

5.1.2 CSA Notice of Amendments to NI 81-106 Investment Fund Continuous Disclosure, Companion Policy 81-106CP Investment Fund Continuous Disclosure and Related Amendments



Canadian Securities
Administrators

Autorités canadiennes
en valeurs mobilières

**CSA Notice of Amendments to
National Instrument 81-106 *Investment Fund Continuous Disclosure*,
Companion Policy 81-106CP *Investment Fund Continuous Disclosure*
and Related Amendments**

October 3, 2013

Introduction

The Canadian Securities Administrators (the CSA or we) are making amendments to:

- National Instrument 81-106 *Investment Fund Continuous Disclosure*, including Form 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance* (the Instrument) and
- Companion Policy 81-106CP *Investment Fund Continuous Disclosure* (the Policy).

We are also making consequential amendments to:

- Form 41-101F2 *Information Required in an Investment Fund Prospectus*,
- National Instrument 81-101 *Mutual Fund Prospectus Disclosure*,
- Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure*,
- National Instrument 81-102 *Mutual Funds*, and
- National Instrument 81-104 *Commodity Pools*.

The amendments and consequential amendments (together, the Amendments) accommodate the transition of financial reporting for investment funds to International Financial Reporting Standards (IFRS). The Amendments have been adopted, or are expected to be adopted, by each member of the CSA.

Provided all necessary ministerial approvals are obtained, the Amendments will come into force on January 1, 2014.

Substance and Purpose

The Amendments require investment funds, for financial years beginning on or after January 1, 2014, to prepare financial statements in accordance with Canadian GAAP applicable to publicly accountable enterprises and to report compliance with IFRS. We have also updated the accounting terms and phrases in the Instrument to reflect IFRS as incorporated into the Handbook of the Canadian Institute of Chartered Accountants (the Handbook).

Background

The Instrument is a nationally harmonized set of continuous disclosure requirements for investment funds. The Instrument currently requires investment funds to prepare financial statements in accordance with Canadian generally accepted accounting principles (GAAP) which are established by the Canadian Accounting Standards Board (AcSB) and published in the Handbook. Following a period of consultation, the AcSB adopted a strategic plan in 2006 to move financial reporting for Canadian publicly accountable enterprises to IFRS as issued by the International Accounting Standards Board (IASB).

We published proposed amendments to the Instrument for comment on October 16, 2009 (the 2009 Proposal)¹ as part of a series of notices that proposed changes to securities legislation relating to the changeover to IFRS. The final changes for reporting issuers, other than investment funds, and registrants were published in 2010 to coincide with the transition of most publicly accountable enterprises to IFRS for financial years beginning on or after January 1, 2011.

However, the AcSB provided investment companies, as defined in and applying Accounting Guideline 18 *Investment Companies* (AcG-18), with a deferral of the mandatory changeover date for three years until January 1, 2014. This deferral applied to “investment funds” as defined in securities legislation. The deferral was intended to allow the IASB’s exception from consolidation for investment entities to be in place prior to the adoption of IFRS by investment companies in Canada.

The CSA provided notice of this deferral in CSA Staff Notice 81-320 *Update on International Financial Reporting Standards for Investment Funds*, originally published in October 2010, and updated in March 2011 and March 2012.

Exception from Consolidation for Investment Funds

IFRS 10 *Consolidated Financial Statements* requires an entity to consolidate investments that it controls. This requirement would have required investment funds to produce potentially confusing disclosure as historically, all investment fund portfolio positions were shown at fair value. In 2010, the IASB announced that it would propose that investment companies be exempt from consolidation and instead measure an investment in a subsidiary at fair value through profit and loss.

The consolidation issue for investment funds was largely resolved when the IASB issued *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* on October 31, 2012. These revisions provide investment entities with an exception from consolidating entities that they control. The term “investment entities” is defined in IFRS 10, and in our view, will capture the majority of “investment funds” as defined in securities legislation. However, while we have not yet identified an investment fund that will not qualify as an “investment entity”, we acknowledge that this may be a possibility.

Subsequent to the publication of this exception, we reviewed and revised the 2009 Proposal, after considering the developments at the IASB, together with the submissions received by the CSA during the comment period and in additional consultations with preparers and auditors of investment fund financial statements.

Summary of Written Comments Received by the CSA

During the comment period on the 2009 Proposal, we received submissions from 11 commenters. We have considered the comments received and thank all of the commenters for their input. The names of the commenters and a summary of their comments, together with our responses, are contained in Appendix B to this Notice.

Summary of Changes to the Proposed Instrument/Policy

After considering the comments received and engaging in additional consultations, we have made some revisions to the 2009 Proposal published for comment. Those revisions are reflected in the amending instruments that we are publishing concurrently with this Notice. As these changes are not material, we are not republishing the Amendments for a further comment period. Appendix A to this Notice contains a summary of the key changes made to the 2009 Proposal.

Local Matters

Appendix J is being published in any local jurisdiction that is making related changes to local securities laws, including local notices or other policy instruments in that jurisdiction. It also includes any additional information that is relevant to that jurisdiction only.

Materials Published

Appendix A – Summary of Changes to the 2009 Proposal
Appendix B – Summary of Public Comments Received by the CSA
Appendix C – Amendments to the Instrument
Appendix D – Amendments to the Policy
Appendix E – Amendments to Form 41-101F2
Appendix F – Amendments to NI 81-101
Appendix G – Amendments to Companion Policy 81-101CP
Appendix H – Amendments to NI 81-102
Appendix I – Amendments to NI 81-104
Appendix J – Local Matters

¹ These proposals were published in French on March 12, 2010 by the Autorité des marchés financiers and the New Brunswick Securities Commission (now the Financial and Consumer Services Commission (New Brunswick)).

