inception”, i.e. whether this was the date of inception or the date of first sale?</p>	<p>The after tax credit is still permitted for sales communications but not for management reports. We will continue to use the standard performance data guidelines as established in NI 81-102.</p> <p>The Form has been amended to clarify the date of inception.</p>
Item 4	<i>Summary of Portfolio Investments</i>	<p>Two commenters contended that this section duplicated the Financial Statements. They suggested that the disclosure of the top ten holdings plus any holding that represent 5% or more of total portfolio value would be more appropriate disclosure in the Management Reports of Fund Performance.</p> <p>Two commenters inquired into whether this subsection would include the disclosure of illiquid securities.</p> <p>One commenter sought clarification on the effect of these subsections on the treatment of derivatives.</p> <p>One commenter stated that, for fund of funds, the requirement should be to disclose the holdings of the bottom fund as of the end of the most recent quarter of that fund as such disclosure would minimize the opportunity for front-running/free-riding practices by sophisticated outsiders.</p>	<p>The Rule has been amended to eliminate this duplication. The Summary of Portfolio Investments has been changed to require the disclosure of the top 25 long and top 25 short positions.</p> <p>No.</p> <p>The Form has been amended to provide instructions on the treatment of derivatives and to clarify that the fund of fund disclosure is as of the most recent interim period of the underlying fund.</p>
Part B Item 1.6	<i>Forward – Looking Financial Information</i>	<p>Several commenters stated that they did not believe that an investment fund manager could provide realistic forward-looking information for a number of reasons:</p> <ul style="list-style-type: none"> <li>• while fund managers can provide their own individual view of companies they invest in, this would attract liability, as the disclosure would be incorporated by reference into the prospectus of the fund.</li> <li>• the manager’s responsibility is not to influence</li> </ul>	<p>The purpose of a Management Report of Fund Performance is for an investment fund to discuss its financial situations in the context of past performance and anticipated future events. This necessarily involves forward-looking information. Forward-looking information in the Management Report of Fund Performance is consistent with the position of both the CICA and other international accounting groups that any form of management discussion and analysis should</p>

Section	Issues	Comments	Responses
		<p>investors by suggesting future changes in the economy that could affect performance. Instead, investors should rely on their advisors or independent experts in making investment decisions.</p> <ul style="list-style-type: none"> <li>• it would be difficult to discuss, on a quarterly basis, factors that could influence future performance of a fund, particularly when the fund has a long-term investment horizon.</li> <li>• this type of reporting might result in investors overreacting to information that is, in some cases, outdated.</li> <li>• it might encourage a short-term outlook on the part of some investment fund securityholders inconsistent with the character of investment funds as vehicles for long-term investment.</li> <li>• this disclosure would result in a tremendous amount of ambiguity when sales representatives are presenting or discussing forward-looking information with their clients and at the same time enforcing that past performance is not indicative of future performance.</li> <li>• this disclosure could result in the exposure of proprietary intellectual property.</li> <li>• the potential liability that could arise from such commentary. To avoid reporting on potentially inaccurate visions, fund managers will likely produce very generic reports with diluted boilerplate discussion.</li> </ul> <p>Three commenters asked that should it be implemented, a regulatory waiver of liability accompany any disclosure of forward-looking information for fund managers in the event that the manager's perception of the future was proven inaccurate. Measures similar to the safe harbor provisions contained in the United States Private Securities Litigation Act of 1995 were proposed.</p>	<p>contain future oriented financial information.</p> <p>We must emphasize that forward-looking information should not be interpreted as market predictions. We are not expecting fund managers to comment on and predict the performance of each of the securities they invest in. We are not expecting fund managers to predict and comment on future events.</p> <p>Fund managers are selling their expertise in money and portfolio management, just as the management of other types of reporting issuers are compensated for their business management expertise in various markets and industries. Fund managers are in a position to discuss forward-looking information in the area of portfolio management specific to each manager's investment strategy.</p> <p>We recognize that the general economic situation or specific company outlook changes frequently. What we expect in the forward-looking information is a discussion of what the expectation is, given the current facts.</p> <p>We have now made the provision of forward-looking information optional to the fund. We believe that this will address most of the concerns raised in the comments.</p>

