"Huang, Jingyun"
<jhuang@choufunds.com>

24/08/2005 12:49 PM

Dear Mr. Stevenson:

Chou Associates Management Inc. is the manager of the Chou Associates Fund, Chou RRSP Fund, Chou Asia Fund and Chou Europe Fund (collectively called the "Chou Funds"). The Chou Funds are public mutual funds and their securities are offered to the public by way of simplified prospectus and annual information form in all provinces, except Quebec. This letter is submitted in response to the request of the Provincial Securities Commission (the "Commissions") and other members of the Canadian Securities Administrators (the "CSA") soliciting comments on proposed National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") published for comment in May of this year. In particular, we are responding to the request of the CSA for comments as to whether NI 81-107 ought to apply to smaller investment funds.

These are the comments we have expressed to the unitholders of the Chou Funds in the 2005 Chou Funds Semi-Annual Report with respect to proposed NI 81-107.

Beginning of the Quote:

Proposed National Instrument 81-107

NI 81-107 has been renamed "Independent Review Committee for Investment Funds" (the "Instrument"). Under the Instrument, every investment fund that is a reporting issuer must establish an independent review committee (the "IRC") comprised of at least 3 individuals to oversee all conflict of interest matters faced by the fund manager in the operation of the fund. The IRC would be required to have a chair who is responsible for managing the committee, and who acts as a liaison between the manager and the fund.

There are aspects of the Instrument that we agree and disagree with:

The parts we agree with include:

1) Those dealing with conflict of interest that may arise between a manager's own interest and that of his or her duty to manage the fund in the best interest of the fund. These are conflicts relating to the operation of the fund by the manager, and are not specifically regulated under the securities legislation - such as the fund's decision to charge operational or incentive fees to the fund; or to allocate securities among funds in a fund group; or to use affiliates in fund operations including as service providers or in securities lending.

2) Other conflicts include those that result from proposed transactions by the manager with related entities of the manager, fund or portfolio manager and which are currently prohibited or restricted by the conflict of interest and self-dealing provisions - for example, transactions of securities of related parties.

The parts we disagree with include:

1) Orientation and continuing education: The manager must provide each IRC member with an orientation program and support any continuing education (**at the expense of the fund**). In addition, the members of the IRC can reasonably supplement any such training **at the expense of the fund**.

2) Self-assessment: The IRC must conduct a full review of its effectiveness as a committee and the contribution of individual members, at least annually, again **at the expense of the fund**.

3) IRC masquerading as a whistleblower: The IRC would be given explicit authority to report certain conflict of interest matters or securities law breaches directly to the securities regulators. This may lead to a highly adversarial relationship with the manager.

4) Some mandatory reporting to unitholders and the manager. **Again at the expense of the fund.**

5) The Office of the Chief Economist at the Ontario Securities Commission speculates that smaller funds may have to pay as much as **$250,000 per annum** to run an IRC. We believe that this number is a conservative estimate and that it will escalate in the future.

If this Instrument is passed as it is proposed, it will impose higher costs and an enormous burden on all mutual funds, including Chou Funds. It will raise the MER substantially, with debatable benefit, to the unitholders. It is unfortunate and unfair that this broad sweeping net will take with it funds that are being run honestly and ethically. In life, we see it happen repeatedly where a small minority of wrongdoers are responsible for a string of scandals - understandably raising a huge public uproar - and Regulators react by imposing an onerous burden on any and all fund managers without regard to cost (in many cases, unnecessary), the people required to make it happen, and the management time needed to meet the new requirements.

We hope that the trend does not progress to the point whereby the portfolio manager cannot express his or her views in a forthright manner. Already there are reports that if one admits to making a mistake one can be sued under the Instrument for not exercising the degree of care, diligence and skill that a reasonable person would exercise in similar circumstances. In the 2004 Annual Report, for example, on the advice of counsel, it was necessary to add a small disclaimer, '…the letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained herein may not be suitable for all investors.'

We believe that our investors would like to hear from their portfolio manager in a straightforward and forthright manner on how he or she is looking at the investment landscape rather than have the letter drastically rewritten by public relations or legal counsel.

End of the Quote.

A full copy of the letter is attached.

Regards,

Jingyun Huang

Chou Associates Management Inc.

