



THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

11 KING ST. WEST, 4TH FLOOR, TORONTO, ONTARIO, M5H 4C7 TEL 416 363-2158 FAX 416 861-9937 WEBSITE www.ific.ca

Delivered by email to:

John Stevenson, Secretary, Ontario Securities Commission

(requestforcomment@osc.gov.on.ca)

Ann-Marie Beaudoin, Directrice du secrétariat, Autorité des marchés financiers

(consultation-en-cours@lautorote.qc.ca)

August 31, 2007

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission – Securities Division
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Newfoundland and Labrador Securities Commission
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

Dear Sirs/Mesdames:

**Re: Proposed Amendments to
National Instrument 81-106 *Investment Fund Continuous Disclosure*,
Form 81 - 106F1 and Companion Policy 81-106CP *Investment Fund Continuous
Disclosure and Related Amendments***

The Investment Funds Institute of Canada (“IFIC”) has appreciated the opportunity to work with the Canadian Securities Administrators (“CSA”) and the provincial securities commissions during the last year in the development of solutions to address the problems created within the application of National Instrument 81-106 as a result of changes to Section 3855 of the CICA Handbook. We are pleased to see that the changes which are reflected in the proposed amendments to National Instrument 81-106, Form 81-106F1 and the Companion Policy 81-106CP (dated June 1, 2007), hereby referred to as the “draft rule” reflect many of IFIC’s recommendations and we are supportive of the vast majority of the

proposed changes. We believe that most of the changes the CSA is proposing are in the best interest of investors which IFIC supports. While the implementation of these changes will result in operational and administrative difficulties for the industry, we concede that such changes are unavoidable in order to achieve a fair resolution to this problem.

IFIC is appreciative of the fact that all of the proposed changes to NI 81-106 are in response to the new CICA Handbook Section 3855. While IFIC does have other concerns with some of the provisions of NI 81-106 which are outside the scope of S3855, these concerns will be addressed at a later date by IFIC.

Despite IFIC's support for most of the proposed changes, the following are the specific concerns that IFIC still has with the draft rule.

Specific Concerns

1. Reconciliation of net assets

Section 3.6 (1) 5 requires the notes to the financial statements contain a reconciliation of net assets to net asset value on a per unit as well as a per series basis. IFIC's concern is that the requirement to perform the reconciliation based both on a per unit and per series basis will add a significant volume of information to the financial statements with little or no benefit to users. The reconciliation would only be required when there was a difference (e.g. difference is at least 1 cent since the numbers are reported in pennies), however, IFIC estimates that in a typical fund financial statement, the majority of differences will be about 1 to 2 cents per unit which will require a reconciliation, although these differences are likely not material from an investor's perspective. There would be six extra lines of notes per series (double that if comparatives required for the prior year), so in a typical set of financial statements there would probably be at least 50 extra lines of disclosure regardless of materiality. Typically notes to financial statements draw users' attention to important items and IFIC does not believe that this additional information would be useful to investors when the differences are immaterial. IFIC has considered the following options to resolve this issue and they are listed in order of our preference:

- a. The financial statements should only show accounting NAV not pricing NAV. The MRFP should continue to show the pricing NAV. Public companies do not show share prices in their financial statements but rather in their MD&A and investment funds should do the same. This would eliminate the need for any reconciliation.
- b. The reconciliation should only be required if the difference is material, such as if it is greater than 50 basis points on a per unit basis and there would be a significant accounting policy footnote which would indicate that the difference is less than 50 basis points except as otherwise noted.

- c. Per unit information in the financial statements, other than that required under Canadian Generally Accepted Accounting Principles (“GAAP”) such as the net increase/decrease in net assets per unit, should be removed and disclosed only in the MRFP. A reconciliation could be provided for total net assets of the fund if the difference is material (e.g. greater than 50 basis points), otherwise there would be no reconciliation on a per unit basis or a per series basis.
 - d. Use a qualitative approach where the differences are only disclosed if they are other than a result of the difference between the bid price and the closing price. For example, the notes to the financial statements would state “all differences between net assets and net asset value are a result of the difference between bid price and closing price, except as noted.” Reconciliations would only be required for the exceptions. This would significantly limit the volume of note disclosure.
 - e. Reconciliation of net assets. The financial statements would always show a pricing NAV at the end of the balance sheet right below the accounting NAV, whether a difference existed or not. This pricing NAV would be referenced to a note with a short qualitative description of what the difference was (ie. bid-ask vs. last trade, securities vs. GAAP requirements, pricing used for unit transactions. No numerical reconciliation would be provided unless there were other reconciling items or reconciliation was required in order to comply with GAAP. There would generally be no other reference to pricing NAV in the financial statements.
 - f. Limit the reconciliation to NAV per series and exclude the NAV per unit reconciliation.
2. Use of the term “net assets” for accounting NAV and “net asset value” or “NAV” for pricing NAV.

The two terms are too similar and will almost certainly confuse readers. We agree that it is best to leave the concept of “net asset value” (“NAV”) as pricing NAV since it avoids having to change a wide variety of regulatory rules, policies and procedures. IFIC’s preference would be to use the term “accounting NAV” for accounting purposes.