<b>Section</b>	<b>Issues</b>	<b>Comments</b>	<b>Responses</b>
Part B Item 1.6	<i>Forward – Looking Financial Information</i>	<p>One commenter requested that the CSA make this an optional component of the Management Reports of Fund Performance.</p> <p>One commenter asked for commentary on what is meant by the “strategic” position of a fund.</p>	<p>We have now made this disclosure optional to the fund.</p> <p>It is intended to serve as an explanation of the current status of the fund.</p>
Part C	<i>Financial Highlights</i>	<p>One commenter questioned the presentation of the total revenue, total expense, realized gains (losses) for the period and unrealized gains (losses) for the period as separate line items. In this commenter’s opinion, since the investor already had the MER, which provided information as to the proportionate expenses of a fund, and the statement of operations, which provided information as to the proportion of expenses versus revenues and of realized versus unrealized gains and losses, the proposed format would not have an added value.</p>	<p>The Rule has been amended to require that the Statement of Financial Highlights be prepared only as part of the management report of fund performance. Since the management report of fund performance may be obtained separately from the financial statements the financial highlights include some additional information that might otherwise be excluded. The additional information is provided to assist investors in understanding the financial information provided.</p>
	<i>Summary of Portfolio Investments</i>	<p>Since funds were required to provide the statement of investment portfolio, one commenter found this information to be redundant. The commenter added that most statements of investment portfolio already broke portfolios down into subgroups and covered the items listed as requirements in this summary.</p>	<p>The CSA note that the management report of fund performance may be obtained separately from the financial statements as a stand-alone document.</p>
	<i>Portfolio Holdings</i>	<p>Three commenters raised concerns that the public filing of full investment portfolios on a semi-annual basis would provide competitors and any other interested parties, an opportunity to evaluate and exploit the proprietary investment strategies. The proprietary strategies employed by alternative investment managers are particularly critical to their success, and therefore disclosing investment portfolio information publicly would put their business at risk, and would be detrimental to investors.</p>	<p>The Rule has been amended to exempt non-reporting issuers from the requirement to file financial statements.</p>
	<i>Portfolio Holdings</i>	<p>Two commenters suggested that detailed portfolio disclosure should be eliminated from the Rule.</p>	<p>The SEC is currently proposing disclosure of holdings greater than 1% of a fund’s net asset value. However, as indicated previously, we have, in response to the</p>

Section	Issues	Comments	Responses
		<p>Four commenters cautioned the CSA about the requirement to disclose all holdings greater than 1% of a fund’s net asset value. For some funds, this disclosure might easily run to thirty or forty holdings.</p> <p>One recommendation was to limit disclosure to the top ten holdings plus any holdings comprising more than 5% of net asset value. Another recommended disclosure of those holdings over 3% of NAV with minimum disclosure of a fixed number of securities.</p> <p>One commenter asked that the CSA grant the ability to remove references to securities where the fund is in the midst of or beginning a buying or selling program</p> <p>On the other hand, one commenter proposed that the full disclosure of holdings should be required only upon request, thereby eliminating the need for resources required to produce commercial copies.</p>	<p>comments received amended the Form requirements for the summary of investment portfolio to the top 25 long positions and the top 25 short positions.</p> <p>We are cognizant of concerns raised by some members of the fund industry that mandating more frequent disclosure would harm shareholders by expanding the opportunities for professional traders to exploit this information by engaging in predatory trading practices such as front running and facilitate the ability of outside investors to free ride on mutual fund investment strategies that are paid for by fund shareholders. We believe that these concerns are addressed by the initial 60 day delay in the transitional year, and then the 45 day delay in providing this quarterly disclosure.</p>
Companion Policy Section 1.4	<i>Signature and Certificates</i>	<p>Two commenters sought clarification on whether signatures were not required on the Statement of Net Assets.</p> <p>One commenter highlighted the need to clarify that the manager would be responsible for the disclosure requirements, where the fund had a manager directing fund’s affairs and a separate trustee performing a more administrative role.</p>	<p>The Rule does not require signatures on the Statement of Net Assets.</p> <p>We added a definition of manager. The investment fund manager or trustee must determine, based on the facts, who should be approving the financial statements.</p>
Section 2.5	<i>Auditor’s involvement</i>	<p>One commenter was concerned that this requirement would increase the annual audit costs for most investment funds.</p>	<p>The CSA note that auditors may have an obligation under GAAS with respect to the management report of fund performance since this report is incorporated by reference into the prospectus.</p>
Section 2.6	<i>Delivery of Financial Statements</i>	<p>One commenter voiced concerns about the inconsistency between this subsection (“such notices may alternatively be sent with account statements or other materials sent to</p>	<p>We will be repealing NI 54-102.</p>

