IFIC
THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA
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BY MAIL AND ELECTRONIC MAIL

August 4, 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

Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
Attn: John Stevenson, Secretary

- and -

Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
C.P. 246, 22e étage Montréal, Québec H4Z 1G3
Attn: Anne-Marie Beaudoin, Directrice du secretariat

Dear Sirs/Mesdames:

Re: Changes to Proposed National Instrument 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106")

We are writing to provide the comments of The Investment Funds Institute of Canada ("IFIC") and its members on the changes to proposed NI 81-106 released, for comment by the Canadian Securities Administrators ("CSA")[1]

IFIC is the national association of the Canadian investment funds industry. IFIC's membership includes fund managers representing nearly 100% of the $476.1 billion in mutual fund assets under management in Canada[2], retail distributors of investment funds and affiliates from the legal, accounting and other professions.

1. General

The last version of NI 81-106 was published for comment on September 20, 2002[3]. In response to the accompanying CSA request for comments, IFIC made a submission on December 23, 2002 that canvassed the views and concerns of the industry in detail.

Our members appreciate the changes that the CSA have made to NI 81-106 and thank the CSA for being responsive to industry comment.

Our members do, however, have outstanding concerns. The most significant of these are set out below. We have also provided detailed comments on a section by section basis in a Table of Comments that is attached as Appendix "A" to this letter.

2. Overview of Areas of Greatest Concern

Filing Deadlines for Annual/Interim Financial Statements

Section 2.2 of NI 81-106 states that *the annual financial statements and auditor's report required to be filed under section 2.1 must be filed on or before the 90th day after the investment fund's most recently completed financial year.* Section 2.4 states that *the interim financial statements required to be filed under section 2.3 must be filed on or before the 45th day after the end of the most recent interim period of the investment fund.*

We continue to be concerned with these shortened filing deadlines. As we indicated in our 2002 submission to the CSA, preparing and reviewing financial statements is already difficult under the existing time periods. The current 60 day filing deadline for interim financial statements, in particular, results in significant challenges to successful delivery.

The CSA is proposing that all interim reports, including the financial statements and the Management Reports of Fund Performance ("MRFP") be approved by the manager/trustee or board. This will require additional time for review and approval as all of this information must be subject to multiple reviews and approvals, printed in English and French and mailed within this time period.

[1] On May 28, 2004 at 27 OSCB 5235 (2004).
[2] As at June 30, 2004 – source IFIC Member Statistics.
[3] At 25 OSCB 6281 (2002).

We appreciate that the CSA has tried to accommodate industry time pressures by providing a "transitional year" where the filing requirements will be 120 and 60 days respectively. However, our members continue to be of the view that the time frames proposed will place significant strain on the fund complexes and ask that the CSA treat investment funds in a similar manner to venture issuers, as defined in National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102")[4]. The CSA has already recognized that smaller issuers may have fewer resources available for financial statement preparation and less access to auditing services than larger issuers. Investment funds face very similar issues to venture issuers, primarily due to the fact that investment fund managers must prepare statements for many funds concurrently. Appendix "A" to this letter sets out the issues relating to preparation, review and approval and filing in greater detail.

Requiring our members to produce financial disclosure in a shorter period of time will render the delivery of these statements very difficult, will increase costs and will create an environment in which a decline in the quality of review of these statements will be inevitable. None of these outcomes, in our view, is conducive to enhanced investor protection.

We therefore strongly recommend that the CSA maintain the 60 day filing deadline for interim financial statements, the interim MRFP, and the quarterly portfolio disclosure; and amend the filing the deadline to 120 days for the annual financial statements and the annual MRFP.

Binding of Financial Statements and Management Reports of Fund Performance

Section 7.4(3) (Binding of Financial Statements and Management Reports of Fund Performance) notes that *an investment fund may not bind its management report of fund performance with the management report of fund performance for another fund.*

We continue to believe that this requirement is too prescriptive and we still do not understand what problem the CSA is trying to correct. We urge the CSA to allow MRFP's to be bound together.

The requirement in this section would also preclude the consolidation of the annual and semi-annual MRFP of each fund with those of other related funds (having the same manager or portfolio advisor) and would also not allow these reports to be bound together for the purposes of delivery.

The CSA advises that it has imposed these requirements to ensure that the MRFPs for funds do not become generic commentaries, and to avoid investors receiving a 'telephone book'. However, in some cases, these requirements will produce the opposite results.

[4] At 27 OSCB 3439 (2004)

For example, where an investor holds a foreign equity fund and the RSP clone version of the same fund, that investor would receive two MRFPs (each approximately 4 pages long in the case of the Annual MRFP, according to the CSA's estimate), notwithstanding the fact that the two funds are invested in or exposed to the same investment portfolio.

We recommend, *at a minimum*, that the CSA consider allowing funds to combine the discussion of risk, trends, *etc*. in one MRFP where this discussion pertains equally to the funds covered in the MRFP, noting that the Financial Highlights tables and performance graphs could appear separately in the same MRFP. If necessary, fund managers could tailor their comments with respect to specific funds within the same commentary, using, for example, language such as the following: "Given these trends, we expect to reduce the exposure of Fund A to the resource sector, but increase the holdings of Fund B in certain oil producers".

Permitting this flexibility would better achieve the CSA's goal of facilitating comparisons between funds, while reducing the time and costs associated with preparing the MRFPs. The overall size of MRPFs sent to clients (especially those holding several funds having similar mandates) would also be reduced and this would result in a corresponding reduction in the costs of mailing and delivery.

Management Reports of Fund Performance

The CSA have moved away from the quarterly reporting requirements originally contemplated by NI 81-106 and investment funds that are reporting issuers are now required to prepare and file management reports annually and semi-annually each year. Although we appreciate the CSA's move away from a quarterly reporting requirement, our members, particularly smaller fund managers, continue to have concerns with respect to the resources that will be required to produce semi-annual MRFPs.

The MRFP is expected to provide financial highlights for the fund, supplementing the fund's full, traditional financial statements, for the past year. It must highlight significant changes from the last annual management report, including material impacts on performance and any changes to fund risk.

Preparing a meaningful MRFP in accordance with Form 81-106F1 – *Contents of Annual and Interim Management Report of Fund Performance* ("Form 81-106F1") will be a labour intensive exercise that will require a combined effort from a firm's portfolio managers, sub-advisors, financial, and marketing departments. Our members anticipate that the preparation of the MRFP will require significant resources, particularly from small proprietary fund managers. Additional costs will be incurred in producing the MRFP and should not be underestimated. The CSA anticipates that these costs will be offset by a reduction in costs to produce the financial statements. However, funds will still have to bear the cost of preparing, printing and distributing the MRFPs and these costs will be further increased by the fact that NI 81-106 also proposes to require a separate report for each fund, without the option of combining information for similar funds.

Appendix "A" to this submission sets out in greater detail a number of issues that we have identified with respect to Part 4 of NI 81-106.

Delivery of Financial Statements and Management Reports of Fund Performance

According to our understanding, the intent of the CSA in Part 5 of NI 81-106 is to reconcile the conflicting delivery obligations of NI 81-106 and National Instrument 54-101 - *Communication with Beneficial Owners of Securities of a Reporting Issuer* ("NI 54-101") by allowing an exemption from the requirements of NI 54-101 if the requirements of Part 5 of NI 81-106 are followed.