3. Interest and issue costs in the Management Expense Ratio (MER).

For accounting purposes, GAAP requires issue costs to be recorded as a reduction to share capital rather than be expensed. IFIC also notes that a number of other jurisdictions including those in Europe exclude issue costs from their regulatory expense ratios. Therefore, IFIC suggests that issue costs should be removed from the MER calculation. IFIC also believes that MER should exclude interest costs for the reasons outlined in our

December submission. This change would align Canada's expense ratio calculations with those found in Europe and Australia.

4. Repurchase and Reverse Repurchase Transactions (Part 3, Section 3.2 (4.1))

This section requires separate disclosure of revenue from repurchase and reverse repurchase transactions. As a point of clarification, revenue from repurchase transactions is actually an expense whereas reverse repurchase transactions are income. Currently, they are usually included in interest expense or interest income, respectively, since that is the true nature of these transactions. Under current regulatory rules, separate disclosure is not required. IFIC recommends that separate disclosure continue to not be required since these types of transactions are usually not material and economically they really are interest. Disclosing some types of interest does not make sense for disclosure purposes. Another concern is that most fund managers do not currently have systems to isolate this type of transaction from other interest income and expense.

5. Fund of Fund Look-through Requirements (Part 3 – Section 3.5 (8.1))

IFIC recommends the language be changed to clarify that this rule only applies to a one on one fund relationship where the top fund owns a substantial portion of the underlying fund. In addition, obtaining complete information on the underlying fund is sometimes difficult if the underlying fund is a third party fund, if it has a different year-end or if it is not a reporting issuer. In some situations, such as those where the year-ends are the same, the top fund will actually distribute financial statements of the underlying fund along with its financial statements. In these circumstances, there should be no requirement for any further disclosure. Where the underlying fund's financial statements are not distributed along with the top fund's statements, IFIC believes that disclosure of the top 25 investment holdings of the bottom fund along with their underlying composition would be more useful to investors rather than the entire list of underlying assets.

6. Trading Expense Ratio for Fund of Funds (NI 81-106F1 Part B 3.1 (12)(b))

In various circumstances within a fund of fund investment structure, it is extremely difficult, if not impossible, to calculate a transaction expense ratio, such as the following:

- The underlying fund has a different year-end
- The underlying fund is not a reporting issuer
- There are multiple underlying funds
- The underlying fund has a different manager

Accordingly, IFIC recommends that the section instead requires one of the following two options:

- Disclose a TER range (i.e. maximum and minimum) within the group of funds or,
- Provide a calculated estimate as per 15.2 of the Instrument.

7. The First Table in the MRFP should not be Linked to the Financial Statements

The first financial highlights table required under NI 81-106F1 Part 3.1(1) should reconcile between opening and closing net asset value per security in order to provide security holders with a picture of how the value of a security of the fund changed over the period. The per security information should be based on pricing NAV derived from the fund's financial records and present a meaningful representation of the impact of revenues, expenses, realized and unrealized gains and losses and distributions/dividends on the security value. This table should not make any reference to accounting NAV since it would be confusing to investors.

8. Calculation of Net Asset Value (NI 81-106 (14.2))

The section reads “.. net asset value ... must include income and expenses.... accrued up to the date of the calculation..”. The accounting process, by its nature, includes estimates and uses materiality in its calculations and therefore cannot guarantee that 100% of revenues and expenses are accrued at any point in time. IFIC requests that the Companion Policy make reference to the fact that the accrual is made within the rules under GAAP.

9. Maintaining A Record Of Fair Value Determination (14.2 (1.4))

This section relates to the determination of a value where an active market does not exist. In practice, managers may apply fair value principles to groups of like securities based on relevant factors such as their country or market. In these circumstances, fair value is an estimate. IFIC suggests to following wording would better accommodate existing fair value practices:

“Every manager of an investment fund must have written policies and procedures and appropriate documentation of every determination of fair value and the reason supporting the determination”.

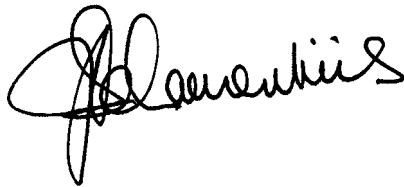
During discussions with OSC and CSA staff during the development of the draft rule, concerns were expressed about Section 3855 of the CICA Handbook. The fair valuing of non-portfolio assets and liabilities for split share corps, scholarship plans, or funds with real property will result in some unusual financial results which would cause significant confusion to investors in some cases. It was agreed that the best way to address these issues

would be for the provincial securities to grant exemptions case by case basis, if and when required. IFIC is supportive of this arrangement.

Again, IFIC has been very pleased with the process of developing this draft rule thus far and looks forward to working with the CSA and the provincial commissions to further review the above matters to find a workable solution.

Sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

A handwritten signature in black ink, appearing to read "Joanne De Laurentiis". The signature is fluid and cursive, with a large initial "J" and "D".

Joanne De Laurentiis
President & CEO