Section	Issues	Comments	Responses
		sent with account statements or other materials sent to securityholders by an investment fund as is convenient to the investment fund”) and the requirements of NI 54-102.	
Section 3.1	<i>Accounting for Securities Lending Transactions</i>	One commenter asked for clarification with respect to the application of this section to pooled funds since normally pool funds were not subject to the restrictions on securities lending transactions.	The Rule sets out certain reporting requirements related to securities lending transactions. The Rule does not set out restrictions on the actual securities lending transactions. Where they must report, pooled funds must follow the reporting requirements for securities lending.

Miscellaneous items

Issues	Comments	Responses
<i>General comments about the premises on which 81-106 is based</i>	Three commenters expressed concern that the Rule fails to distinguish between corporate issuers and investment funds. It is noted that the quarterly report is useful to investors of corporate issuers as it provides these investors with a timely statement by management of its future plans and allows investors to engage in an assessment of the corporation's future prospects and thereby determine the current value of its securities. Investment funds on the other hand are look-through vehicles. The value of mutual fund assets, in contrast to those of corporate securities, is simply a determination of the assets held by the fund on any given day and a calculation of their value at that time. The CSA was asked to consider these differences before imposing disclosure requirements with uniform application across the board.	All investment funds that are reporting issuers are now treated the same. All report on a semi –annual basis. Part of what investors pay for with respect to an investment in an investment fund is the fund manager's expertise. These management reports will provide investors with some insight as to how well their fund is being managed.
	One commenter questioned the impetus behind the Rule, as the proposed Rule does not refer to any analysis by the CSA that there are actual asymmetries of information (or any other specific policy concerns) with the existing disclosure regime.	The CSA has completed a survey of past, present and future mutual fund investors. The survey report is reproduced in its entirety in Appendix B.
	NI 81-106 raises some of the same issues that came to light in NI 81-102 and were never resolved. The issues surrounding repurchase/reverse-repurchase agreements and the calculation and presentation of "MERs" are still legitimate concerns given the proposed amendments to NI 81-101 and NI 81-102.	Valuation and MER have now been moved to NI 81-106 and through the comment process we hope to resolve any outstanding issues.
<i>Statement of Portfolio Transactions</i>	One commenter asked the CSA to confirm that the requirement of statements of portfolio transactions under section 87 of regulation 1015 was being revoked under the Rule.	The CSA confirms that the requirement for a statement of portfolio transactions in section 87 of Regulation 1015 of the Securities Act (Ontario) is being revoked.
<i>Approval of Financial Statements</i>	One commenter stated that while section 93 of Regulation 1015, which would be revoked under the Rule, included a requirement whereby evidence of signatures signified the approval of financial statements, the Rule was silent about this issue. The commenter asked the CSA to clarify this discrepancy.	The Companion Policy advises that there is no requirement of signatures to signify approval of financial statements.



Issues	Comments	Responses
	<p>One commenter noted the requirement that the Board of Directors must ‘approve’ the annual Management Reports Of Fund Performance and financial statements and ‘review’ the proposed quarterly Management Reports Of Fund Performance and interim financial statements. Considering the recent increase in insurance provisions and premiums (40% year-over-year), the commenter was concerned about the net effect of the ‘approval’ requirement on the insurance premiums.</p> <p>One commenter found the requirement of Board review of interim financial statements unnecessary.</p>	<p>The Rule now requires the Board of Directors to approve all management reports and financial statements. We are unable to speak to the impact if any that this requirement in isolation would have on insurance premiums.</p>
<p><i>Commending British Columbia Securities Commission</i></p>	<p>One commenter thought NI 81-106 should be coupled with general revisions to the disclosure rules relating to mutual funds.</p> <p>The commenter stated that the BCSC’s Continuous Disclosure document outlined more practical requirements for the Annual Information Form. The commenter encouraged the CSA to review BCSC document and integrate it into the Rule.</p>	<p>The CSA has moved forward with this Rule with the active participation of staff of the British Columbia Securities Commission.</p>
<p><i>Conflicts with Other Regulation</i></p>	<p>Two commenters suggested that the Rule not be adopted in isolation. The commenters caused the CSA about the potential inconsistencies between the Rule and National Instrument 51-102, National Instrument 54-101, corporate law as well as other regulatory proposals currently under consideration (in particular, the proposals of the British Columbia Securities Commission with respect to mutual fund regulation). In their opinion, the multiplicity of related proposals with contradictory positions reinforced the need to harmonize regulatory initiatives among the provincial regulators.</p> <p>One commenter pointed out an inconsistency between the Rule and one of the amendments to the <i>Ontario Securities Act</i> that became effective on November 26, 2002. The commenter noted that the amendment to the Act deleted the requirement that mutual funds in Ontario must concurrently deliver to securityholders a copy of their annual and interim financial statements filed with the Ontario Securities Commission. The commenter stated that this amendment, which was intended to facilitate early filings on SEDAR, conflicted with the Rule</p>	<p>This Rule is consistent with NI 51-102 with some modifications for Investment Funds. We also believe that we have resolved the conflicts between this Rule and NI 54-101.</p> <p>The delivery requirements do not require concurrent delivery. As a result of the enactment of an implementing rule in Ontario there should be no longer any conflict with the Rule.</p>