NI 81-106 now proposes that an investment fund will send financial statements to investors in accordance with instructions received or deemed to have been received from investors. These instructions may come from standing instructions obtained the first time an investment fund accepts a purchase order from an investor after NI 81-106 comes into force or from a solicitation of current investors for standing instructions as to the delivery of these documents going forward.

We suggest that investors be permitted to elect on the basis of all funds managed by the same fund manager, rather than providing the option to receive different documents for different funds held in the same fund complex. Not only will this help to manage costs, it is our experience that investors are unlikely to have different reporting needs for funds within the same fund complex. In addition, we suggest that the election be sent to investors concurrently with another scheduled mailing in order to reduce costs to the funds.

The requirement for an individualized reminder notice will generate significant expenses including the cost to extract and merge relevant data into customized mailings, the cost of programming systems to retain the standing orders, especially if there are multiple options beyond yes/no. The industry would also incur unnecessary costs for extracting investor selections for customized reminder mailings and the first mandated mailing of the MRFP.

While we are of the view that a requirement to remind clients each year that they can change their election is reasonable, requiring funds to indicate a client's current election in a reminder notice would be onerous and expensive (customized mailings being more expensive to produce than generic mailings). We therefore suggest that a 1-800 number or alternate means of contacting the fund be used so that clients can determine their current election.

We remind the CSA of the results of the annual elections made to date by investors that have been filed on SEDAR in accordance with the current exemption orders. On average, less than 5 percent of investors have requested the delivery of financial statements.

Proxy Voting

Section 10.2 sets out the requirement to establish proxy voting policies and procedures. Section 10.4(2) would, in part, require investment funds to deliver these policies and procedures *free of charge to any investor of the fund upon request by the investor more than 60 days after the end of the period to which the proxy voting record pertains*. We believe these to be reasonable requirements. Section 10.4(2) would also require the delivery of the fund's proxy voting record (as detailed in section 10.3(1)(a)-(i)).

There is a lack of consensus amongst our members as to whether the information set out in the proxy voting record, as currently proposed by the CSA, is desired by and material to the buy, hold and sell decisions of the average Canadian investor.

The experience of most of our members has and continues to demonstrate that the overwhelming majority of their investors do not request information that is available on request. These members interpret a lack of demand for information that is available upon request as disinterest on the part of their investors in the information and therefore believe that the cost (that would be borne by all investors) and effort that would be required to compile and make the proxy voting record available (to a small minority of interested investors) is not justified.

The majority of our members are also of the view that the lack of demand that they interpret as disinterest on the part of their investors with respect to proxy voting information has been acknowledged by the CSA in the recent amendments to section 2.5 of National Instrument 81-102 – Mutual Funds ("NI 81-102")[5]. Section 2.5 of NI 81-102 now provides a manager with the discretion to pass through voting rights attached to securities of a related underlying mutual fund, if it so chooses, so that beneficial holders of the mutual fund can vote those securities themselves. In addition, these members also believe that the fact that investors holding securities through intermediary accounts can request not to receive proxy materials (or materials dealing only with so-called 'routine' matters) under NI 54-101 underscores the CSA's recognition of the general disinterest by the investing public in this information. These members also note that the CSA has dropped the current requirement to deliver a Statement of Portfolio Transactions on request, and has acknowledged that investors also do not request this type of detailed information.

However, we acknowledge that interpreting a lack of investor demand for proxy voting information as significant disinterest on the part of investors for this information, is a view that is not shared by all of our members.

A small number of our members strongly believe that the compiling and provision of a proxy voting record to investors is necessary and part of a fund manager's fiduciary duty. These members consider the lack of demand for this information on the part of the investing public to be a product of a general lack of awareness and understanding as to the fact that proxy voting occurs, its significance and that the results of proxy voting

[5] NI 81-102, section 2.5(6). Amendments to NI 81-102 were approved by the Minister of Finance on December 9, 2003.

could be made available to investors. These members believe that investors need to be better educated with respect to the fact that exercising proxies is one of the responsibilities that investors delegate to the mutual fund manager and also with respect to the types of decisions that are covered by proxy votes.

In our view, it is important that the CSA avoid adopting proxy voting disclosure requirements that ignore the experience and perspective of any part of our membership or that would not be flexible enough to allow for the accommodation of business practices that are based on actual investor requests for information.

We encourage the CSA not to render the compiling of a proxy voting record or the requirements of section 10.4(2) as they pertain to the delivery of this record, mandatory. This approach would acknowledge the experience of the majority of our members, while providing them with the ability to revisit and amend their practices in a manner that best accommodates investor demands for information, should these demands change over time.

This approach would also not hinder those of our members who currently provide proxy voting information to their investors from continuing to do so and would, moreover, allow them the flexibility to determine how to most efficiently aggregate this information so as to provide meaningful disclosure to their investors.

Change of Auditor Disclosure

Section 13.2 states that *an investment fund must not change its auditor unless it complies with section 4.11 of National Instrument 51-102 Continuous Disclosure Obligations as if that section applied to the investment fund.*

The CSA have now proposed to apply the extensive requirements of section 4.11 (Change of Auditor) of NI 51-102 to investment funds. We note, however, that the CSA have not proposed to remove the existing requirement for investor approval for a change of auditor as set out in section 5.1(d) of NI 81-102.

The CSA have indicated that the issue of investor approval for a change in auditor is outside the scope of NI 81-106[6]. We respectfully disagree. The CSA have already made conforming changes to both NI 81-102 and National Instrument 81-101 – Mutual Fund Prospectus Disclosure ("NI 81-101") to accommodate NI 81-106. We encourage the CSA to eliminate the requirement for investor approval upon a change in auditor as currently set out in section 5.1(d) of NI 81-102 by addressing this issue in NI 81-106 and providing investment funds with the ability to change auditors without the need for investor approval.

[6] Page 33, Appendix B (Summary of Public Comments on Proposed National Instrument 81-106 and Companion Policy 81-106CP) to CSA Notice and Request for Comment on Changes to Proposed National Instrument 81-106 – Investment Funds Continuous Disclosure (May 28, 2004).

We note that on March 25th of this year, a fund complex applied for and was granted exemptive relief by the CSA from the requirement to obtain investor approval when changing the auditors of the funds, provided that the change was approved by all of the members of an independent review committee that was established from the existing Board of Governors to review and consider the decision to change the auditors of the funds[7]. In our view, with respect to the issue of changing auditors without the need for investor approval, NI 81-106 represents an ideal opportunity for the CSA to adopt and formalize for the industry the new approach and thinking that are clearly reflected in the exemptive relief granted to these funds.

3. In Closing

The CSA has contemplated an ambitious timeline for the implementation of NI 81-106. However we remind the CSA that NI 81-106, as proposed, will require the majority of our members to make many significant operational changes to render their practices capable of being compliant with the requirements of NI 81-106.

Accordingly, we encourage the CSA to consider extending the transitional period beyond one year or adopting an effective date for fiscal years beginning on or after January 1, 2005.

We thank the CSA for the opportunity to provide comments on this important initiative. Should you have any questions with respect to this submission, please do not hesitate to contact either Anne Ramsay, Vice-President, Internal Audit (AGF Management Limited) and Chair of IFIC's NI 81-106 Working Group at (416) 865-4173 / anne.ramsay@agf.com or Aamir Mirza, Legal Counsel, Regulation (IFIC) at (416) 363-2150 x 295 / amirza@ific.ca.