Questions

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APPENDIX A

SUMMARY OF CHANGES TO THE 2009 PROPOSAL

This Appendix sets out the key changes that we made to the 2009 Proposal. We have provided our rationale for the changes in the Summary of Public Comments contained in Appendix B to this Notice.

General

- We changed the IFRS changeover date to January 1, 2014. The Instrument now distinguishes between requirements for financial years beginning on or after January 1, 2014 and financial years that began before the changeover date.
- For sections that are in common with National Instrument 51-102 *Continuous Disclosure Obligations*, Companion Policy 51-102CP *Continuous Disclosure Obligations* and National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (together, the Corporate Instruments), we made modifications to mirror the final IFRS amendments to the Corporate Instruments published on December 10, 2010.

NI 81-106 *Investment Fund Continuous Disclosure*

Part 2 Financial Statements

Section 2.7 – Acceptable Auditing Standards

- Section 2.7 of National Instrument 81-106 *Investment Fund Continuous Disclosure* lists required elements in an auditor's report. The Auditing and Assurance Standards Board adopted International Standards on Auditing as Canadian Auditing Standards (CAS) for audits of financial statements for periods ending on or after December 14, 2010. As we did not amend the terminology for an auditor's report at the time that CAS was introduced, we are not making amendments now for financial years beginning before January 1, 2014 so as not to create any retroactive reporting obligations by auditors. New subsection 2.7(3), relating to financial years beginning on or after January 1, 2014, reflects the CAS auditor's report.

Section 2.7 continues to require that an auditor's report be prepared in accordance with Canadian GAAS, which is defined in National Instrument 14-101 *Definitions* as generally accepted auditing standards determined with reference to the Handbook.

Part 3 Financial Disclosure Requirements

Section 3.2 – Statement of Comprehensive Income

- In response to comments, we removed line item 15 "net investment income or loss for the period" because IFRS already requires an entity to present subtotals in the statement of comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.
- In response to comments, we modified line item 17.1 because return of capital is not a financing cost, when the investment fund's own securities are classified as financial liabilities. (Refer to section 3.3 below.)

Section 3.3 – Statement of Changes in Financial Position

- In response to comments, we moved "return of capital" to line item 6.1 to distinguish it from the types of distributions that may represent financing costs, if the investment fund's own securities are classified as financial liabilities.

Section 3.5 – Statement of Investment Portfolio

- We did not proceed with the proposal to present a non-consolidated statement of investment portfolio because, based on our analysis and feedback from stakeholders, it appears that most investment funds as defined in securities legislation will qualify as investment entities as defined in the amendments to IFRS 10 *Consolidated Financial Statements*, issued on October 31, 2012. Accordingly, these investment funds will not be required to consolidate entities that they control and, instead, will measure an investment in a subsidiary at fair value through profit or loss.

Form 81-106F1 Contents of Annual and Interim Management Report of Fund Performance

Part B Content Requirements for Annual Management Report of Fund Performance

Item 3 – Financial Highlights

- We did not proceed with the proposal to show financial highlights on a non-consolidated basis as it appears that most investment funds will not be required to consolidate entities that they control. (Refer to section 3.5 above.)

Companion Policy 81-106CP

We modified the amendments to the Policy to reflect the changes to the Instrument and explain the CSA's approach to the transition from Canadian GAAP currently used by investment funds to IFRS.

Part 2 Financial Statements

Section 2.5.1 – Disclosure of Investment Portfolio

- We clarified that the statement of investment portfolio may be referred to as a schedule, but that it must still be audited.

Section 2.7 – Disclosure of Securities Lending Transactions

- We removed the discussion of accounting principles pertaining to securities lending transactions as the requirements for recognition and measurement of these transactions are set out in IFRS.

Part 9 Net Asset Value

Section 9.2 – Fair Value Guidance

- We clarified the difference between “fair value” as defined in the Instrument and the requirement to determine “current value” for financial statement purposes.

Section 9.3 – Meaning of Fair Value

- We removed the reference to the Handbook definition of fair value as repeating this definition in the Companion Policy is unnecessary. The Companion Policy continues to indicate that investment funds may look to the principles in the Handbook for guidance on the measurement of fair value when calculating net asset value.

Consequential Amendments

Form 41-101F2 Information Required in an Investment Fund Prospectus, subsection 3.6(4) and section 11.1

- We modified the description of MER to be consistent with the Instrument.

National Instrument 81-102 Mutual Funds, Appendix B-1, Appendix B-2 and Appendix B-3

- We modified the compliance reports to reflect CAS auditor's reports in a compliance framework.