Issues	Comments	Responses
	<p>to the extent that the Rule required financial statements to be sent to securityholders concurrently with the filing of the same with the Ontario Securities Commission.</p> <p>One commenter referred to the Joint Forum of Financial Market Regulators and stated the Forum was in the process of developing guidelines that would address, amongst other things, disclosure requirements for funds sold to capital accumulation plans. The commenter suggested that the CSA should consider the Joint Forum's conclusions prior to implementation of the Rule.</p>	<p>The CSA will consider the conclusions reached by the Joint Forum and make any necessary changes at a later time.</p>
<p><i>Interaction of NI 81-106 with Distribution Requirements</i></p>	<p>One commenter noted that because of the requirement for an auditor's comfort letter on the unaudited interim financial statements of a mutual fund when the interim financial statements were incorporated by reference at the time a final simplified prospectus is filed, (see Appendix A to NP 43-201 and paragraph 8.5(2) 3 of OSC Rule 41-502.), many funds have structured the renewal (or "lapse") date of a prospectus so that the final simplified prospectus and annual information form can be filed and become effective prior to the deadline for filing the fund's semi-annual interim financial statements. This avoids the need for an auditor's review of the interim financial statements.</p> <p>The commenter believed that should the CSA require quarterly financial statements, there would be a wave of renewal prospectuses to be filed in the first quarter of the year (December 31 being a typical fiscal year end) to avoid needing an auditor's review of a mutual fund's first quarter interim financial statements. This commenter suggested the CSA consider either deleting the auditor's comfort letter requirement from the list of renewal prospectus requirements or expanding the continuous disclosure requirements to require an auditor's review of the semi-annual interim financial statements.</p> <p>In this commenter's opinion, the latter option would be consistent with the comparable requirements for interim financial statements filed by an issuer making a continuous distribution of securities under National Instrument 44-102.</p>	<p>There are no longer quarterly management reports. There has been no change to the auditor review requirements. The CICA Handbook section 7110 now advises that an auditor should perform review procedures established in the CICA Handbook when unaudited financial statements are included in an offering document.</p>

Issues	Comments	Responses
<i>The New Concept of "Investment Fund"</i>	One commenter raised concerns about the fact the Rule introduced the concept of "investment funds" into regulation for the first time and believed this to be premature. The commenter acknowledged that the OSC was, in consultation with industry participants, undertaking a review of the manner in which pooled investment vehicles were regulated and that this review included a consideration of whether regulation of "investment funds" was an appropriate approach. The commenter suggested that the implementation of a new disclosure regime await the outcome of the industry consultations.	The investment fund definition is already in the <i>Securities Act</i> (Ontario). Depending on the jurisdiction, the Rule either exempts pooled funds from all requirements, or carves them out of a number of filing provisions.
<i>Other comments by for Further Regulatory Requirements</i>	<p>The following are identified as areas for further regulatory requirements by different commenters:</p> <ol style="list-style-type: none"> <li>1. One commenter underscored the importance of securing the independence of fund auditors from those of the parent firm, when applicable, since the fund investors are quite distinct from the parent firm (e.g. a bank).</li> <li>2. One commenter raised concerns about the lack of close match between fund names, fund holdings and the designated benchmark index. Accordingly, the commenter proposed that funds be required to have at minimum, 80 percent of their holdings in assets of certain character as suggested by the fund name.</li> <li>3. One commenter suggested that news releases, email alerts or special mailings advising of fund mergers, acquisitions, name changes, changes in fee structure, auditor changes and manager changes be made within forty-eight hours.</li> <li>4. One commenter suggested that funds be required to have available, upon request, key fund metrics, such as standard deviation, Beta and Sharpe ratio.</li> <li>5. One commenter would like to see a breakout of dividend and interest income, as this is important for tax purposes and planning.</li> <li>6. One commenter stated that investors, especially highly taxed</li> </ol>	<p>This is not the CSA's role.</p> <p>This is a NI 81-102 issue. This Rule deals with disclosure only.</p> <p>Most securities legislation, and NI 51-102 require 10 days for a material change. We are not prepared to move away from this standard at this time.</p> <p>The Rule establishes minimum standards. We are not prepared to make this a requirement</p> <p>See Form 81-106F1.</p> <p>This Rule maintains the current performance calculation,</p>