Yours truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

ORIGINAL SIGNED BY JOHN W. MURRAY

By: John. W. Murray
Vice President, Regulation & Corporate Affairs

AM/am

Encls.

[7] Order of the OSC (Via SEDAR Only) issued on March 25, 2004 (Application No. 250/04).

Appendix "A" - Table of Comments

NI 81-106 - Section	Comments
Part 1 – Definitions	
1.1 – Definitions	"management fees" - definition is too restrictive, list of excluded expenses is not complete, many other expenses aren't management fees (*e.g.* investor reporting, trustee fees, etc.). We suggest that this definition be amended to read: "management fees" means the total fees paid or payable by an investment fund to its manager or one or more portfolio advisers, including incentive or performance fees, but excluding *operating expenses*.
1.1 – Definitions	"net asset value" - GAAP currently does not require that long term liabilities of an investment fund be carried at fair value. Requiring the fair valuation of long term liabilities might conflict with GAAP in certain cases, such as in the valuation of mortgage properties held by real estate funds and preferred shares of exchange traded funds. We suggest that the reference to long term liabilities be removed. Further, we note the following for the CSA's information: In July 2004 the Accounting Standards Board ("AcSB") published for comment a Re-Exposure Draft titled Financial Instruments, Recognition and Measurement, Section 3855. Subject to comments received following re-exposure, the AcSB proposed to issue new Handbook Section 3855, FINANCIAL INSTRUMENTS which currently indicates the following requirements relating to the valuation of financial assets and liabilities: .53 When a financial asset or financial liability is recognized initially, an entity should measure it at its fair value (except as specified for certain related party transactions…), plus, in the case of a financial asset or financial liability other than one classified as held for trading, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. .64 After initial recognition, an entity should measure all financial liabilities at amortized cost using the effective interest method, except for financial liabilities that are classified as held for trading. After initial recognition, an entity should measure financial

	liabilities that are classified as held for trading, including derivatives that are liabilities, at fair value. Financial liabilities that are designated as part of a hedging relationship are also subject to measurement in accordance with the hedge accounting requirements in HEDGES, paragraphs 3865.38-.47.
Part 2 – Financial Statements	
2.2 / 2.4 – Filing Deadline for Annual/Interim Financial Statements - General	The shortened timelines will: • Place a strain on audit resources, as there are a finite number of auditors with expertise in the investment fund area. • Place a strain on design and printing resources, as there are a limited number of designers and printers with expertise and capacity in producing financial statements. • Place a strain on translation service resources, as there are a limited number of translation services with expertise and capacity in producing financial statements. • Any delay in production schedule (audit, translation, layout) will delay final printing, as printing queue position will be lost. • Our members have concerns over the quality of the presentation of information. A shorter production time could increase the likelihood that not all errors will be caught, which will compromise the quality of the report and adversely impact client service. • With the shortened timeframe for the delivery of interim financial statements, incorporating board approval will make it more difficult to achieve the deadlines. • With respect to fund on fund relationships, there is a reliance on the preparation of the financial statements of the underlying fund. The underlying fund financial statements would therefore have to be prepared, reviewed, approved and provided to the top fund in time to enable the top fund to meet the 45 day deadline. Even with large reductions in print quantities the increased costs will be greater than the benefits of providing investors with financial information at an earlier date. We ask that the current filing deadlines for interim financial statements be maintained at 60 days. We also ask that the filing deadlines for annual financial statements be amended to 120 days to be consistent with the filing

	timelines for venture issuers under NI 51-102. Investment funds have similar, if not more, issues related to the preparation, review/approval and printing of financial statements that venture issuers have and ask that the timelines be consistent with this group of filers.
2.9 – Change in Year End	This section (and section 2.7(3) of the Companion Policy) now requires that for the transition year, the comparative periods in the financial statements be the corresponding months from the prior year. This requirement could result in funds having to redo their financial statements for the prior year (for example, in the case where a fund changes its financial year-end from Dec 31st to Sept 30th). Currently, funds are permitted to provide comparative financial statements for the current year (9 months, in a transition year) along with 12 months of the prior year. This provision appears to require that funds redo the financial statements for the prior year to cover the same 9 month period. We ask that the CSA preserve the current ability of funds to provide comparative financial statements for the current year (9 months, in a transition year) along with 12 months of the prior year.
2.11 – Exemption and Requirements for Mutual Funds that are Non-Reporting Issuers	The obligation to deliver financial statements to investors is set out in section 5.5(1), and the timing of that delivery is in section 5.4(1): *An investment fund must send the documents referred to in subsection 5.1(1) to registered holders or beneficial owners no later than ten days after filing those documents.* Considering these requirements of Part 5, we are of the view that NI 81-106 is unclear on the timing of delivery to investors of financial statements of mutual funds which are non-reporting issuers pursuant to the exemption in section 2.11(1)(b) of NI 81-106. In circumstances where the fund will be delivering financial statements (*i.e.* not relying on either standing instructions or annual instructions not to deliver), the timing of the obligation to deliver under Part 5 is within ten days of filing. Where the fund does not file its financial statements, arguably the time does not start to run. We are of the view that the rule should be amended to provide that the financial statements must be sent either ten days after the filing, or for funds which are exempt from filing pursuant to section 2.11 of the rule, ten days after the day on which the financial statements would have been required to be filed if the exemption was not available.
2.12(2) – Disclosure of	We ask that the CSA clarify the situation where a comfort letter may be required for a prospectus filing but

Auditor Review of Interim Financial Statements	where the review of the interim statements was carried out, not during the period prior to filing the interim financial statements, but rather at a different time, in conjunction with the filing of a simplified prospectus (i.e. a review in order to obtain a comfort letter on the interim financial statements)? We also suggest that the CSA provide formats for notices (so as to identify what general content would be expected in a notice for a circumstance in which a review has not been carried out).
Part 3 – Financial Disclosure Requirements	
3.1 – Statement of Net Assets	We ask that the CSA clarify the following: If short term debt instruments are aggregated with cash and term deposits as a line item on the statement of net assets, and not listed on the statement of investment portfolio, is there any requirement to separately report the short term debt instruments by currency? Our view is that, at most, the distinction should be between domestic or reporting currency and foreign currencies. We ask the CSA to bear in mind that a requirement to separately report short term debt by each currency is onerous, could result in lengthy disclosures and does not, in our view, provide commensurate additional value.
3.1 – Statement of Net Assets	We ask that the CSA clarify the following: Is there is no requirement to disclose total net assets by series/class for multiple class funds (*i.e.* are only net asset value per security is required)?
3.2(1) – Statement of Operations	The line items in the Statement of Operations, as proposed, make no reference to earnings per share disclosure ("EPS"). We note that EPS disclosure is a GAAP requirement for investment funds that are listed or quoted on an exchange and suggest that the CSA clarify the requirement in the instrument and Companion Policy, by using the more informative title of "increase or decrease in net assets per security by class, if applicable".
3.2(1) 11. – Statement of Operations	Investor information costs should be referred to as "Securityholder reporting costs" to avoid confusion with expenses for information systems or technology (IS or IT); Prospectus filing fees and other associated costs with producing the simplified prospectus annually are agreed to be period costs, but have not been identified as a separate line item. We suggest that this figure is at least as material (if not more) as audit fees or legal fees and should be segregated from Investor information/reporting costs.
3.3 (3. & 4.) –	We ask the CSA to clarify whether there is any requirement to disclose proceeds from issuance, amounts paid