Tel: 416 214 0675
Fax: 416 214 1733

August 11, 2005

Dear Unitholders of the Chou Funds:

The results of the Chou Funds are as follows:

As of June 30, 2005	NAV	% Cash Holding	6Month	1 YR	3YRS	5YRS	10YRS
Chou Associates Fund	$75.37	34%	7.6%	12.4%	11.1%	15.2%	16.4%
S&P 500 Total Return	-	-	-0.8%	6.3%	8.1%	-2.4%	9.9%
S&P 500 Total Return ($Cdn)	-	-	1.3%	-2.4%	0.8%	-6.0%	8.7%
Chou RRSP Fund	$30.22	28%	6.7%	13.8%	12.7%	18.5%	18.7%
S&P/TSX Total Return	-	-	8.1%	18.0%	13.6%	1.1%	10.0%
Chou Asia Fund	$12.32	54%	1.8%	5.8%	-	-	-
MSCI AC Asia Pacific	-	-	0.9%	1.3%	-	-	-
Chou Europe Fund	$12.94	55%	9.3%	16.4%	-	-	-
MSCI AC Europe	-	-	2.4%	8.1%	-	-	-

- The indicated returns are the historical annual compounded total returns assuming reinvestment of distributions and do not take into account sales, redemption, distribution or income taxes payable by the investor. Mutual funds are not guaranteed. Their values fluctuate and past performance may not be repeated.

National Instrument 81-106 and proposed National Instrument 81-107

National Instrument 81-106 is a new regulation that will impose important new continuous disclosure requirements for mutual funds. The new rule will impose specific requirements on the form and content of financial statements. In addition, it requires the fund manager to write a management report on the performance of the fund (somewhat similar to Management's Discussion and Analysis ("MD&A") for public companies) and the fund must disclose how it voted its proxy on each of its portfolio holdings.

Although some of the reporting requirements may appear onerous and unnecessary, it is important that financial statements be as transparent as possible. If we are going to err, it is preferable to err on the side of providing a greater amount of information that is accurate and useful.

We know from experience that management of public companies understand that investors use different metrics for different industries to measure a company's net worth. These metrics are a standard of measurement specific to the industry being measured. Problems occur in that management, aware of the metric being used to measure their own company, may be tempted to use this knowledge to stretch the GAAP rules in order to make their financials look better. Many investors have learned, much to their chagrin, that it is important to examine closely the metric being used to measure the company's net worth and then check every item that goes into that calculation.

When management adopts soft accounting to downplay the impact of poor financials, they are ignoring reality, are in denial, and are doing a great disservice to themselves, employees and shareholders. In the end, what management may fail to realize is that any illusory gains achieved by playing with numbers to make financials look good may lead to a much greater loss - their credibility and reputation. Instead, management should adopt the most conservative accounting treatment and tackle their problems head on. As the saying goes, the moment you face up to the problem, you are well on the way to resolving 90% of it.

In essence, if a gun were to be pointed at our heads and we have to accept disclosure requirements that make the financials more transparent, we would quote Clint Eastwood and say, "Make my day."

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Derivatives

We need to give unitholders 60 days prior written notice before engaging in derivative transactions. At this time, the Chou Funds are not allowed to enter into derivative transactions other than currency hedging and writing covered calls.

Derivative instruments are financial instruments created by market participants so that they can trade and/or manage more easily the asset upon which these instruments are based. Derivatives are not asset classes unto themselves. Their values are derived solely from an underlying interest, which may be a commodity such as wheat or a financial product such as a bond or stock, a foreign currency, or an economic/stock index.

Derivative instruments are most useful in hedging against market declines and in many ways are similar to currency hedging. Hedging is the attempt to eliminate or reduce the risk of holding the stock portfolio. We have expressed concern over the years with the high market levels and the paucity of bargains in the marketplace. As a result, we have maintained a high cash balance. By hedging the portfolio, wholly or partially against market declines, the Chou Funds could be more fully invested than before. This is one of the attractions of using derivatives.

The Chou Funds are also interested in Credit Default Swap ("CDS"). We may be interested in other derivative products as time goes by. Within the Credit Derivative category, CDS is the most straightforward form of derivative. One party sells credit protection and the other party buys credit protection. Put another way, one party is selling insurance and the counterparty is buying insurance against the default of the third party's debt. The Chou Funds would be interested in 'buying' insurance.

