APPENDIX D

COMPANION POLICY 81-106CP-
TO NATIONAL INSTRUMENT 81-106
INVESTMENT FUND CONTINUOUS DISCLOSURE
AMENDMENT INSTRUMENT

1. Section 2.1 of Companion Policy 81-106CP *Investment Fund Continuous Disclosure* is amended by repealing subsection (1).

2. Section 2.9 of Companion Policy 81-106CP *Investment Fund Continuous Disclosure* is repealed.

3. Part 9 of Companion Policy 81-106CP *Investment Fund Continuous Disclosure* is amended by

   (a) striking out the heading "PUBLICATION OF NET ASSET VALUE PER SECURITY" and substituting the heading "NET ASSET VALUE"; and

   (b) by adding the following after section 9.1:

      "**9.2 Fair Value Guidance –** Section 14.2 of the Instrument requires an investment fund to calculate its net asset value based on the fair value of the investment fund's assets and liabilities. While investment funds are required to comply with the definition of "fair value" in the Instrument when calculating net asset value, they may also look to the Handbook for guidance on the measurement of fair value. The fair value principles articulated in the Handbook can be applied by investment funds when valuing assets and liabilities.

      9.3 Meaning of Fair Value – The Handbook defines fair value as being the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Accordingly, fair value should not reflect the amount that would be received or paid in a forced transaction, involuntary liquidation or distress sale.

      9.4 Determination of Fair Value

         (1) A market is generally considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices reflect actual and regularly occurring market transactions on an arm's length basis.

(2) A market is not considered to be active, and prices derived from it may be unreliable for valuation purposes, if, at the time the investment fund begins to calculate its net asset value, any of the following circumstances are present:

- markets on which portfolio securities are principally traded closed several hours earlier (e.g. some foreign markets may close as much as 15 hours before the time the investment fund begins to calculate its net asset value)
- trading is halted
- events occur that unexpectedly close entire markets (e.g. natural disasters, power blackouts, public disturbances, or similar major events)
- markets are closed due to scheduled holidays
- the security is illiquid and trades infrequently.

If an investment fund manager determines that an active market does not exist for a security, the manager should consider whether the last available quoted market price is representative of fair value. If a significant event (i.e. one that may impact the value of the portfolio security) has occurred between the time the last quoted market price was established and the time the investment fund begins to calculate its net asset value, the last quoted market price may not be representative of fair value.

(3) Whether a particular event is a significant event for a security depends on whether the event may affect the value of the security. Generally, significant events fall into one of three categories: (i) issuer specific events – e.g. the resignation of the CEO or an after-hours earnings announcement, (ii) market events – e.g. a natural disaster, a political event, or a significant governmental action like raising interest rates, and (iii) volatility events – e.g. a significant movement in North American equity markets that may directly impact the market prices of securities traded on overseas exchanges.

Whether a market movement is significant is a matter to be determined by the manager through the establishment of tolerance levels which it may choose to base on, for example, a specified intraday and/or interday percentage movement of a specific index, security or basket of securities. In all cases, the appropriate triggers should be determined based on the manager's own due diligence and understanding of the correlations relevant to each investment fund's portfolio.

9.5 **Fair Value Techniques** – The CSA do not endorse any particular fair value technique as we recognize that this is a constantly evolving process. However, whichever technique is used, it should be applied consistently for a portfolio security throughout the fund complex, reviewed for reasonableness on a regular basis, and approved by the manager's board of directors. The manager should also consider whether its valuation process is a conflict of interest matter as defined in NI 81-107.

9.6 **Valuation Policies and Procedures** – The valuation policies and procedures should describe the process for monitoring significant events or other situations that could call into question whether a quoted market price is representative of fair value. They should also describe the methods by which the manager will review and test valuations to evaluate the quality of the prices obtained as well as the general functioning of the valuation process.".

4. Section 10.1 of Companion Policy 81-106CP *Investment Fund Continuous Disclosure* is amended by

(a) striking out "of all types" in subsection (2); and

(b) repealing subsection (4) and substituting the following:

"While brokerage commissions and other portfolio transaction costs are expenses of an investment fund for accounting purposes, they are not included in the MER. These costs are reflected in the trading expense ratio."

5. Appendix B of Companion Policy 81-106CP *Investment Fund Continuous Disclosure* is amended by

(a) striking out the title "CONTACT ADDRESSES FOR FILING OF NOTICES" and substituting the title "CONTACT ADDRESSES";

(b) in the address for the Alberta Securities Commission, striking out "Attention: Director, Capital Markets" and substituting "Attention: Corporate Finance";

(c) striking out the address for the Manitoba Securities Commission and substituting the following:

> "Manitoba Securities Commission
> 500 – 400 St. Mary Avenue
> Winnipeg, Manitoba
> R3C 4K5
> Attention: Corporate Finance"; and

(d) striking out "Securities Commission of Newfoundland and Labrador" and substituting "Newfoundland and Labrador Securities Commission".

6. This Instrument comes into force on ____________.