Statement of Changes in Net Assets	on redemption and distributions by series or just in total for the fund. (see separate point on conceptual issues with multi-class fund disclosures)
3.3 6. – Statement of Changes in Net Assets	We suggest to the CSA that terms be made consistent with the tax nature of distributions/dividends as GAAP / tax differences are such that a taxable capital gain could occur and be distributed, but no gain is realized for GAAP purposes. We suggest the wording be: "distributions, showing separately the amount out of taxable income, taxable capital gains and return of capital"
3.3 6. – Statement of Changes in Net Assets	A fund cannot show breakdown of distributions between net investment income, realized gains and return of capital for interim financial statements, as these amounts cannot be finalized until the fund's tax year-end. As a consequence, this sort of disclosure can only be done for annual financial statements with a December 31 year-end.
3.5(6) – Statement of Investment Portfolio	Quantity per underlying option is not standardized, therefore, this requirement prohibits meaningful aggregation. We suggest deleting the words "per option" from "the quantity of the underlying interest"
3.6(1) 4. – Notes to Financial Statements	This section requires details of the total commission paid to dealers by the investment fund for its portfolio transactions during the period reported upon, including dollar amounts of commissions paid and soft dollar transactions. Having to disclose soft dollars in addition to total commission paid is redundant. Access to information at third party advisors as well as the ability to verify/audit this information is limited. This section would require arbitrary allocation of transactions to a specific fund. In its responses to comments, the CSA (on page 24 of Appendix B to the Notice and Request for Comment) indicates its belief 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.* Thus the per fund soft dollar transactions would be estimated by subtracting from the total amount paid to a broker the usual market rate for commissions normally charged by that broker. However, this method of estimating per fund soft dollar transactions does not contemplate any 'preferential pricing' of trades based on volume that does not otherwise involve soft dollar services provided by the broker to the manager.

	We recommend that the CSA adopt other disclosure (outside of the financial statements) to accomplish the goal of this section (*i.e.* require in the MRFP disclosure of the percent of soft dollar transactions to total brokerage transactions for the fund manager). This would remove audit issues associated with verifying data from sources other than the books & records of the fund. We also ask the CSA to generally clarify what information relating to soft dollar transactions is to be disclosed. We note that the required disclosure appears to be on a fund by fund basis - does it also require specific dealer disclosure? The CSA should also provide a definition of what transactions are considered to be soft dollar transactions for the purposes of NI 81-106.
3.6(1) 5. – Notes to Financial Statements	Providing a breakdown of services provided in exchange for management fees in audited financial statements may require auditor access to information not contained in the fund's books and records. While we do acknowledge that fund auditor access to these books and records may not be necessary as auditors can be provided with a signed confirmation/verification of the information required, we wish to point out that this will increase the cost to the fund in terms of preparation time and out of pocket costs. We ask the CSA for guidance as to how detailed this disclosure would have to be, particularly with respect to the information that is to be disclosed relating to the breakdown of the "services received in consideration of the management fee, as a percentage of management fees". Would this requirement include listing trailer fees, DSC commissions paid, portfolio advisory fees, etc? Also, would profit be imbedded into each type of service provided or a separate component? If this amount were allocated, it would likely be a very arbitrary allocation as a manager's records likely do not capture profit for each specific service. Allocation to each fund in percent terms would be arbitrary, based on fund group totals and average management fee rates (*i.e.* managers typically do not track expenses/profits on a fund by fund basis). We also ask the CSA to clarify what goal it is trying to achieve with this section and to consider either removing this requirement entirely or reconsidering this section with a view to determining if there is a more

	appropriate place and format for this disclosure.
3.6(1) 6. – Notes to Financial Statements	We are of the view that a requirement to disclose any fees or expenses paid by manager in the notes is too broad. We ask that the CSA clarify the following: What information is to be disclosed relating to amounts waived? Will this section require a listing of expense items and related dollars? We note that this would be very difficult, and subject to judgment on a firm by firm basis. We note, as a consequence, that there would likely be significant inconsistencies among fund companies as to what is disclosed. If a manager chooses to pay for certain expenses rather than for example soft dollar the expense (which does not require disclosure of 'soft dollar services' provided), would this need to be disclosed?
3.6(2) – Notes to Financial Statements	We ask that the CSA clarify the term "borrowing" as the term borrowing could include accounts payable for trades pending settlement. This section would raise issues for funds which engage in significant borrowing activities (*e.g.* Real Estate Funds hold properties that usually entail mortgage financing). We believe that the requirement to provide disclosure of borrowings in *both* MRFP and financial statements is overbroad for a fund that would have to disclose terms of 60+ mortgages. This disclosure would overshadow other material elements in both documents. We recommend that this disclosure be only in the MRFP as disclosure on borrowings is already in financial statements for GAAP purposes and should not be repeated in the MRFP.
3.7 – Inapplicable Line Items	The CSA note in their response to comments (page 9 of Appendix B to the Notice and Request for Comment) *"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."* While we can understand the CSA's concern, we would like to point out that certain information may be so small that it is not meaningful to report it. We suggest that the CSA reintroduce the 5% "threshold" currently in the Regulations to the *Securities Act* (Ontario). We suggest that this section be amended as follows: "… or for which the line item is less than 5% of total revenue or expense, as applicable.

3.11(2) – Incentive Arrangements	We assume that the requirement in this section is to disclose the expense from incentive arrangements separately. We note that the expense is composed of amounts paid and changes in payables (the current wording of the section only captures change in payables). We suggest that this section be amended to read as follows: "The statement of operations of an investment fund must disclose changes in the amount referred to in subsection (1) *together with amounts paid under the incentive arrangement(s) during the period as a separate line item.*"
Part 4 – Management Reports of Fund Performance	
General	There is a contradiction between the risk disclosure requirements, including NI 81-106's discussion as to what is material in Form 81-106F1, and the definition of material or significant change. If changes to a fund's risk are material or significant and could affect the suitability or risk tolerance stated in the prospectus, an investor should be informed of such a change when it occurs. This would allow the investor to determine whether or not this change is material to his/her personal circumstances. Informing the investor through the MRFP would not be appropriate. Furthermore, it takes away from the intent of providing investors with "continuous disclosure". Additionally, any major change in the risk of the fund is likely to have an impact on the fund's objective, which cannot be changed without investor approval.
General	We appreciate that the purpose of the MRFP is for the investment fund to discuss its financial situation in the context of past performance and anticipated future events and that this necessarily involves forward looking statements. We understand that the CSA expects an explanation of past events, decisions, circumstances and performance in the context of whether they are reasonably likely to have a material impact on potential future performance. However, we are concerned that this discussion could be incorrectly interpreted and relied upon as market prediction by the average Canadian investor**.** We recommend that the CSA remove the requirement for forward looking statements. However, if this requirement is preserved we strongly encourage the CSA to amend the section so as to be consistent with the language in *Form 51-102F1* paragraph (g) of Part 1 General Instructions and Interpretation. (g) We also find a conflict between the comments of the CSA that forward looking information is now optional and the instructions in Form 81-106F1 following item 2.5.

