

July 27, 2004

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, 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

c/o Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
C.P. 246, 22^e étage Montréal, Québec
H4Z 1G3

Ladies and Gentlemen:

**Re: Notice and Request for Comment
Changes to Proposed National Instrument 81-106 Investment Fund Continuous
Disclosure, Form 81-106F1 And Company
Policy 81-106CP Investment Fund Continuous Disclosure (Second Publication) and
Related Amendments**

We have read the above documents and provide you with our comments on them in this letter. Capitalized terms in this letter have the same meaning as these in the documents except as otherwise indicated.

We support the introduction of National Instrument 81-106 and the Companion Policy for Investment Fund Continuous Disclosure. We believe that this National Instrument will further harmonize reporting and disclosure by investment funds with Canadian Generally Accepted Accounting Principles (“GAAP”), and lead to greater comparability of financial information among investment funds. However, based on our comments below, we believe there are a number of significant issues which need to be either clarified or resolved before the Proposed National Instrument comes into effect.

Proposed National Instrument 81-106 **Investment Fund Continuous Disclosure**

Part 2.3 Notes to Financial Statements

- This part requires disclosure of the notes to the interim financial statements, however it is not clear to us whether it requires a full set of notes or whether the principles of paragraph 14 of Section 1751 of the CICA Handbook should be followed. We suggest that this be clarified in Part 2.3.

Part 2.6 Acceptable Accounting Principles

- Paragraph (2) requires that “The financial statements of an investment fund must be prepared in accordance with the same accounting principles for all periods presented”. In recent years The Canadian Institute of Chartered Accountants has issued new accounting recommendations where retroactive restatement is not required (e.g. Accounting for goodwill and stock options). We suggest that item (2) be clarified such that the same accounting principles need not be used where a change in accounting principles is the result of a new accounting recommendation where retroactive restatement is not required.
- Paragraph (3) states that “The notes to the financial statements of an investment fund must identify the accounting principles used to prepare the financial statement”. We suggest that the words “significant accounting policies” be used in place of principles.

Part 3.1 Statement of Net Assets

- This part requires the statement of net assets to be presented at current value. However, there is no guidance as to how this is to be applied to liabilities. For example, if a closed end fund has bank indebtedness at a fixed interest rate and interest rates at the date of the presentation of the statement of net assets are different from the contractual rate, unless the banking agreement provides for an adjustment to the rate, the fund should be presenting this liability at its face value. We believe that additional guidance may be required for liabilities, or that the requirement to present current values be limited to only assets or investments.

Part 3.2 Statement of Operations

- This item does not contain any concept of materiality for disclosure purposes, such that any amount, even a trivial amount, would need to be disclosed as long as it fell within one of the captions in this item.

The Securities Act (Part IV Ontario Reg. 1015 Section 83(1) contains a requirement to disclose certain items as well as any item representing 5% or more of total revenues or expenses, Section 85(1) contains a similar requirement for the balance sheet. This provides preparers of financial statements and their auditors with a guideline for when an item is material and should be separately disclosed. We suggest that this guideline of 5% be retained and applied to all of the separate line item disclosures in item 3.2 as well as to any other item that exceeds 5% of total revenues.

- This part does not require the disclosure of net earnings per security. While we believe that the recent introduction of Section 1100 of the CICA Handbook, GAAP will require most funds to disclose net earnings per security, we suggest that if it is the intent of the proposed National Instrument, for funds to disclose this measure, then part 3.2 should specifically require its disclosure.

Part 3.5 Notes to Financial Statements

- Paragraph 4 of this Part requires the disclosure of “details of the total commissions paid to dealers by the investment fund for its portfolio transactions during the period reported on, including dollar amounts of commissions paid and soft dollar transactions and Paragraph 5 of this Part requires the disclosure of “the basis for calculating the management fees paid by the investment fund and a breakdown of the services received in consideration of the management fees, as a percentage of the management fees”.

With respect to these required disclosures, the effort required to audit these disclosures in the financial statements could be considerable. Moreover, the auditors of a fund are often not the auditors of a manager and may not have access to or the ability to audit the information being disclosed. We suggest that consideration be given to requiring these disclosures outside of the (body of the) audited financial statements.

