

December 23, 2002

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland
Registrar of Securities, Northwest Territories
Registrar of Securities, Government of the Yukon Territory
Registrar of Securities, Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
e-mail: jstevenson@osc.gov.on.ca

Denise Brosseau, Secr taire
Commission des valeurs mobili res du Qu bec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montr al, Qu bec H4Z 1G3

Dear Sirs and Mesdames:

Re: Request for Comment – National Instrument 81-106 – Investment Fund Continuous Disclosure

We are writing to provide our comments on the proposals put forward in the above document.

We are not convinced that there are compelling reasons to superimpose the more onerous continuous disclosure regime for public companies on a mutual fund. Most mutual funds report their net asset value per unit on a daily basis and we are not aware of any widely followed “consensus estimates”

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for the earnings of mutual funds. Having said this, we are content to let those in the investment community speak to whether there is a compelling need for quarterly financial reporting within 45 days of the end of the quarter.

The attached appendix sets out a few observations and recommendations for consideration by the commissions.

Yours very truly,

A handwritten signature in cursive script that reads "Alan Van Weelden". The signature is written in black ink and is positioned above the typed name.

Alan G. Van Weelden, Senior Principal
National Assurance and Professional Practice

Subsection 3.3(a)

The required comparative statement of net assets is stated as being “as at the end of the corresponding period in the immediately preceding financial year”. This appears to be a drafting error because CICA Handbook paragraph 1751.16(a) requires 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 states: “...investment funds must ensure that interim financial statements comply with both Section 1751 of the Handbook and the Instrument.”

Quarterly versus Semi-annual Interim Financial Statements

In proposing a requirement to file quarterly management reports of fund performance without a corresponding requirement to file quarterly financial statements, the CSA may already have recognized certain implications of Section 1751 of the Handbook for the preparation and presentation of quarterly financial statements. For example, we believe Section 1751 would require the income statement (or statement of operations) and the cash flow statement (or statement of changes in net assets) to include statements for the current quarter and the fiscal year to date, as well as for the comparable interim periods (current and year to date). This Handbook requirement alone would present a significant reporting burden to a mutual fund. As indicated in our covering letter, there would have to be compelling evidence of the need for this information in order to justify changing the interim financial statement requirements from a semi-annual basis to a quarterly basis.

Part 7 - Specific Financial Statement Requirements

We strongly oppose including these accounting requirements in the National Instrument. Each of sections in Part 7 gives “short shrift” to the topic covered and does not provide an adequate foundation for interpretation and application of the requirements. By comparison, securities lending arrangements and repurchase agreements are addressed in considerable detail in Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. We encourage the CSA to work with the CICA to develop appropriate Canadian accounting guidance in these areas.

We appreciate the present need for comparability in the accounting and disclosures of these items in mutual fund financial statements. As an interim measure, we suggest 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.

Interaction of NI 81-106 with Distribution Requirements

An auditor's comfort letter on the unaudited interim financial statements of a mutual fund is required when the interim financial statements are incorporated by reference at the time a final simplified prospectus is filed. (Appendix A to NP 43-201 and paragraph 8.5(2)3 of OSC Rule 41-502.)

However, a comfort letter is not required on the interim financial statements filed by the fund (pursuant to the existing continuous and timely disclosure requirements) subsequent to the filing of the final simplified prospectus. In order to avoid the need for an auditor's review of the interim financial statements, many funds structure 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. If the CSA concludes that quarterly financial statements should be filed, we would expect a wave of renewal prospectuses to be filed in the first quarter of the year (December 31 being a popular choice for a fiscal year end) in order to avoid the need for an auditor's review of a mutual fund's first quarter interim financial statements. Aside from the burden this "wave" would impose on the staff of the CSA members, the CSA should 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. 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.