General	The MRFP can cover multiple series of the same fund, but once this approach is adopted the fund would be required to explain in notes to the financial statements or MRFP if the fund changes its approach (subsection 3.4(2) of the Companion Policy). We believe that there should be some flexibility in terms of preparation of financial statements and MRFPs. Paragraph 7.5(1)(b) is too restrictive if it contemplates that the MRFP must include all classes, rather than some classes, of the same fund. We ask the CSA to recognize that the same fund may be sold through different distribution channels, and that some classes may be common to one channel (i.e. a load class and a no-load class) where it makes sense to consolidate classes, but other classes of the same fund may be restricted to other channels. In our view the wording in paragraph 7.5(1)(b) should be changed to read "…combine the information relating *to some or* all of the classes or series…". Section 7.4(3) would require that separate MRFPs be done for each Fund and that the MRFPs of different funds *not be bound together* into one document. The CSA indicates (on page 28 of Appendix B to the Notice and Request for Comment) that they *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 note that this view of the CSA may defeat the goal of producing concise and comparable disclosure in situations where fund mandates and holdings are identical (*i.e.* RSP clone funds and their underlying funds) or similar. Requiring a separate MRFP for each fund will also greatly inflate costs. The funds of some of our members have multiple classes and although the funds are allowed some flexibility with respect to the decision to consolidate or not to consolidate information pertaining to different classes within the same MRFP[1], from a programming standpoint it will likely prove difficult for our members to segregate different classes into separate MRFPs for each client. Our members expect that the MRFP for each fund could include: two Financial Highlights Tables (Part B, Item 3); a Past Performance bar graph (Part B, Item 4.2) and an Annual Compound Return table (Part B, Item 4.3) for each class per fund. We expect that

[1] As set out in NI 81-106, section 7.5 (Multiple Class Investment Funds) of NI 81-106 and NI 81-106CP, section 3.4(2) (Auditor's Report – Multiple Class Funds).

	this will considerably lengthen the MRFP. Please see our additional comments in the discussion of Form 81-106F1 (below)
General	We request that the CSA consider the unique situation with respect to fund of fund arrangements where a top fund has fixed allocation among a number of mutual funds. Where a manager of a top fund has no discretion as to the allocation of the underlying assets it is expected that the top fund's MRFP will be identical to that of the underlying fund. We do not believe that this type of disclosure would be meaningful to the investor and may defeat the actual purpose of MRFP, which is to provide the investor with clear, concise and meaningful disclosure and to avoid large books of information.
Part 5 – Delivery of Financial Statements and Management Reports of Fund Performance	
General	We ask that the CSA clarify the language of this section (in particular paragraph 5.4(5)(4)) to make it clear that previously issued instructions from clients, under NI 54-101 can be relied upon. In addition, we ask that the CSA clarify the transition requirements of this section in relation to annual requests made under previously issued exemption orders.
General	We ask the CSA to clarify whether Elections should be yes/no per client per information type and reporting period for each fund complex, but not by fund. NI 81-106CP paragraph 2.6(2)(c) - Prohibition from going back to an annual solicitation after moving to a standing order is too restrictive. Systems issues, data conversions, technology advances, cost issues, *etc.* might combine to produce a situation where it is either impossible or simply not in the best interests of the investors to continue with standing orders.
5.2(3) – Sending According to Standing Instructions	The requirement to send initial standing order solicitation within 3 months of effective date (*i.e* by March 30 2005) is too prescriptive. This timeline may not be compatible with reporting periods, or concurrent with organizations' ability to begin capturing all new client standing orders. For example, some funds have a September 30 year end. Under section 18.5 (Initial Delivery of Annual Management Report of Fund Performance), funds must send all clients the initial MRFP. For funds with

	September 30th year ends, the first MRFP will not be required until the period ending Sept 30, 2005. However, this requirement is not consistent with the standing order solicitation under subsection 5.2(3) as it is currently drafted. We suggest that subsection 5.2(3) be drafted so as to allow for mailings that coincide a fund's pre-existing mailing schedule.
5.2(9) – Sending According to Standing Instructions	Subsection 2.6(5) of the Companion Policy advises that this notice can be sent electronically, or combined with other notices, or sent with a client statement. The provision does not indicate how specific this annual reminder needs to be, so presumably it can be generic. However, in its responses to comments (page 19 of Appendix B to the Notice and Request for Comment), the CSA indicate that the annual reminder must advise clients of their existing election on file. The CSA response to comments on this issue would seem to contemplate that the notice must indicate whether the client currently receives the annual financial statements, semi-annual financial statements, annual MRFP or interim MRFP, or any combination thereof. We wish to point out to the CSA that this would require an enormous amount of work as the notice would have to be programmed separately for each individual client. We think that the requirement to remind clients each year that they can change their election is reasonable. However, requiring funds to indicate their current election in a reminder notice would be onerous and expensive (customized mailings are more expensive to produce than generic). We therefore suggest that a 1-800 number or alternate means of contacting the fund manager be used so that clients can determine their existing election by calling the fund manager. We ask that the CSA review section 2.6 of NI 81-106 CP to ensure that the discussion clarifies the CSA views on whether the required notice can be generic or must be specific to each client.
5.3(3) – Sending According to Annual Instructions	In the case of annual instructions, the required dates for sending response forms are very confusing. The requirement to send with the first communication in the financial year (*i.e.* with the client's first account statement of the year which would normally be sent out within 30 days of year end) would likely result in sending the instruction form prior to the client receiving the prior year's financial statements. This would be almost 90 days before the client received the financial statements for the prior year (which, in our view, would be confusing to investors). We recommend leaving the timing of the annual instruction solicitation to the funds and that subsection 5.3(3)

	be amended to so as to allow for mailings that coincide with the fund's pre-existing mailing schedule (this will allow funds to control unnecessary costs). If giving clients sufficient response time is a concern of the CSA, that issue should be specifically addressed (*e.g.* by the CSA stipulating a minimum response window of 21 days before non-response can be deemed as "no"). The CSA should also address what should be done for persons who become clients after the annual mailing of instructions solicitation but before the mailing of the next financial report. We note that the requirements of subsection 5.2(4) would essentially require the equivalent of a standing order system. We are of the view that the CSA should rectify this as we see no reason for the requirements of subsection 5.2(4) to be automatically extended to section 5.3.
Part 6 – Quarterly Portfolio Disclosure	
General	We note that the standing/annual instructions for delivery in Part 5 do not extend to Quarterly Portfolio Disclosure, but that Quarterly Portfolio disclosure is specifically mentioned in paragraph 7.2(1)(d). Do the CSA expect that standing order/annual instructions for delivery would also apply to quarterly portfolio disclosures, or would clients also have to specifically and separately request that information? Would delivery be required within 10 days of posting this information to a website if standing/annual orders are available? If the CSA does not consider it necessary to include Quarterly Portfolio Disclosure as part of standing delivery instructions applicable to MRFP, why is it necessary to include a reference to this point in the MRFP? We ask the CSA for clarification on the following: for fund on fund holdings the instructions in Form 81-106F1, Part B Item 5, Instruction 9 require disclosure that states that information about the underlying funds is available on SEDAR. However, the quarterly disclosure is not required to be filed on SEDAR. While our members appreciate the CSA's recognition of industry concerns over predatory trading, they reiterate their view that the 60 day timeline for disclosure of portfolio holdings should be maintained.
Part 7 – Financial Disclosure	
General	The prohibition against binding management reports of fund performance will essentially require all funds to