APPENDIX B

SUMMARY OF PUBLIC COMMENTS ON PROPOSED AMENDMENTS TO NI 81-106

1. Alternatives to IFRS	
Comment	<p>Five commenters stated that, from an investor's perspective, the overall comparability and understandability of IFRS financial statements for investment funds will be significantly reduced when compared to the presentation format of current Canadian GAAP financial statements as a result of issues relating to valuation, consolidation, and classification of puttable instruments. One commenter pointed out that reduced comparability is unfortunate, but unavoidable under IFRS.</p> <p>As IFRS does not currently provide for specialized industry accounting for investment funds, four commenters urged the CSA to consider alternatives to IFRS, such as preparing financial statements in accordance with a presentation framework as prescribed by the CSA. National Instrument 81-106 <i>Investment Fund Continuous Disclosure (NI 81-106)</i> would need to be changed to allow investment funds to prepare financial statements in accordance with IFRS, except that investments must be presented on a fair value basis. The financial statements would not contain an unreserved statement of compliance with IFRS. Such financial statements would receive an unmodified opinion following a compliance framework and NI 81-106 would need to be changed to accommodate acceptance of a compliance framework.</p> <p>One commenter requested that private investment funds be excluded from NI 81-106.</p> <p>Two commenters suggested that the CSA approach the Canadian Accounting Standards Board (AcSB) to exclude investment funds from the definition of publicly accountable enterprises, which are subject to IFRS.</p>
Response	<p><i>Background</i></p> <p>Following a period of public consultation, the AcSB announced in 2006 a strategic plan to adopt IFRS by publicly accountable enterprises in Canada. In 2008, the AcSB confirmed the 2011 changeover date for publicly accountable enterprises and, since then, has incorporated IFRS into the Handbook of the Canadian Institute of Chartered Accountants (the Handbook). IFRS is a single set of high quality, globally accepted accounting principles adopted by the International Accounting Standards Board (IASB).</p> <p>Reporting issuers other than investment funds adopted IFRS for financial years beginning on or after January 1, 2011. The mandatory changeover date for investment funds was deferred by the AcSB for three years and is now January 1, 2014.</p> <p>NI 81-106 currently requires investment funds to prepare financial statements in accordance with Canadian GAAP as applicable to public enterprises.¹ In CSA Staff Notice 81-320 (Revised) <i>Update on International Financial Reporting Standards for Investment Funds (Staff Notice 81-320)</i> – first published on October 8, 2010, revised on March 23, 2011 and March 16, 2012 – the CSA stated that we consider the standards in Part V of the Handbook to be Canadian GAAP as applicable to public enterprises for securities legislation purposes. The CSA supports the AcSB's plan to move financial reporting for all Canadian publicly accountable enterprises to IFRS and believes that investment fund financial statements should be prepared using the same accounting standards as other issuers for financial years beginning on or after January 1, 2014. These amendments are intended to provide investment funds with an efficient transition to IFRS.</p> <p><i>Maintaining comparability</i></p> <p>The amendments attempt to maintain comparability of financial statement presentation and performance reporting among investment funds. In the financial statements, certain changes to accounting terms and phrases were made to conform with IFRS; however, changes in terminology generally will not affect the amounts shown on the financial statements. For example, currently an investment fund discloses its "net assets", which under IFRS will become either "total equity" or "net assets attributable to securityholders" (depending on the classification of the fund's securities). We intend for the determination of either total equity or net assets attributable to securityholders under IFRS to yield the same result as the determination of net assets under current Canadian GAAP for most investment funds.</p> <p>As well, we have required the presentation of certain additional line items on the statement of comprehensive income. For example, investment funds that classify their securities as financial liabilities will disclose the</p>

¹ Section 2.6 of NI 81-106

	<p>“increase or decrease in net assets attributable to securityholders (excluding distributions) from operations” to maintain comparability with the “increase or decrease in total equity from operations” to be disclosed by investment funds that classify their securities as equity instruments.</p> <p>The changeover to IFRS is not expected to substantially impact the disclosure provided to investors in the management report of fund performance, nor affect the calculation of the management expense ratio or trading expense ratio.</p> <p><i>New accounting framework</i></p> <p>The amendments have not changed the requirement to disclose an investment fund’s assets and liabilities at “current value”, which is defined in NI 81-106 as the value calculated in accordance with Canadian GAAP. Previously, Accounting Guideline 18 <i>Investment Companies (AcG-18)</i> allowed an investment fund to measure all its investments at fair value. To the extent that the measurement principles are different under IFRS, certain investments held by an investment fund may be measured differently compared to what was disclosed in its Canadian GAAP financial statements from previous years, and in the IFRS financial statements of other investment funds. While the measurement options under IFRS may result in reduced financial statement comparability, in the CSA’s view, it is important for an investment fund to be able to make a statement of unreserved compliance with IFRS and for the auditor’s report to refer to IFRS as the applicable fair presentation framework.</p> <p><i>Pooled funds</i></p> <p>For jurisdictions where NI 81-106 applies to a mutual fund that is not a reporting issuer, the requirement for financial reporting originates in securities legislation. The scope of these amendments does not permit us to change the <i>Securities Act</i> in those jurisdictions.</p>
<p>2. Consolidation</p>	
<p>Comment</p>	<p>2.1 Usefulness of consolidated financial statements</p> <p>All commenters believe that consolidated financial statements do not provide the most useful decision-making information for investors. Two commenters pointed out that the information of importance to investors is the assessment of cash flows, changes in fair value, and comparison of NAV and change in NAV to a benchmark. Four commenters stated that consolidated financial statements would be misleading because items such as property, plant and equipment would be brought onto the fund’s statement of financial position and would not be measured at fair value.</p>
<p>Response</p>	<p>Staff Notice 81-320 provided a history of the consolidation issue. Under existing IFRS 10 <i>Consolidated Financial Statements (IFRS 10)</i>, an entity is required to consolidate investments that it controls. During the development of the consolidation standard in 2009, the IASB heard from users of investment fund financial statements who were unanimous in their view that fair value of investments held by investment funds was the most useful decision-making information for investors, not consolidated financial information. As a result, the IASB published the Exposure Draft <i>Investment Entities</i> on August 25, 2011, which proposed that a class of entities defined as “investment entities” be excepted from consolidating entities that they control and instead account for controlling interests in other entities at fair value.</p> <p>This issue was largely resolved for the investment fund industry when the IASB published <i>Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)</i> on October 31, 2012, which provides an exception to consolidation for investment entities. Based on our analysis and feedback from stakeholders, it appears that most investment funds as defined in securities legislation will qualify as investment entities. We have revised the proposed IFRS-related amendments to NI 81-106 (and other instruments related to investment funds) to reflect that most investment funds will not be required to consolidate entities that they control. Accordingly, we have removed the proposed requirement in NI 81-106 for an investment fund to prepare a statement of investment portfolio on a non-consolidated basis within a set of consolidated financial statements.</p> <p>Any remaining investment funds, that may be required to consolidate, can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.</p>
<p>Comment</p>	<p>2.2 Operational issues</p> <p>Eight commenters cited operational difficulties if consolidated financial statements were to be prepared, such as: daily tracking of percentage ownership; access to an unrelated fund manager’s financial information; breach of confidentiality; consolidation of entities with non-coterminous year-ends; consolidation of private</p>

