



ASSOCIATION FOR
INVESTMENT MANAGEMENT
AND RESEARCH®

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19 December 2002

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Securities Administration Branch, New Brunswick
Office of the Attorney General, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Government of Yukon
Registrar of Securities, Legal Registries Division, Department of Justice, Government of
Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
and

Denise Brosseau, Secretary
Commission des valeurs mobilières du Québec
Stock Exchange Tower
800 Victoria Square
P.O. Box 246, 22nd Floor
Montréal, Québec H4Z 1G3

**Re: Proposed National Instrument 81-106 and Companion Policy 81-106CP
Investment Fund Continuous Disclosure, and Form 81-106F1 Contents
of Annual and Quarterly Management Reports of Fund Performance**

Dear Sirs and Mesdames:

The Canadian Advocacy Committee (CAC) of the Association for Investment Management and Research (AIMR)¹ is pleased to respond to the request for comments on the CSA's proposed

¹ With headquarters in Charlottesville, VA, and regional offices in Hong Kong and London, the Association for Investment Management and Research® is a non-profit professional organization of over 60,000 financial analysts, portfolio managers, and other investment professionals in more than 100 countries of which 48,000 are holders of the Chartered Financial Analyst® (CFA®) designation. AIMR's membership also includes 118 affiliated societies and chapters in 29 countries. AIMR is internationally renowned for its rigorous CFA curriculum and examination program, which has more than 100,000 candidates from 143 nations enrolled for the June 2002 exam. Over 7,700 AIMR members live and work in Canada.

National Instrument (NI) 81-106 regarding the continuous disclosure requirements for investment fund companies. The CAC represents members of AIMR and its 11 Member Societies and Chapters across Canada. The CAC membership includes portfolio managers and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada.

General Comments

The CAC supports strongly the CSA's proposed NI 81-106, which enhances the current financial reporting system by requiring *evergreen*, or continuously updated, financial and nonfinancial information about investment funds. Moreover, we commend the CSA in its approach to having a national instrument for the requirements and regulations regarding continuous disclosures in Canada's capital markets. Users (investors, creditors, and regulators) need timely and relevant information about a fund's financial performance to make well-informed and appropriate investment decisions. We believe that today's technology, e.g., online real time computer applications and the Internet, enables investment fund companies to record and report timely financial information to a wide group of users – current and potential investors and/or their investment advisors.

Comments on Specific Questions Proposed by the CSA

1. Management Reports of Fund Performance

Proposed Part 6 of NI 81-106 requires all investment funds that are reporting issuers to prepare, file and make available to those who request it, a quarterly management report of fund performance. The purpose of the quarterly management report of fund performance is to provide up-to-date information about the fund to current and prospective investors and to advisers and dealers who analyze funds and recommend them to their clients. It is expected that the quarterly management reports of fund performance will be approximately two pages in length. Since quarterly updated financial information will be available in the quarterly management report of fund performance, it is proposed that NI 81-101 be amended to remove the financial highlights, top 10 holdings and performance data from the simplified prospectus.

The CSA invites comments as to whether the quarterly management reports of fund performance will achieve the goals that they are intended to achieve. Should there be more or less frequent disclosure of fund performance information and why? Should there be quarterly reporting for all investment funds? Does the proposed type of information allow an investor or an adviser to make informed investment decisions?

We believe strongly that the proposed management reports of fund performance will provide useful and relevant information to current and potential investors of investment funds, and/or their investment advisors. Quarterly reports, providing material changes in key financial

information and performance data since previously reported periods, are also very useful in making well-informed investment decisions. Much of the financial and performance information is readily available because most investment funds have to produce daily net asset values (or NAV) and therefore, there should be minimal cost to producing the information needed to explain the performance of the fund. In addition, fund managers perform transactions daily that directly affect the performance of the fund, such as rebalancing the portfolio to accommodate daily purchases and redemptions of funds or certain changes in investment policies and strategies. In other words, funds are generally managed based on day-to-day activities and thus, the proposed frequency of reporting should not be overly burdensome.

2. Financial Statements

The purpose of the annual and interim financial statements of an investment fund is to communicate information that is useful to investors, advisers and other users in making their investment allocation decisions and/or assessing management stewardship. The users of an investment fund's financial statements include: investors, advisers and dealers, financial analysts, management, regulators and creditors. A key characteristic of financial statements is comparability. With over 2000 investment funds in Canada, investors and advisers need to be able to compare the financial information of different types of investment funds. A certain level of detail within the financial statements is considered necessary to assist comparability and consistency of financial information.

The CSA invites comment on whether the financial statement requirements set out in the proposed Rule meet the needs of the users of the financial statements? Does the amount of detail provided in the proposed National Instrument assist with the preparation, consistency and comparability of the financial statements? Is the proposed National Instrument too detailed? Is more detail or specific direction necessary? 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?

We support strongly the quarterly reporting of investment funds' financial statements and management's discussion of fund performance (or MDFP). Moreover, we believe information is most useful when it is disseminated quickly, fairly, and widely to enable all users to comprehend and assess the fund's performance in relation to their investment objectives. Such dissemination of information supports efficient capital markets. Additionally, the security transactions initiated by large institutional investors, such as investment funds and pension funds, often have significant impact on the capital markets through the allocation and concentration of capital in particular business sectors and industries.