	distribute documents on a client specific basis (*i.e.* only send the statement which the client holds). The only alternative is to mail a ream of unbound paper to clients. If the CSA wish the industry to move to client specific mailings of only the funds that the client held at the period end, this should be explicitly stated. We wish to remind the CSA that binding of management reports serves useful purposes for distributors and other users who wish to see multiple funds in one comprehensive document (rather than trying to go through numerous pages of unbound documents). Subsection 7.4(1) provides that the financial statements of one fund cannot be 'intermingled' with information relating to another fund. In its Responses to Comments (page 28 of Appendix B to the Notice and Request for Comment), the CSA advises that *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.* This prohibition would raise significant concerns for many fund complexes as it would require that the Statement of Net Assets for each fund be done separately, increasing production cost significantly. An inability to bind the MRFP together for each fund will result in significant difficulties when these documents are filed on SEDAR. Typically, financial statements for funds are bound by family into one book. Given the current restriction against binding the MRFPs together, it would appear a single combined MRFP document for the family cannot be filed on SEDAR (*i.e.* separate filings would be required). It will be very difficult to keep track of each fund's individual MRFP and also file it on SEDAR for each fund individually.
7.2(2) – Documents Available on Request	Subsection 7.2(2) and subsection 5.4(1) appear to have different deadlines for the provision of required documents to investors. Subsection 5.4(1) provides that a fund must send documents to registered holders or beneficial owners no later than 10 days after filing those documents. However, if an investor specifically requests the document, the deadline, pursuant to subsection 7.2(2) is the later of the filing deadline of the document requested and 10 days after the receipt of the request. We recommend that the delivery requirements of subsection 7.2(2) be amended to mirror those of subsection 5.4(1)

7.4 / 7.5 – Binding of Financial Statements and Management Reports of Fund Performance / Multiple Class Investment Funds	We suggest allowing for similar funds to be grouped together *i.e.* money market funds and RSP clone funds with underlying funds. The proposed format for binding is not practical for funds sold as part of a mutual fund wrap or sold on a discretionary basis as part of a client's overall investment portfolio.
7.5 – Multiple Class Investment Funds	We understand that the CSA's intent was to codify the current practices for multiple class/series of funds. However we have concerns that this goal may not have been achieved. We suggest that there be a third alternative presentation which would allow the presentation of groups of series in separate packages (not just singly or with all options) See our general comments pertaining to Part 4 above. Our general comments to Part 4 should also be taken as applying to the proposed financial statement disclosure requirements of NI 81-106. These comments are reproduced here for convenience: The MRFP can cover multiple series of the same fund, but once this approach is adopted the fund would be required to explain in notes to the financial statements or MRFP if fund changes its approach (subsection 3.4(2) of the Companion Policy). We believe that there should be some flexibility in terms of preparation of financial statements and MRFP's. Paragraph 7.5(1)(b) is too restrictive if it contemplates that the MRFP must include all classes, rather than some classes, of the same fund. We ask the CSA to recognize that the same fund may be sold through different distribution channels, and that some classes may be common to one channel (i.e. a load class and a no-load class) where it makes sense to consolidate classes, but other classes of the same fund may be restricted to other channels. In our view the wording in paragraph 7.5(1)(b) should be changed to read "…combine the information relating *to some or* all of the classes or series..".
Response to comment on multi-class presentation (Previous section 4.5, - Statement	In response to a request for clarification as to whether it would be acceptable to summarize security activities for several classes of funds together, the CSA noted as follows: *"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***

of Change in Net Assets). CSA Response to Comments (Page 24 of Appendix B to the Notice and Request for Comment)	***different for each class, such as the statement of operations, must be separated.*"** [emphasis added]. It is our understanding that the CSA was attempting to codify current practice regarding multi-class funds. However, we do not believe that the CSA has achieved this goal. Currently, financial statements of multi-class entities are generally provided in one of two ways: (1) by the whole fund, or (2) separately by class or groups of classes. In either case, the Statements of Net Assets, Operations and Changes in Net Assets are almost identical (the whole fund's results are presented in all cases). The only difference between whole fund statements and class specific versions is the presentation of other information such as MER and performance. When all classes are combined, all class specific MER, performance, etc. is disclosed. When separate statements are issued by class, the MER and performance for only that class is presented. If the CSA wishes to require the provision of information on the varying results by class, we submit that this is already achieved by the requirement to disclose in the notes the material differences between classes (3.6(1) 3.), to calculate separate MERs and through the discussion of performance by class and financial highlights by class in the management report.
Part 10 – Proxy Voting Disclosure for Securities Held	
10.2 – Requirement to Establish Policies and Procedures	The Companion Policy speaks of the fund manager's obligation to vote proxies. For circumstances in which an investor can only vote or withhold from voting (where one can't vote against a particular issue), it would be more correct to say that the fund manager's obligation is to exercise the voting right. Exercising voting rights is only one aspect of acting in the best interests of the fund investor. It may be that earning revenue from securities lending outweighs the exercise of voting rights in some cases. In securities lending, the proxy voting right accrues to the borrower. Unlike section 10.3, which speaks to proxies "received", the Companion Policy (and paragraph 10.2(2)(d) of NI 81-106) speak to "the fund's securities", or "securities held by the fund". It may be appropriate to recognize securities lending in the Companion Policy and to distinguish between securities held by the fund and securities for which proxies are received.
10.2(2)(d) –	This section reads: *"the establishment of procedures to ensure that **securities** held by the investment fund are*

Requirement to Establish Policies and Procedures	*voted in accordance with the instructions of the investment fund"* [emphasis added] Should this not read "proxies" held by the fund instead of "securities"
10.4(2) – Preparation and Availability of Proxy Voting Record	The timing of the proposed disclosure coincides with the interim reporting period for funds with a calendar year end: this will represent an additional burden to those funds that are already working under an extremely tight timeline to produce other documents during the same time period. We suggest that this timing be either flexible or sometime within the fund's third quarter.
10.4(2) – Preparation and Availability of Proxy Voting Record	An investment fund must promptly deliver or send a copy of the investment fund's proxy voting policies and procedures and proxy voting record, free of charge, to any investor of the investment fund upon a request made by the investor **more than 60 days after the end of the period to which the proxy voting record pertains. [emphasis added]** We ask that the CSA clarify that if an investor makes a request for the proxy voting policies, procedures and proxy voting record **more than 60 days** after the end of the period to which the proxy voting record pertains, the fund is obliged to deliver the **current year's** proxy voting record in response to the investor's request. However, if an investor makes a request for the proxy voting policies, procedures and proxy voting record **less than 60 days** after the end of the period to which the proxy voting record pertains, the fund would deliver the **previous year's** proxy voting record in response to the investor's request.
10.4(2) – Preparation and Availability of Proxy Voting Record	The Proxy Voting Record must be compiled on a per fund basis. Consolidating the voting record for the same issuer if held by more than one fund in the same fund family may not be practical if portfolio managers of different funds vote independently. Compiling this information into a consolidated record could also be difficult where external portfolio advisors are involved who vote independently of the manager (especially on routine matters when they follow the fund's Proxy Voting Policy). Likewise, this task would be more daunting where a fund employs a 'multi-manager' approach pursuant to which each portfolio advisor is responsible for a different segment of the fund's portfolio.
Part 11 – Material Change Reports	
11.2(1) – Publication of	We note that, in the case of a Material Change Report that is filed on a confidential basis, section 7.1 of the

