VIA EMAIL: jstevenson@osc.gov.on.ca

January 14, 2010

British Columbia Securities Commission
Saskatchewan Financial Services Commission – Securities Division
Alberta Securities Commission
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
Superintendent of Securities, Nunavut

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

Re: Notice and Request for Comments on Proposed Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* and Companion Policy 81-106CP *Investment Fund Continuous Disclosure* ("Notice")

We are writing to provide comments on the Notice published for comment by the Canadian Securities Administrators ("**CSA**") October 16, 2009. We appreciate the opportunity to comment on the proposed amendments contained in the Notice.

Overview

We are supportive of the CSA adopting amendments to ensure a consistent application of financial standards among investment funds. We are, however, very concerned with the proposed adoption and application of IAS 27 *Consolidated and Separate Financial Statements* under International Financial Reporting Standards ("**IFRS**"). We have been provided with and have reviewed the comments of The Investment Funds Institute of Canada ("**IFIC**") and strongly support their position and comments on IFRS, in particular relating to consolidation and puttable securities.

We are writing to present the particular issues faced by labour-sponsored funds, which are commonly referred to as retail venture capital funds ("**RVCs**"), in relation to the proposed IFRS consolidation requirement.

Retail Venture Capital Funds

Affiliates of Growth Works Ltd. ("GrowthWorks") manage the following RVCs, which collectively have approximately $700 million in assets:

- *GrowthWorks Canadian Fund Ltd.* (Canada's first RVC and among largest currently offering shares)
- *GrowthWorks Commercialization Fund Ltd.* (a research-oriented RVC)
- *GrowthWorks Atlantic Venture Fund Ltd.* (an Atlantic Canada RVC)
- *Working Opportunity Fund (EVCC) Ltd.* (largest RVC in Western Canada)

All but one of our RVCs are "mutual funds" as defined in securities legislation as shares are redeemable on demand. However, we would like to highlight the following critical differences between traditional mutual funds and RVCs:

- *The Goal of the LSIF Program* - In the late 1980's and early 1990's, federal and provincial governments created RVC programs as a special public/private investment vehicle to encourage greater risk capital investment in small and medium size businesses (mostly private) to increase venture capital and foster new business formation and stimulate economic development.
- *Nature of Venture Capital Investing* - Venture investing can best be described as active, value-added investing of patient capital. A typical venture investment takes 3 to 10 years to mature, during which time the fund's investment manager is actively involved in assisting the investee company to grow and develop, usually by participating at the board level and in sourcing additional financing. Typically, a venture investor will take a significant interest in the investment, typically more than 10%. This type of investing is markedly different than typical mutual fund investing, and means that RVCs, more than any other investment fund, are more likely to "control" investee companies as contemplated under IFRS.
- *Type of Investee Companies* - Governing legislation requires RVCs to invest the majority of the capital they raise in small, still developing businesses. Typically, these businesses are "emerging private companies" meaning they do not have profits or positive cashflows, nor do they have IFRS compliant accounting systems.

Consolidation

The CSA has requested feedback on consolidation as required under IFRS for investment funds. We submit that the specific impact of the proposed IFRS changes on RVCs are significant and will result in:

Misleading Financial Statement Disclosure for Investors

Requiring consolidated financial statements for an RVC does not provide any decision-useful financial information for investors. For instance, it is likely that investors will be faced with (i) inconsistency in application of consolidation, so that even among RVCs the determination as to which entity is "controlled" and which is not will change throughout the year right up to the end of the reporting period, (ii) as most of the investee companies of an RVC are private (and there is no publicly disclosed information), there will be a greater degree of inability to confirm information regarding those investee companies, and RVCs may not be able to access information from investee companies when and as needed, which will likely result in errors and undetected items, and (iii) non-coterminous year ends that mean the audit and review of stub periods that are more likely to result in lack of conformity with IFRS.

In fact, we submit that the adoption of a requirement for consolidation may result in many RVCs concluding that compliance will make their financial statements so misleading that it conflicts with the objective of meaningful financial disclosure for investors.

Abandonment of Consistent "Fair Value" Methodology in Favour of "Hodgepodge" on Financial Statements

The adoption of the consolidation requirements of IFRS will mean the addition of non-fair valued assets onto financial statements, which likely will be accounted for using different basis than the rest of the investment portfolio and therefore more differences between pricing NAV and accounting (GAAP) NAV. For instance, small businesses financial statements will be based on cost only. Valuing investments on this basis has been replaced by fair value as set out in the Valuation Principals and Guidelines recommended by Canada's Venture Capital & Private Equity Association. The addition of assets that are not valued using the same methodology will confuse and ultimately be of questionable value to investors, who will be unable to reconcile pricing NAV and accounting NAV differences.

Inefficient Use of RVC Funds by Small Businesses

RVCs were created as a way for small, growing businesses to access capital that was not previously available to them. RVC funding is targeted to business growth and allowing the business to pursue research and/or development in a particular area and ultimately provide economic development. Using RVC funds to create IFRS compliant financial reporting and internal control systems is an inefficient use of these hard to access and valuable resources; in fact, we expect that it will likely be too onerous for the vast majority of those entities and they may not be able to access the resources as a result, thereby defeating the goal of the RVC program. This would be

extremely detrimental to, and result in the undermining of, a program that has been very successful in providing access to funding for small businesses in Canada.

Breaches of Confidentiality with Investee Companies

Many RVCs have in place confidentiality agreements with their investee companies to protect those companies from disclosure which may affect their competitive advantage in the market. RVCs may have significant problems trying to access and release certain information for financial statement production with consolidation under IFRS where those confidentiality arrangements are in place, and may even incur legal liability in so doing. This of course could have very negative consequences for investment fund investors. In addition, the release of such information may pose significant problems for the investee companies themselves, where disclosure may lead to incorrect conclusions about the company and impact their ability to grow their business. Finally, RVCs may see a significant reduction in investee companies who will want to receive financing from an RVC that is required to disclose information that may be damaging to the investee company. This reduction in "deal flow" could have serious ramifications for existing investors.

Prohibitive Costs to the RVCs

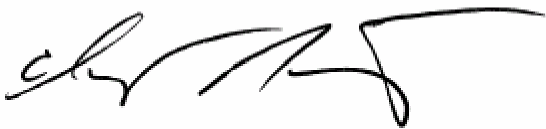
In its comment letter, IFIC identifies its estimate of the impact of consolidation, both in terms of numbers of investment funds affected, as well as identifying the lack of structuring in investment fund finance departments to deal with consolidation issues. In the case of RVCs, this will be further impacted as investee companies do not usually have in place IFRS audit ready systems; the cost of these to be implemented will be significant, and will use up much of the funding provided by RVCs, and require additional funding beyond that required for business growth and development. In addition, the RVC itself will have to pay its own auditors for conducting additional audits on each of these investee companies, thereby increasing costs for the RVC. This will be of little benefit to investors, who will see increasing expenses for the RVC, eroding their returns, and whose experience is that shares of RVCs are purchased and redeemed at net asset value which drives off fair value of investee companies.

Conclusion

Based on these submissions, we submit that the CSA should, at a minimum, mandate that RVCs be required to file only non-consolidated financial statements with regulators.

Thank you for considering our comments. If you have any questions on this submission, please contact me by phone at 604-895-7251 or email at clint.matthews@growthworks.ca.

Yours truly,



Clint Matthews, VP Finance and Chief Financial Officer
Growth Works Capital Ltd.