We support standardization in the presentation of financial information because it improves consistency and promotes comparability between investment vehicles, either for investment

funds or individual stocks and bonds issued by reporting companies. AIMR has established standards for reporting investment performance, the Global Investment Performance Standards (GIPS) and AIMR-PPS (Performance Presentation Standards). GIPS and AIMR-PPS were developed to provide an ethical framework for the calculation and presentation of the investment management firm. Currently, these Standards are accepted widely throughout Canada, U.S. and other countries around the world. The overarching principle of these Standards is to provide investors, prospective investors, and investment advisors with comparable data representing a firm's past performance needed to properly compare, evaluate, and select the appropriate investment. We believe strongly in a similar approach in reporting investment fund performance.

With regard to the MDFP, we believe that there should be certain information required to make sure that the appropriate areas regarding investment funds are discussed and explained, such as results of operation, performance, risks, recent events and developments, as well as forward-looking information. However, we realize that strict or rigid guidelines for disclosure could have a negative effect in promoting "boilerplate" or "legalese" format for disclosures, which often results in less meaningful and insightful information about the financial condition and performance of an investment fund. Therefore, a balance needs to be established that promotes transparent and meaningful financial information through plain English, comprehensive disclosures and MDFPs.

We believe that the proposed contents for annual and interim financial statements of an investment fund provide very useful and necessary information for making a well-informed investment decision and support strongly the following requirements outlined in the proposal:

2.3 Contents of Annual Financial Statements

(1) The annual financial statements of an investment fund shall contain,

- (a) a statement of net assets as at the end of the most recently completed financial year of the investment fund and a comparative statement of net assets as at the end of the immediately preceding financial year;*
- (b) a statement of operations for the most recently completed financial year of the investment fund and a comparative statement of operations for the immediately preceding financial year;*
- (c) a statement of investment portfolio as at the end of the most recently completed financial year of the investment fund;*
- (d) a summary of portfolio investments as at the end of the most recently completed financial year of the investment fund, prepared in accordance with Item 3 of Form 81-106F1;*
- (e) if required by the Handbook to be prepared, a statement of cash flows for and as at the end of the most recently completed financial year of the investment fund and a comparative statement of cash flows for the immediately preceding financial year;*

- (f) if a statement of cash flows is not required by the Handbook to be prepared, a statement of changes in net assets for the most recently completed financial year of the investment fund and a comparative statement of changes in net assets for the immediately preceding financial year;*
- (g) a statement of financial highlights prepared in accordance with Form 81-106F1; and*
- (h) notes to the annual financial statements.*

(2) *An investment fund shall file an auditor's report on the financial statements filed under subsection (1).*

3.3 Contents of Interim Financial Statements - The interim financial statements of an investment fund shall contain,

- (a) a statement of net assets as at the end of the most recently completed interim period of the investment fund and a comparative statement of net assets as at the end of the corresponding period in the immediately preceding financial year;*
- (b) a statement of operations for the most recently completed interim period of the investment fund and a comparative statement of operations for the corresponding period in the immediately preceding financial year;*
- (c) a statement of investment portfolio as at the end of the most recently completed interim period of the investment fund;*
- (d) a summary of portfolio investments as at the end of the most recently completed interim period of the investment fund, prepared in accordance with Item 3 of Part B of Form 81-106F1;*
- (e) if required by the Handbook to be prepared, a statement of cash flows for and as at the end of the most recently completed interim period of the investment fund and a comparative statement of cash flows for the corresponding period in the immediately preceding financial year;*
- (f) if a statement of cash flows is not required by the Handbook to be prepared, a statement of changes in net assets for the most recently completed interim period of the investment fund and a comparative statement of changes in net assets for the corresponding period in the immediately preceding financial year;*
- (g) a statement of financial highlights prepared in accordance with Item 2 of Part B of Form 81-106F1; and*
- (h) notes to the interim financial statements.*

3.4 Review of Interim Financial Statements - The persons referred to in each subsection of section 2.4, as applicable, shall review the interim financial statements of the investment fund before those financial statements are filed or

made available to holders, or potential purchasers, of securities of the investment fund.

3. Disclosure of Risk and Volatility

Investors and advisers require information to assess the risk of an investment. The proposed management reports of fund performance would include disclosure of how material or significant changes to the investment fund have affected the overall level of risk associated with an investment in the fund. The concepts of risk and volatility are also reflected in the required disclosure of financial highlights, performance data and the summary of the investment portfolio.

The CSA invite comments on whether alternative methods of disclosing risk and volatility should be used. For example, should there be disclosure of the fund's best and worst quarter returns or disclosure of the correlation of the fund to a benchmark index? Is there additional disclosure that would provide useful information to the investors and advisers?

We support strongly the disclosure of financial data and information, which highlights the performance and risks associated with the investment fund. This information facilitates the analysis and assessment of whether an investment fund is an appropriate investment for an investor given his or hers risk tolerance, time horizon and other investment needs. However, to be useful comparisons between investment funds, such information must be presented in a consistent and meaningful way. Therefore, we support strongly the CSA's proposal to have a standard approach to reporting performance data, such as total rate of return, expense ratios and other operating and financial ratios.

Our experiences with regimes that are not structured, which do not require standardized calculations for performance and financial data, often enable and allow practices that hinder comparability and accuracy of these data. With the rapid globalization of capital markets and growth of the investment industry, there is a heightened need for consistent, globally accepted standards for calculation and presentation of investment performance.

Closing Remarks

We appreciate the opportunity to comment on these CSA proposals to improve continuous disclosure of investment fund's financial statements and other supplemental information, such as the management's report of fund performance. If you have any questions or seek elaboration of our views, please do not hesitate to contact Georgene Palacky at 1.434.951.5334 or gbp@aimr.org.

Sincerely,

/s/ David L. Yu

/s/ Georgene B. Palacky

CAC Letter to the CSA
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