Potential Maximum Loss: The most we would stand to lose is the premium that we have to pay for getting the insurance against the default of the third party's debt. For example, let's assume we enter into a credit default swap for two years with a counterparty against the default of the debt of the company called 'ABC'. The notional amount is $100 million and we agree to pay them 50 basis points (half of one percent) or $500,000 per year for two years. At most, what we could lose is the premium i.e., $500,000 per year or $1 million in total for 2 years.

Potential Gains:

1) If ABC defaults and its debt is now trading at 40 cents on the dollar, the cash payoff would be $60 million. This is the windfall gain that one can occasionally expect, however it is a 'best case' scenario and not a given.

2) ABC does not need to default on the debt. If the market senses that the economy and/or the ABC company is about to face some economic headwind, it may reprice the premium from 50 basis points to 300 basis points or more. We can then unwind/offset the contract at any time for a price greater than 50 basis points. If we unwind the contract at 300 basis points, we would receive $3 million. In essence, this is what CDS is about.

We would not engage in any derivative transaction whereby the losses could be multiples of the funds we have committed to the transaction. For instance, the counterparty, in the example given above, can lose multiples of the 50 basis points premium that they are receiving. They are obviously confident of the economic prospects of ABC for the next two years and the premium they receive will be enhancing their return. We, obviously, think that the premium is too low and is priced for a Goldilock's type economy and does not justify the risk the counterparty is taking.

Some 3 to 4 years ago, the premiums were priced closer to 300 basis points versus the 20 to 50 basis points currently for companies with similar financial characteristics. We think CDS are among the better buys today.

Chou Bond Fund

We are planning to open Chou Bond Fund on September 16, 2005, subject to the approval of the various securities commissions in Canada. It will be under the category of 'Foreign Bond Fund'. We expect the Prospectus to be ready by that time. The minimum initial investment is $10,000, as with the other Chou Funds. Please be aware of the risks involved including that of the Manager who has not invested heavily in that area. However, we feel confident that if we apply the same value principles we used in the past in investing in equities, we will do reasonably well in the future. Caveat emptor!!

As we have done when we launched the Chou Asia Fund and Chou Europe Fund, we will not charge the full management fee of 1.15% from now to the end of 2006. We will charge a fee only to cover the trailer fees paid to dealers and financial planners (0.15%).

Market Outlook

We continue to have problems finding genuine bargains in the market. We are diligently hunting for them and most times we are finding 'value trap' stocks that we would not touch with a barge pole. Most of these stocks can be grouped under the "If it looks like garbage, smells like garbage, don't eat it" category. We continue to voice our deep reservations about the overvaluations of the market and the potential negative impact on the Chou Funds.

Other Matters
Quebec: We are opening the Chou Funds to Quebec residents. We hope to receive approval some time in September 2005, around the time we expect the Prospectus to get renewed.

Fee Based ("F") Class shares: Due to consistent requests from financial planners and dealers, the Chou Funds will have a new class of shares called F class shares. In this class the dealers will not receive any trailer fees but they can charge any fee with the consent of their client.

Foreign Currency Hedging: Chou Associates Fund and Chou RRSP Fund have hedged $US 60 million and $US 20 million respectively.

Chou RRSP Fund: We previously indicated that the Chou RRSP Fund was closing to new investors as at March 21, 2005. The decision to close was based on the 30% foreign content restriction and the limited value investments available in Canada. Since the federal government eliminated the RRSP foreign content restrictions, the Chou RRSP Fund will continue to accept new unitholders for the foreseeable future**.** Chou RRSP Fund will look for bargains in Canada first before looking in other countries.

$US Dollar Valuation: We intend to also have the Chou Funds valued in $US. We hope to receive approval some time in September 2005. Any unitholder who requests to purchase the Chou Funds in $US will then be able to do so.

Redemption fee: We have a redemption fee of 2% if unitholders redeem their units in less than 2 years. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders. We hope this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

Except for the performance numbers of the Chou Funds, the remainder of the above letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained herein may not be suitable for all investors.

Yours truly,

Francis Chou

Francis Chou
Fund Manager