	<p>entities using different sets of GAAP; and the audit of the stub period. Four commenters stated that the investment fund industry is not structured to deal with consolidation and the change will result in modifications to information technology systems, and policies and procedures. These transitional costs will be passed onto investors through a higher MER.</p> <p>Three commenters thought that non-consolidated financial statements prepared by registrants, such as investment fund managers, represent a precedent for the CSA to accept non-consolidated financial statements.</p>
Response	<p>Please see the response to Item 2.1 above.</p> <p>Most registrants, such as investment fund managers, prepare non-consolidated financial statements for the specific purpose of determining their excess working capital. These are not public general-purpose financial statements and are only delivered to the securities regulatory authority or regulator under the requirements of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i>. If the registrant has a related reporting issuer entity, that entity must comply fully with IFRS and National Instrument 51-102 <i>Continuous Disclosure Obligations</i>.</p>
Comment	<p>2.3 Statement of investment portfolio and auditor's opinion</p> <p>One commenter stated that the presentation of both consolidated financial statements and non-consolidated fair value information in the same set of financial statements may be confusing but, more importantly, seven commenters believed that giving a non-consolidated statement of investment portfolio equal prominence as consolidated primary financial statements would result in a modified audit opinion. Commenters encouraged us to require the portfolio disclosure as a schedule, while others thought it would be more prudent to include the disclosure in the notes to the financial statements to avoid the requirement to show comparative information.</p> <p>Three commenters thought a numerical or explanatory reconciliation between the statement of investment portfolio and statement of financial position may be confusing and asked that the proposed requirement be removed. Instead, the basis of presentation should be disclosed on the statement of investment portfolio. One commenter thought that a three-way quantitative reconciliation between the consolidated financial statements, the non-consolidated portfolio (established using bid price), and the net asset value (established using closing price) would be essential for readers.</p> <p>Two commenters stated that requiring the preparation of consolidated and non-consolidated financial statements, or a standalone non-consolidated statement of investment portfolio would be costly because two audit reports would be required with differing materiality.</p>
Response	<p>We revised the proposed amendments. We no longer are proposing that a non-consolidated statement of investment portfolio be included within a consolidated set of financial statements. For an investment fund subject to NI 81-106, the statement of investment portfolio will account for entities that it controls on the same basis as in the primary financial statements. Any remaining investment funds, that may be required to consolidate, can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.</p>
Comment	<p>2.4 Reconciliation between net assets and NAV</p> <p>Two commenters stated that there could be additional reconciliations between net assets and NAV as a result of an investment fund consolidating entities that it controls. One commenter indicated that little useful information would be provided because the reconciliation would highlight differences arising from accounting presentation requirements, not fair value changes. One commenter took the view that the reconciliation was a non-GAAP measure.</p>
Response	<p>We acknowledge that there may be additional reconciling items between net assets and NAV as a result of IFRS. Reconciling items may arise because IFRS provides an entity with options on how to measure its investments and those options are different from the guidance in AcG-18 that an "investment company" should measure its investments at fair value. Reconciling items may also include the consolidation of non-fair valued assets and liabilities on the statement of financial position accounted for on a different basis than the rest of the portfolio; however, we do not expect this type of reconciling item to be widespread because of our understanding that most investment funds will not be required to consolidate entities that they control as a result of the amendments to IFRS 10 (refer to the response to Item 2.1). As required in item 5, section 3.6(1) of NI 81-106, an explanation of these differences will be provided. The reconciliation, which appears in the notes to the financial statements, will be audited and will explain to investors why the NAV at which they transacted is different from the net assets in the audited financial statements.</p>