Part 3.11 Incentive Arrangements - Disclosure of the Current Value of an Incentive Arrangement or Compensation

- This part requires the statement of net assets to disclose the current value of such arrangements or compensation. GAAP currently requires an accrual to be made when the definition of a liability is met, which will depend on the arrangement with the manager or investment advisor. Unless the intention is to require recording such arrangements in the statement of net assets whether or not the GAAP definition of a liability is met, this part should be clarified.

Part 7.5 Multiple Class Investment Funds -Preparation of Separate Financial Statements for Multiple Series of Securities Outstanding

- Part 7.5(1) states that an investment fund that has more than one class of securities outstanding that is referable to a single portfolio may prepare separate financial statements. Since many funds contain multiple series of securities which invest in the same portfolio, we question why this would be allowed under the proposed National Instrument, since a shortfall

in one series of security may have to be assumed by the other. Allowing the preparation of separate financial statements per series may be misleading under the circumstances.

Part 8 Independent Valuations of labour Sponsored Investment Funds (“LSIFs”)

- This part states that LSIFs that obtain independent valuations for their funds will have to file them publicly along with the valuator’s consent. It is not clear to us whether there will be a requirement to obtain independent valuations annually or periodically or whether this part only deals with those circumstances where a valuation is obtained voluntarily by an LSIF. If this part is introducing a new requirement for annual independent valuations of LSIF’s, this will create significant additional costs for LSIFs. If this part is intended to require the filing of an independent valuation where an LSIF chooses to obtain one, this part should be clarified. Also, if an LSIF is required to file an independent valuation which it has sought to obtain voluntarily, this may inhibit LSIFs from seeking independent valuations if they know these will have to be filed.
- Our understanding is that many LSIFs have not obtained independent valuations of the fund. Rather, many of them are obtaining confirmations of net asset values as a by-product of the annual audit process. It is not clear to us if these confirmations are meant to be filed publicly under the requirements of part 8 of the proposed National Instrument. Our view is that they should not be filed publicly as they are not valuations and the scope of the work done as well as the purpose of the confirmation may be misunderstood by a third party who is not familiar with the purpose and background of the confirmation.
- Further, while requiring the filing of a valuation which has been independently obtained, the proposed National Instrument does not contain any guidelines as to the scope of the valuator’s work nor does it contain any guidelines as to the wording of the report to be provided by the valuator.
- Part 8.3 requires “a description of the compensation paid or to be paid to the valuator.” Unless there is a new requirement for annual independent valuation of LSIFs, we do not believe this disclosure will provide meaningful information as the related work is a by-product of the annual audit process.
- We believe that these issues are significant and should be clarified prior the proposed National Instrument comes into effect.

Part 15 Calculation of Management Expense Ratio

- Paragraph 15.1 (1) of this part states that “an investment fund may disclose its management expense ratio only if the management expense ratio is calculated for the financial year or interim period of the investment fund”.
- In the current National Instrument 81-102, the management expense ratio computation is an annual computation based on total expenses per GAAP, with no references to interim

periods. Part 15(1) refers to interim periods with the requirement to annualize these calculations when an interim period is presented.

- Our concern is that even with the annualization requirement, there could be significant fluctuations in the management expense ratio if annualized for an interim period. For example, performance fees could significantly impact an interim calculation. We suggest that only annual management expense ratio calculation be provided for in Part 15.

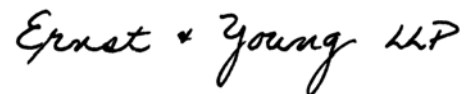
Part 15.2 Fund of Funds Calculation

- Our view is that the MER should be calculated using the expenses of the top fund only, as the expenses of the underlying fund are already reflected in that fund's performance and, ultimately, in the top fund's performance. Also, the top fund has no decision-making power over the expenses incurred by the bottom fund(s)

Companion Policy Part 4.3

- This part requires that sales commissions be expensed as incurred. Our understanding is that the Emerging Issues Committee of the CICA is studying this topic and is expected to issue a pronouncement. Our view is that this policy should be revised to require that sales commissions be treated in accordance with GAAP.

Yours sincerely,



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