Material Change	Companion Policy provides that the fund must notify all insiders of the prohibition against trading until the Material Change Report is made public. We question whether this is appropriate for funds other than exchange traded funds, given that the NAV per unit is based on the market value of fund holdings. If the CSA maintains the prohibition on trading during the 'confidentiality' period, it would be helpful to have better guidance on the definition of 'insider' as it pertains to a mutual fund. For example, if a fund has several portfolio advisors, and a decision is made to terminate one advisor, are all of the other advisors (who have no knowledge of the pending termination) deemed to be insiders?
Part 13 – Change of Auditor Disclosure	
Requirement for investor consent in NI 81-102	As a result of section 13.2 of NI 81-106 as proposed, the extensive requirements found in section 11.4 of NI 51-102 regarding changing the auditor now apply to funds. Despite these new requirements, it does not appear that the requirement for investor approval in subsection. 5.1(d) of NI 81-102 has been eliminated. We note that, in March, the CSA granted an exemption for a group of funds to change auditors without investor approval, provided that the change was approved by all members of an Independent Review Committee. The CSA indicates that a change of this nature is outside the scope of NI 81-106. We disagree. The CSA has made conforming changes to both NI 81-102 and 81-101 to accommodate NI 81-106. In our view, NI 81-106 is an excellent opportunity to formalize the new approach adopted by the CSA as evidenced by the exemptive relief that the regulators are now prepared to grant. Since the auditor issue has already been published for comment in proposed NI 81-107, we suggest that this may not necessarily be an onerous change if the change is included in NI 81-106.
Part 14 – Calculation of Net Asset Value	
14.2 – Calculation, Frequency and Currency	Subsection 14.2(6) as proposed indicates that the Net Asset Value Per Unit ("NAVPU") must be calculated in U.S. or Canadian dollars or both. We read this restriction as preventing the launch of a Euro money market fund, whose NAVPU is calculated in Euros. We think that this requirement should be amended so that there is one NAVPU (per security) per fund and it

	must be calculated in the reporting currency of the fund (which is usually Canadian dollars). If alternate currencies are also quoted, the basis for that calculation should be disclosed in the prospectus, AIF and financial statements (generally these are simply the reporting currency NAVPU converted to U.S. dollars at the present day's exchange rate). Future redemptions are done at the future reporting currency NAVPU converted at the foreign exchange rate at time of redemption. This is different from foreign denominated funds that execute their operations in a foreign security and thus do have a different foreign exchange risk profile. Investors should not be misled about the extent of foreign exchange shelter that the foreign NAVPU of a domestic currency fund offers compared to the Canadian NAVPU.
Part 15 – Calculation of Management Expense Ratio	
15.1(3) – Calculation of Management Expense Ratio	This section provides that all non-optional fees paid directly by investors are to be excluded from the MER. However, there is now a requirement that the fund estimate and disclose these fees (in connection with the holding of securities of the fund) as a % of NAV, and also disclose "the type of fee paid directly by investors, including the services expected to be received". We ask that the CSA clarify where the disclosure currently required by this section would go (we suggest the simplified prospectus).
15.1(3)(b) – Calculation of Management Expense Ratio	This section implies that the MER must be grossed up for series O investors and other institutional clients by charges at the client level. Our concern is that there might not be a consistent charge and the charge is at the total account level, so allocating the charge to various funds would be arbitrary.
15.1(4) – Calculation of Management Expense Ratio	We ask that the CSA clarify the following with respect to the application of proposed subsection 15.1(4): If expenses are rebated to certain investors in accordance with the terms of the simplified prospectus and those terms are *not* exclusively offered (*i.e.* the same terms are available to every investor in that series) and the terms of those expense rebates cannot be altered (*i.e*. reduced to the negative impact of the investors), then do they not fall under the exemption for "expense caps" that can't be altered except by investor vote?
15.1(7)(b) – Calculation of Management Expense Ratio	Service providers must be able to accept from fund companies some indication that management fees have been waived or paid directly by investors. This section should also incorporate expenses absorbed, and not just management fees waived, as both expenses and management fees makes up the MER.

Part 16 – Additional Filing Requirements	
16.2(2) – Additional Filing Requirements	We ask the CSA for clarification between subsection 16.2(2) which states that the documents must be filed on the same date as, or as soon as practicable after, the date on which the fund sends the documents to investors and section 2.2 of NI 81-106CP which requires that the financial statements be sent to investors within 10 days of being filed.
Part 18 – Effective Date and Transitional	
General	We ask that the CSA clarify how this rule would be applied to various year ends in the transition period (in a manner similar to Appendix A of the Companion Policy for change in year ends).
18.1 – Effective Date and Transition	We ask the CSA to reconsider the effective date of the proposed rule. Even with a transition year, investment funds with a December 31, 2004 year end will not have sufficient time to make necessary changes. As an alternate effective date (and to allow the industry sufficient time to make necessary changes), we suggest that the CSA consider fiscal years beginning on or after January 1, 2005.
18.5 Initial Delivery of Annual Management Report of Fund Performance	The section 18.5 requirement for funds to deliver to all investors their first annual management reports is a very expensive way to educate investors on the new report that is available to them. We further note that, as written, this section would require clients to receive a separate MRFP for each fund. The CSA has indicated that the purpose of this mandatory mailing of the MRFP is to provide investors with an idea of the information available in the MRFP so that they can make an informed decision as to whether they wish to receive it in the future. If an investor owns more than one fund managed by the same manager, it would be more appropriate to require only one MRFP to be mailed out, rather than one for each fund. We recommend to the CSA as an alternative that the industry prepare a series of mock ups in accordance with the rules which, subject to advance review by the CSA, could be used in the first standing order/annual instruction solicitation. The example format could be highlighted with educational descriptions and explanations to help the investors understand the meaning of the report.
Form 81-106F1 – Item	**Comments**
Part A, Item 1(c) – Format	The MRFP may not incorporate information from other sources by reference, but in Item 1(c) of the Form the CSA indicate that funds can include additional information in their MRFPs beyond the form content