	<p>There is already an existing requirement to discuss fair value changes, if material, in the results of operations or past performance sections within the management report of fund performance.</p> <p>We do not agree that the reconciliation between net assets and NAV is a non-GAAP measure. CSA Staff Notice 52-306 (Revised) <i>Non-GAAP Financial Measures and Additional GAAP Measures (Staff Notice 52-306)</i> sets out that International Accounting Standard 1 <i>Presentation of Financial Statements (IAS 1)</i> provides for information to be presented in the notes to the financial statements “that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of [the statements]” (IAS 1, paragraph 112(c)). The reconciliation provides an understanding of the differences between net assets on the financial statements and NAV, and represents important disclosure available to investors since 2008.</p>
Comment	<p>2.5 MER</p> <p>One commenter pointed out that consolidation of an underlying entity’s operating revenues and expenses into the statement of comprehensive income has the potential for increasing MER. There was also a request for guidance on how to complete the per share highlights table in the MRFP based on consolidated information.</p>
Response	<p>As discussed in Item 2.1 above, IFRS provides an exception from consolidation for investment entities. Any remaining investment funds, that may be required to consolidate, can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.</p>
Comment	<p>3. Classification of puttable instruments</p> <p>One commenter supported the CSA’s attempt to maintain comparability among investment funds and stated that the proposed amendments generally 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.</p> <p>Two commenters requested guidance for the presentation of an investment fund’s own securities that are classified as both liability and equity. Three commenters requested that the CSA mandate a liability or equity presentation so that there is one type of presentation for securities issued by investment funds. One commenter stated that partnerships do not issue securities to their limited partners and would not be accommodated by the proposed format.</p> <p>Three commenters stated that the proposed line item “increase or decrease in total equity from operations per security, or in net assets attributable to securityholders (excluding distributions) from operations per security, or, if applicable, per security of each class or series” is a non-GAAP measure and not permitted under IFRS.</p>
Response	<p>International Accounting Standard 32 <i>Financial Instruments: Presentation (IAS 32)</i> classifies a puttable financial instrument as a financial liability, unless the instrument has certain features, in which case it is classified as an equity instrument. Generally, puttable instruments are securities which are redeemable by the securityholder. As most investment funds issue redeemable securities, investment funds will have to determine if their securities are puttable instruments and, if so, whether they should be classified as financial liabilities or as equity instruments. Under IFRS, there may be two different presentations of investment funds’ securities, depending on the structure of the investment fund. We require investment funds to be compliant with IFRS and, therefore, cannot mandate one presentation for an investment fund’s securities. We have attempted, however, to keep the financial statement presentation as consistent as possible, regardless of whether an investment fund’s own securities are classified as equity or liability under IFRS. For example, the amendments allow an investment fund to disclose either total equity (if the fund’s own securities are classified as equity) or net assets attributable to securityholders (if the fund’s own securities are classified as liabilities).</p> <p>The transition to IFRS was not meant to remove long-established disclosure that investment funds have been providing to investors in their financial statements. While Canadian GAAP only provided some general requirements for the preparation of financial statements and IFRS mandates certain minimum line items, IFRS also requires presentation of “additional line items, headings and subtotals... when such presentation is relevant to an understanding” of an entity’s financial position and performance (IAS 1 paragraphs 55 and 85). IAS 1 also contemplates including additional line items, reordering line items, and amending descriptions to provide information that is relevant to the operations of an entity, taking into consideration “the nature and function of the items of income and expense” (IAS 1 paragraph 86). We are of the view that additional line items prescribed by NI 81-106 on the statement of comprehensive income, such as “increase or decrease in total equity from operations per security, or in net assets attributable to securityholders (excluding distributions) from operations per security, or, if applicable, per security of each class or series”, provide investors with relevant performance comparisons between investment funds, regardless of whether those</p>

	<p>funds' own securities are classified as financial liabilities or equity instruments.</p> <p>Staff Notice 52-306 was revised in November 2010 and distinguishes between non-GAAP financial measures and additional GAAP measures. We are of the view that these same additional line items prescribed on the statement of comprehensive income fit into the parameters of additional GAAP measures as required by IFRS.</p>
<p>4. Transition issues</p>	
<p>Comment</p>	<p>4.1 Extension of filing deadline</p> <p>Three commenters asked for an extension of the financial statement filing deadlines for investment funds to be consistent with the 30-day extension given to other reporting issuers and the 15-day extension for registrants that transitioned to IFRS in 2011. One commenter cited other countries that granted extensions even for the filing of semi-annual financial statements.</p> <p>One commenter stated that the 60 and 90 day filing deadlines for interim and annual financial statements will not be enough to accommodate the consolidation process and extensions will be required each year.</p>
<p>Response</p>	<p>We are not providing an extension for the first interim financial statements to be prepared under IFRS by investment funds. IFRS did not come into effect for investment funds for financial years beginning January 1, 2011, as it did for most publicly accountable enterprises. As a result, preparers of investment fund financial statements have had three years to consider the implications of adopting IFRS and learn from the experiences of other reporting issuers.</p> <p>Since the publication of CSA Staff Notice 52-320 <i>Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards</i> in 2008, investment funds have been providing disclosure in their annual and interim filings about the state of their IFRS readiness. For many years, most investment funds have disclosed in their financial statements or management reports of fund performance that the impact of IFRS will be limited to additional note disclosure and modifications to existing presentation. The CSA also reminded investment funds of their responsibility for IFRS readiness for the past three years with each update to Staff Notice 81-320. With the length of notice provided to investment funds, the CSA is of the view that they should be prepared for the January 1, 2014 changeover date.</p> <p>In 2011, other reporting issuers received a 30-day extension because many of them were required to file quarterly financial statements after the end of their first quarter interim period. Unlike other reporting issuers, investment funds are required to file semi-annual financial statements after the period-end. The semi-annual, rather than quarterly, filing frequency for investment funds provides a longer period to prepare for the first filings under IFRS. In our view, an extension of the filing deadline for investment fund financial statements is not required because investment funds do not file as frequently as other reporting issuers.</p>
<p>Comment</p>	<p>4.2 Additional guidance</p> <p>Two commenters requested additional guidance, or the publication of frequently asked questions (FAQs), to address: areas silent in IFRS or the amendments; whether the CSA requires preparation of the statement of comprehensive income by function or nature; the presentation format to be used for the statement of changes in financial position; and how performance measures other than those required by GAAP should be reported when a fund has some classes of securities recorded as financial liabilities and other classes recorded as equity instruments.</p> <p>There were also questions relating to specific presentation on the financial statements, such as:</p> <ul style="list-style-type: none"> • requiring an opening balance sheet for reclassifying of items in the annual financial statements or interim financial reports; • definition of “net investment income or loss” on the statement of comprehensive income; • the disclosure of return of capital on the statement of comprehensive income; • separation of redemptions into share capital and undistributed retained earnings in the statements of changes in financial position, and cash flows; • request to add certain subtotals;