Issues	Comments	Responses
	<p>ones, would benefit from being provided with the calculation of <i>after-tax</i> fund returns based on median Canadian tax rate or maximum Ontario marginal tax rate.</p> <p>7. One commenter suggested that notes to annual financial statements include dollar amount and percentage of total brokerage commissions paid to related parties and affiliates.</p> <p>8. One commenter indicated that an asterisk should flag conflicted portfolio holdings. (The commenter explained that a conflict could arise because of work performed, such as corporate financing, by a parent or an affiliated company over the previous two years.)</p> <p>9. Based on numerous investor surveys, one commenter suggested that those investors who could not see the potential for conflicted (“linked“) advice and the impact of trailers on the MER of the Canadian mutual funds would benefit from the visible and highlighted disclosure of trailers paid.</p>	<p>which is total return. At this time we are not considering after tax returns.</p> <p>The annual information form currently requires disclosure of brokerage arrangements with related or affiliated entities and methods of allocating brokerage business to such entities. The Rule requires disclosure of the dollar amounts of commissions paid.</p> <p>Conflicts of Interest will be the subject of a separate project.</p> <p>An investment fund must include the breakdown of MER, including trailers, in the notes to the Financial Statements.</p>

## NOTICE OF PROPOSED NATIONAL INSTRUMENT 81-106 AND COMPANION POLICY 81- 106CP

### LIST OF COMMENTERS

ADP Investor Communications  
Alternative Investment Management Association  
Altamira Investment Services Inc.  
Allan R. Gregory  
Alastair Farrugia  
Association for Investment Management and Research  
Association of Canadian Pension Management  
Association of Labour Sponsored Investment Funds  
BMO Mutual Funds  
BMO Nesbitt Burns  
BMO Harris Private Banking  
Barclays Global Investors  
Canadian Bankers Association  
Canadian Imperial Bank of Commerce  
Canadian Life and Health Insurance Association Inc.  
Canadian Printing Industries Association  
Capital International Asset Management  
Cathy Mullen  
Clarington Funds  
Christie Stephenson  
Fiducie Desjardins  
Fédération des caisses Desjardins du Québec  
Elliot & Page  
Ethical Funds Inc  
Ethical Investors Group  
Fidelity Investments Canada Limited  
Fonds de Solidarité des travailleurs du Québec  
Fondaction CSN  
Guardian Group of Funds Ltd  
Hartford Investments Canada Corporation  
Highstreet Asset Management Inc.  
Howson Tattersall Investment Counsel Limited  
Investment Funds Institute of Canada  
Interpraxis Consulting  
Jennifer Northcote  
KPMG - National Assurance and Professional Practice  
Lisa Hayles  
McLean Budden  
Mackenzie Financial Corporation  
MD Funds Management Inc.  
Moir Hutchinson  
PFSL Investments Canada Ltd.  
Pesda  
Phillips, Hager & North Investment Management Ltd.  
Polar Securities Inc.  
Ronald Robbins  
Rosseau Asset Management Ltd.  
RESP Dealers Association of Canada  
Scholarship Consultants of North America Ltd.

Shareholder Association for Research and Education

Small Investor Protection Association

Social Investment Organization

Stikeman Elliot

Sylvie Boustie

TD Asset Management Inc.

Working Opportunity Fund

(Stated support of IFIC's comments on the Proposal): Fidelity, Desjardins, Altimira, CBA, GGOF, CIAMC, PFSL, BMO –NB, BMO-HP, BMOMF, CIBC