	requirements, although they are to ensure such additional information does not "excessively" lengthen the document. We are of the view that this requirement is too restrictive. The CSA advise that they expect that 'under normal circumstances' the annual MRFP will be about *4 pages per fund*, and 2 pages in the case of the interim MRFP. For multiple class/series funds, we expect the MRFP to be even lengthier. (For clients with several funds, given the requirement that the MRFP for different funds not be consolidated or bound together, it seems unlikely that the CSA will successfully achieve its desire to avoid sending clients a 'telephone book'.)
Part B, Item 2.2 – Risk	This section requires a discussion about the changes in risk level over the period. The Instructions state: *Consider how the changes in the risks associated with an investment in the investment fund affect the suitability or investor risk tolerance in the prospectus or offering document. All investment funds should refer to Items 9 and 10 of Part B of Form 81-101F1 as if those sections applied to them.* We ask the CSA to clarify what is meant by this instruction. No guidance is provided as to how to gauge changes in risk. Is reference being made to volatility?
Part B, Item 3 – Financial Highlights	This Item requires that the tables be prepared separately for each series of units/shares. We note that this requirement will considerably lengthen the document.
Part B, Item 3 – Financial Highlights	Under Item 3, interim statements require per unit distribution information; however, the CSA should be aware that this information is not available until the year-end characterization of the income is determined (*i.e.* capital gain, R.O.C., *etc.*)
Part B, Item 3.1(1) – Financial Highlights	We ask the CSA to reconsider the table "The Fund's Net Asset Value per [Unit/Share] as a reconciliation of opening to closing NAV per unit. Given the denominator being used in the calculation, this table cannot be created without a "plug" in order for the opening and closing NAV per unit to tie into the financial statements. We suggest the information in this table can be presented without the NAV, beginning of year and the NAV at the end of the period. Alternatively, if the CSA believe that a reconciliation of NAV per unit is necessary, we ask that additional guidance be included in the instructions. Paragraph 3.2(1) 19. – As disclosure for this Item is currently proposed, the resulting increase or decrease in net assets from operations per security will not agree with "increase or decrease in net assets per security by

	class"that is required to be reflected in the Statement of Operations in accordance with GAAP. We recommend that the Table be amended to require 3 separate sections: (i) the opening NAV, the closing NAV (current day's closing), (ii) Net Investment Income Per Unit, Net Realized Gains or Losses per Unit and (iii) Distributions per Unit
	We ask that the CSA clarify the following: In the Ratios and Supplemental Data table, would it not be more consistent with the disclosure in the financial statements to also disclose MER without waivers or absorption? With respect to the number of securities held, should the disclosure include individual short-term investments in the total (i.e. count each Canadian T-bill separately)? We presume that "number of investments held" means number of issuers, and not the count of shares held and ask that the CSA confirm our understanding. If holdings include common shares, preferred shares and ADRs of the same issuer, are these counted as one, or three? How would several bonds issued by the same issuer be counted?
Part B, Item 3.1(3) &(4) – Financial Highlights	Subsection (4) states that realized and unrealized gains and losses should distinguish between securities and foreign exchange gains and losses However, in pursuant to the March 31, 2004 IFIC letter to the OSC and subsequent discussions of section 1100 GAAP issues with the OSC, the requirement to show realized and unrealized gains and losses separated between gains and losses from securities transactions and gains and losses from foreign exchange in subsection 3.1(4) of NI81-106F1 should be deleted. Passively managed fund of fund structures, in our view, should be exempted from the requirement to provide a portfolio turnover rate. The view of our members is that the basis for an exemption in this situation would be similar to the exemption that money market funds have from having to provide portfolio turnover rates.
Part B, Item 4 – Past Performance	Is it the intention of the CSA to require a bar chart of "Past Performance" to be produced for each series or class? We remind the CSA that this requirement will also lengthen the MRFP.
Part B, Item 4.2(4) – Year-by-Year Returns	What is the CSA's rationale for requiring the disclosure of the best and worst six-month returns in the periods? We question how meaningful this disclosure would be and note that it unduly emphasizes short-term performance.

	Item 4.2(4) requires that the fund disclose its best 6 months performance, and worst 6 months performance during the periods covered by the bar chart. It is not clear to us if the 6 month periods are to be any period of 6 months, or half years that correspond to the dates of the MRFPs (how would this work if a fund has had a significant event, such as change in fees or objectives, in which case best/worst 6 months may pre-date the change)?
Part B, Item 5 – Summary of Investment Portfolio	The MRFP must show separately the % of fund assets invested in appropriate subgroups. This must be in a table, but the instructions indicate that the fund can, in addition, present this information in the form of a pie chart. Why is a pie chart by itself not sufficient to show the % of fund assets invested in appropriate subgroups? Instruction #7 for this section provides that if a Fund holds an Index Participation Unit (IPU) or a long position in a derivative (other than for hedging purposes), the fund must 'look through' the security to the issuers held through the IPU or derivative and consolidate those issuers with its direct holdings of those issuers. This is similar to the determination in subsection 2.1(3) of NI 81-102 as to whether a fund has invested more than 10% of its assets in any issuer, except that subsection 2.3(4) of NI 81-102 exempts a fund from doing this if the underlying issuer comprises less than 10% of the IPU or derivative. We believe that the same exemption should apply with respect to the requirements of this Item.
Part B&C, Item 5 (Instructions 8&9) – Summary of Investment Portfolio	We remind the CSA of the difficulties associated with Fund of Fund portfolio disclosure, as there is a need to wait for the quarterly filings of 3rd party funds before the top fund can complete a summary of investment portfolio. Could the most recent underlying fund data be used, provided there is sufficient disclosure of the period of the underlying fund's data?
Part B, Item 5(2)(b) - Summary of Investment Portfolio	For any investment fund that maintains a relatively concentrated portfolio, the result of this requirement would be to disclose the fund's entire investment portfolio and strategy. For funds that maintain concentrated portfolios with holdings of between 20-30 different securities, the entire portfolio along with percentage holdings would have to be disclosed under this provision. We recommend that the CSA draw a distinction between funds with portfolios exceeding a set number of holdings (*e.g.* 50 or 100 individual securities), in respect of which the top 25 disclosure may be appropriate, and funds with portfolios with less than that threshold number of holdings, in respect of which the top 10 should continue to be applicable. In addition, it does not appear that the instrument permits non-disclosure of a particular security position that is

	the subject of a buying program. We submit that such a provision should be made, along with details as to when disclosure would be required to be made in the event of non-disclosure due to a buying program.
Part C, Item 3 – Financial Highlights	Would the interim financial highlights table show 5 years of annual data, and the latest interim data? If so, this would be inconsistent with the interim financial statements, where the requirement is to disclose 5 years of interim comparative data.
Part C, Item 4 – Past Performance	We ask the CSA to confirm that the requirements of this section are only to complete a year-by-year returns bar chart, and not an annual compound returns table.
NI 81-106CP	**Comments**
2.6(2)(c) – Delivery of Continuous Disclosure Documents	The last paragraph of subsection 2.6(2)(c) commences: *"Section 5.1 specifies that if an investment fund chooses option (b), it cannot switch to option (c) at a later date."* Our members do not see anything in section 5.1 of NI 81-106 that requires the support of this prohibition and therefore recommend the deletion of the sentence in NI 81-106CP.
10.1(3) – Calculation of Management Expense Ratio	We ask the CSA to explicitly state the types of charges that are contemplated in this section. Would a load charged to the top fund's investment in a mutual fund be included in this section? Note that subsection (4) specifically excludes brokerage from MER.
10.1(4) – Calculation of Management Expense Ratio	We suggest that subsection 10.1(4) of the Companion Policy be redrafted as follows: "Brokerage *and other portfolio transaction* charges are not considered to be part of total expenses as they are included in the cost of purchasing, or netted out of the proceeds from selling, portfolio securities." In our view, the logic that holds for brokerage costs should be extended to other transactional costs that are imbedded in the cost / proceeds of securities.