	<ul style="list-style-type: none"> • inquiries about the placement, repealing, or the lack of certain line items; and • requests to modify the concept of inapplicable line items.
Response	To the extent that these are IFRS transition issues, we defer to auditors of investment funds with whom preparers of financial statements should be discussing such issues. The CSA will prepare FAQs if necessary (based on the number and type of inquiries) or guidance may be issued through other stakeholder communications. Investment funds can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.
Comment	<p>4.3 Transition issues</p> <p>Five commenters expressed concern that the IASB would not finalize the proposed relief for investment funds from the consolidation requirement before IFRS is adopted by investment funds in Canada. They asked the CSA to consider transitional provisions.</p>
Response	This was addressed with the deferral of the changeover date from January 1, 2011 to January 1, 2014. The CSA published Staff Notice 81-320 three times during the deferral to communicate the CSA's view that it would be preferable for the IASB's consolidation exception to be in place when IFRS is adopted by investment funds in Canada. The most recent update to Staff Notice 81-320, published in March 2012, confirmed that CSA staff would be taking additional time before seeking approval in each CSA jurisdiction to finalize IFRS-related amendments to NI 81-106 and other instruments related to investments fund, with the goal of having the necessary IFRS-related amendments for investment funds in force by January 1, 2014. On October 31, 2012, the IASB published final amendments relating to the consolidation exception, with those amendments applying to annual periods beginning on or after January 1, 2014.

5. List of commenters

Commenters

- Alternative Investment Management Association
- The Canadian Advocacy Committee of the CFA Institute Societies of Canada
- Deloitte LLP
- Ernst & Young LLP
- Fonds FMOQ
- Growth Works Capital Ltd.
- The Investment Funds Institute of Canada
- KPMG LLP
- Mouvement Desjardins
- PFM Venture Capital Operations Inc.
- PwC

APPENDIX C

AMENDMENTS TO
NATIONAL INSTRUMENT 81-106 INVESTMENT FUND CONTINUOUS DISCLOSURE

Although this amendment instrument amends section headers in National Instrument 81-106, section headers do not form part of the instrument and are inserted for ease of reference only.

1. **National Instrument 81-106 Investment Fund Continuous Disclosure is amended by this instrument.**
2. **Section 1.1 of National Instrument 81-106 is amended by**
 - (a) **adding the following after the definition of “EVCC”:**

“financial statements” includes interim financial reports;;
 - (b) **repealing the definition of “net asset value” and substituting the following:**

“net asset value” means the value of the total assets of the investment fund less the value of the total liabilities, other than net assets attributable to securityholders, of the investment fund, as at a specific date, determined in accordance with Part 14;;
 - (c) **adding the following after the definition of “non-redeemable investment fund”:**

“publicly accountable enterprise” means a publicly accountable enterprise as defined in the Handbook;; **and**
 - (d) **adding the following after the definition of “scholarship plan”:**

“statement of changes in financial position” means a statement of changes in equity or a statement of changes in net assets attributable to securityholders;.
3. **Section 2.1 of National Instrument 81-106 is amended by**
 - (a) **striking out** “statement of net assets” **in paragraph (1)(a) wherever it occurs and substituting** “statement of financial position”;
 - (b) **striking out** “statement of operations” **in paragraph (1)(b) wherever it occurs and substituting** “statement of comprehensive income”;
 - (c) **striking out** “statement of changes in net assets” **in paragraph (1)(c) wherever it occurs and substituting** “statement of changes in financial position”;
 - (d) **repealing paragraph (1)(d) and substituting the following:**
 - (d) for financial years beginning on or after January 1, 2014, a statement of cash flows for that financial year and a statement of cash flows for the immediately preceding financial year;; **and**
 - (e) **striking out** “; and” **at the end of paragraph (1)(e) and repealing paragraph (1)(f) and substituting the following:**
 - (f) a statement of financial position as at the beginning of the immediately preceding financial year if the investment fund discloses in its annual financial statements an unreserved statement of compliance with IFRS and the investment fund:
 - (i) applies an accounting policy retrospectively in its annual financial statements,
 - (ii) makes a retrospective restatement of items in its annual financial statements, or
 - (iii) reclassifies items in its annual financial statements; and
 - (g) notes to the annual financial statements.

