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14 January 2010

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission – Securities Division
Manitoba Securities Commission
Ontario Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Financial Services Regulation Division, Department of Government Services, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

[collectively, the "Canadian Securities Administrators" or "CSA"]

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

Dear Sir/Madam:

Re: Notice and Request for Comments - Proposed Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* and Companion Policy 81-106CP *Investment Fund Continuous Disclosure* and Related Amendments [the "Proposed Amendments"]

Ernst & Young is pleased to submit its comments on the above Notice and Request for Comments. We have restricted our comments to those matters in the Proposed Amendments which we believe are most significant. We are also aware of the response that the Investment Funds Institute of Canada is providing on behalf of its members and we generally support the views and comments reflected in that letter.

Puttable Instruments

IFRS will impact how an investment fund's securities are classified and presented in the financial statements. We support the CSA's attempt to maintain comparability of financial statement presentation and performance reporting among investment funds. Generally, the Proposed Amendments appear to accomplish this objective by providing two different ways of presenting and calculating the affected financial information depending on how an investment fund's securities are classified.

Although the Proposed Amendments may technically address the specific inconsistencies related to the classification of puttable instruments arising on adoption of IFRS, we have observed that there is a broader issue. From an investor's perspective, the overall comparability and understandability of the financial statements will be significantly reduced compared to that achieved under current Canadian requirements due to differing presentation formats and terminology for seemingly identical securities. This result is unfortunate but unavoidable under IFRS.

Consolidated Financial Statements

We believe that the consolidation requirement under IFRS will significantly impact many investment funds in Canada. It presents numerous technical and operational challenges related to obtaining the necessary information, monitoring underlying investments and preparing consolidated financial statements. Additionally, we believe that the incremental costs of preparing consolidated financial statements will exceed the incremental benefits, if any, to investors.

The financial statements of investment funds that are required to consolidate an investee will look significantly different from those without a consolidation effect, reducing comparability and understandability on the part of investors. Many preparers and users of investment fund financial statements also believe that consolidation reduces the usefulness and relevance of investment fund financial statements. This appears to be supported in the Proposed Amendments with the requirement for a non-consolidated statement of investment portfolio as this is the financial information users are most likely want or need.

The current Canadian accounting for investments at fair value recognizes the unique nature of investment funds and the needs of investors. Unlike other types of entities, it is the fair value of investments rather than operational performance that determines performance returns and investor wealth. Existing Canadian standards and regulations recognizes the significance of these differences for investment funds.

As IFRS does not currently provide for specialized industry accounting for investment funds, IFRS adoption in Canada will result in investment funds bearing the brunt one of the more significant changes of adopting IFRS. It is unfortunate that this change will also result in what many consider to be less meaningful financial information for those investment funds required to consolidate. We urge the CSA to consider available alternatives to addressing the unique needs of users and investors in the investment funds industry.

Financial Reporting Framework

For periods ending on or after December 14, 2010, current Canadian generally accepted auditing standards will change to a new set of standards in line with International Standards on Auditing. One of the significant changes in this transition is the adoption of a new audit reporting model for a complete set of general purpose financial statements. The new standards do not prescribe the applicable financial reporting framework and recognize that there can be alternative fair presentation frameworks for general purpose financial statements. Under this new model, to achieve a "present fairly" opinion, the financial reporting framework would have to meet certain criteria and determined to be both an "acceptable" and "fair presentation" financial reporting framework.

The CSA has the opportunity to amend its requirements to mandate that investment funds, as defined under current Canadian regulations, prepare their financial statements in accordance with a modified version of IFRS. This financial reporting framework could be referred to as "financial reporting standards prescribed by the CSA for investments funds" or "IFRS as adopted by the CSA for investment funds". Amendments could be made to NI 81-106 to define the CSA's financial reporting framework as IFRS except for certain items specifically described in the regulations. Any differences between the CSA mandated financial reporting framework and IFRS would be described in note 1 to the financial statements. We believe that this is a technically feasible solution to the consolidation issue faced by investment funds in their transition to IFRS.

We recognize that it is the responsibility of securities regulators in each jurisdiction to mandate the appropriate financial reporting framework. There is an opportunity for the CSA to define an alternative financial reporting framework which addresses the nature of investment funds and the information requirements and needs of investors. While we recognize the significant implications of the CSA prescribing a defined accounting basis that deviates from IFRS, we encourage the CSA to consider this alternative approach to mandate non-consolidation by investment funds (and potentially, the consistent classification of an investment fund's securities). This alternative framework would also be consistent with existing Canadian and US GAAP as it relates to investment funds.

Non-Consolidated Statement of Investment Portfolio

We recognize the usefulness and benefits of providing a non-consolidated statement of investment portfolio. However, the proposed requirement to present this statement within a complete set of consolidated financial statements will present additional challenges from an accounting and auditing perspective.

IFRS does not specifically prohibit any additional statements, but does list the statements that would be required for a complete set of IFRS financial statements. There are instances where European entities include non-consolidated financial statements in the notes to the consolidated financial statements and other instances where national GAAP statements are presented alongside IFRS statements. The question of whether the inclusion of an additional statement in a complete set of IFRS financial statements would be permissible under IFRS is a matter of judgement and may be subject to differing interpretations.

In making this determination, a number of factors would need to be considered, including, how prominent the information was relative to the other financial statements and whether the information was in conflict with IFRS. The difference in the basis of accounting (fair value vs. consolidation) would be a significant issue in assessing these factors. In addition, non-consolidation may or may not produce financial information that obscures the required IFRS financial statements. As the effects of non-consolidation can produce different results, this determination would need to be performed on a case-by-case basis. In general, we do not believe that a separate non-consolidated statement of investment portfolio within a complete set of IFRS statements would necessarily be permissible in all cases.

If the information in a non-consolidated statement of investment portfolio was provided in a supplementary schedule, its prominence would be reduced. However, this would also depend on where the schedule is placed among the required IFRS financial statements and the information it contained. The considerations would be similar to those in the paragraph above for a statement. However, it is more likely to be acceptable under IFRS as supplementary schedule. Our preference, and possibly the only feasible solution for a requirement to apply to all situations, would be that a non-consolidated schedule of investment portfolio be included in the notes to the

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consolidated financial statements. This would also reduce the potential for confusion by users of the financial statements.

Should you have questions or comments on this letter, we would be pleased to discuss them with you.

Yours sincerely,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

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