4. Section 2.3 of National Instrument 81-106 is amended by

- (a) **in the title, striking out** “Interim Financial Statements” **and substituting** “Interim Financial Report”;
- (b) **striking out** “interim financial statements” **and substituting** “an interim financial report”;
- (c) **striking out** “include” **and substituting** “includes”;
- (d) **striking out** “statement of net assets” **in paragraph (a) wherever it occurs and substituting** “statement of financial position”;
- (e) **striking out** “statement of operations” **in paragraph (b) wherever it occurs and substituting** “statement of comprehensive income”;
- (f) **striking out** “statement of changes in net assets” **in paragraph (c) wherever it occurs and substituting** “statement of changes in financial position”;
- (g) **repealing paragraph (d) and substituting the following:**
 - (d) for financial years beginning on or after January 1, 2014, a statement of cash flows for that interim period and a statement of cash flows for the corresponding period in the immediately preceding financial year;; **and**
- (h) **repealing paragraph (f) and substituting the following:**
 - (f) a statement of financial position as at the beginning of the immediately preceding financial year if the investment fund discloses in its interim financial report an unreserved statement of compliance with International Accounting Standard 34 *Interim Financial Reporting* and the investment fund
 - (i) applies an accounting policy retrospectively in its interim financial report,
 - (ii) makes a retrospective restatement of items in its interim financial report, or
 - (iii) reclassifies items in its interim financial report; and
 - (g) notes to the interim financial report.

5. Section 2.4 of National Instrument 81-106 is amended by

- (a) **in the title, striking out** “Interim Financial Statements” **and substituting** “Interim Financial Report”; **and**
- (b) **striking out** “interim financial statements” **and substituting** “interim financial report”.

6. Section 2.6 of National Instrument 81-106 is repealed and substituted by the following:

2.6 Acceptable Accounting Principles

- (1) For financial years beginning before January 1, 2014, the financial statements of an investment fund must be prepared in accordance with Canadian GAAP applicable to public enterprises.
- (2) For financial years beginning on or after January 1, 2014, the financial statements of an investment fund must be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises.
- (3) Financial statements must be prepared in accordance with the same accounting principles for all periods presented in the financial statements.

7. Section 2.7 of National Instrument 81-106 is amended by repealing subsection (2) and substituting the following:

- (2) For financial years beginning before January 1, 2014, audited financial statements must be accompanied by an auditor’s report prepared in accordance with Canadian GAAS and the following requirements:

1. The auditor's report must not contain a reservation or express a modified opinion.
 2. The auditor's report must identify all financial periods presented for which the auditor has issued an auditor's report.
 3. If the investment fund has changed its auditor and a comparative period presented in the financial statements was audited by a different auditor, the auditor's report must refer to the former auditor's report on the comparative period.
 4. The auditor's report must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.
- (3) For financial years beginning on or after January 1, 2014, audited financial statements must be accompanied by an auditor's report prepared in accordance with Canadian GAAS and the following requirements:
1. The auditor's report expresses an unmodified opinion.
 2. The auditor's report identifies all financial periods presented for which the auditor has issued an auditor's report.
 3. The auditor's report is in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework.
 4. The auditor's report refers to IFRS as the applicable fair presentation framework.
 5. If the investment fund has changed its auditor and a comparative period presented in the financial statements was audited by a predecessor auditor, the financial statements are accompanied by the predecessor auditor's report on the comparative period or the auditor's report refers to the predecessor auditor's report on the comparative period.

8. Section 2.9 of National Instrument 81-106 is amended by

- (a) **striking out** "interim financial statements" **wherever it occurs and substituting** "an interim financial report";
- (b) **striking out** "statement of net assets" **wherever it occurs and substituting** "statement of financial position";
- (c) **striking out** "statement of operations" **wherever it occurs and substituting** "statement of comprehensive income";
- (d) **striking out** "statement of changes in net assets" **wherever it occurs and substituting** "statement of changes in financial position";
- (e) **striking out** "statement of cashflows" **wherever it occurs and substituting** "statement of cash flows";
- (f) **in subsection (4), striking out** "subsections 4.8(7) and (8)" **and substituting** "paragraphs 4.8(7)(a) and (b) and (8)(a) and (b)"; **and**
- (g) **striking out** ", if applicable," **in subparagraph (4)(a)(ii) and subparagraph (4)(b)(ii).**

9. Section 2.10 of National Instrument 81-106 is amended in paragraph (j) by striking out "interim and annual financial statements" **and substituting** "interim financial report and annual financial statements".

10. Section 2.12 of National Instrument 81-106 is amended by

- (a) **in the title, striking out** "Interim Financial Statements" **and substituting** "Interim Financial Report";
- (b) **striking out** "interim financial statements" **wherever it occurs and substituting** "interim financial report"; **and**
- (c) **in subsection (2), striking out** "have" **and substituting** "has".

11. **Section 3.1 of National Instrument 81-106 is amended by**

- (a) **in the title, striking out** “Statement of Net Assets” **and substituting** “Statement of Financial Position”;
- (b) **striking out** “statement of net assets” **and substituting** “statement of financial position”;
- (c) **repealing paragraph 14 and substituting the following:**
 - 14. total equity or net assets attributable to securityholders and, if applicable, for each class or series.;
and
- (d) **repealing paragraph 15 and substituting the following:**
 - 15. total equity per security or net assets attributable to securityholders per security, or if applicable, per security of each class or series.

12. **Section of 3.2 of National Instrument 81-106 is amended by**

- (a) **in the title, striking out** “Statement of Operations” **and substituting** “Statement of Comprehensive Income”;
- (b) **striking out** “statement of operations” **and substituting** “statement of comprehensive income”;
- (c) **repealing paragraph 12;**
- (d) **striking out** “provision for” **in paragraph 14;**
- (e) **repealing paragraph 15;**
- (f) **adding the following after paragraph 17:**
 - 17.1 if recognized as an expense, distributions, showing separately the amount distributed out of net investment income and out of realized gains on portfolio assets sold.;
- (g) **repealing paragraph 18 and substituting the following:**
 - 18. increase or decrease in total equity from operations, or in net assets attributable to securityholders from operations, excluding distributions, and, if applicable, for each class or series.; **and**
- (h) **repealing paragraph 19 and substituting the following:**
 - 19. increase or decrease in total equity from operations per security, or in net assets attributable to securityholders from operations, excluding distributions, per security or, if applicable, per security of each class or series.

13. **Section 3.3 of National Instrument 81-106 is amended by**

- (a) **in the title, striking out** “Statement of Changes in Net Assets” **and substituting** “Statement of Changes in Financial Position”;
- (b) **striking out** “statement of changes in net assets” **and substituting** “statement of changes in financial position”;
- (c) **repealing paragraph 1 and substituting the following:**
 - 1. total equity or net assets attributable to securityholders at the beginning of the period.;
- (d) **repealing paragraph 2;**
- (e) **repealing paragraph 6 and substituting the following:**
 - 6. if not recognized as an expense, distributions, showing separately the amount distributed out of net investment income and out of realized gains on portfolio assets sold.

6.1 return of capital.; **and**

(f) **repealing paragraph 7 and substituting the following:**

7. total equity or net assets attributable to securityholders at the end of the period.

14. Section 3.4 of National Instrument 81-106 is amended by

(a) **in the title, striking out** “Statement of Cashflows” **and substituting** “Statement of Cash Flows”;

(b) **striking out** “statement of cashflows” **and substituting** “statement of cash flows”;

(c) **repealing paragraph 1; and**

(d) **repealing paragraph 3 and substituting the following:**

3. payments for the purchase of portfolio assets.

15. Section 3.6 of National Instrument 81-106 is amended by

(a) **adding the following after paragraph (1)1:**

1.1 for financial years beginning on or after January 1, 2014, the basis for classifying the investment fund’s outstanding securities, or each class or series of outstanding securities, as either equity instruments or financial liabilities.;

(b) **striking out** “statement of changes in net assets” **in paragraph (1)4 and substituting** “statement of changes in financial position”;

(c) **repealing paragraph (1)5 and substituting the following:**

5. the net asset value per security as at the date of the financial statements compared to the total equity per security or net assets attributable to securityholders per security as shown on the statement of financial position, and an explanation of each of the differences between these amounts.; **and**

(d) **adding the following after subsection (2):**

(3) For financial years beginning on or after January 1, 2014, the notes to the financial statements must disclose

(a) in the case of annual financial statements, an unreserved statement of compliance with IFRS; and

(b) in the case of interim financial reports, an unreserved statement of compliance with International Accounting Standard 34 *Interim Financial Reporting*.

16. Section 3.8 of National Instrument 81-106 is amended by

(a) **striking out** “statement of net assets” **in subsection (2) and substituting** “statement of financial position”; **and**

(b) **striking out** “statement of operations” **in subsection (3) and substituting** “statement of comprehensive income”.

17. Section 3.9 of National Instrument 81-106 is amended by

(a) **striking out** “statement of net assets” **wherever it occurs in subsection (2) and substituting** “statement of financial position”; **and**

(b) **striking out** “statement of operations” **in subsection (3) and substituting** “statement of comprehensive income”.

18. **Section 3.10 of National Instrument 81-106 is amended by**
- (a) **striking out** “statement of net assets” **in subsection (2) and substituting** “statement of financial position”; **and**
 - (b) **striking out** “statement of operations” **in subsection (3) and substituting** “statement of comprehensive income”.
19. **Section 3.11 of National Instrument 81-106 is amended by**
- (a) **striking out** “statement of net assets” **in subparagraph (1)(a)(iii) and substituting** “statement of financial position”;
 - (b) **striking out** “statement of operations” **in paragraph (1)(c) and substituting** “statement of comprehensive income”; **and**
 - (c) **repealing subsection (2) and substituting the following:**
 - (2) Despite sections 3.1 and 3.2, an investment fund that is a scholarship plan may omit the “total equity per security or net assets attributable to securityholders per security” and “increase or decrease in total equity from operations per security, or in net assets attributable to securityholders from operations, excluding distributions, per security” line items from its financial statements.
20. **Section 4.2 of National Instrument 81-106 is amended by striking out** “interim financial statements” **and substituting** “interim financial report”.
21. **Section 5.1 of National Instrument 81-106 is amended in paragraph (2)(b) by striking out** “interim financial statements” **and substituting** “the interim financial report”.
22. **Section 8.2 of National Instrument 81-106 is amended in paragraph (d) by striking out** “interim financial statements” **and substituting** “an interim financial report”.
23. **Section 8.4 of National Instrument 81-106 is amended by striking out** “the net assets” **and substituting** “of the total equity or net assets attributable to securityholders”.
24. **Section 8.5 of National Instrument 81-106 is amended in paragraph (b) by striking out** “[net assets/venture investments]” **and substituting** “[total equity/net assets attributable to securityholders/venture investments]”.
25. **Section 15.1 of National Instrument 81-106 is amended by repealing clause (1)(a)(i)(A) and substituting the following:**
- (A) total expenses of the investment fund, excluding distributions if recognized as an expense, commissions and other portfolio transaction costs, before income taxes, for the financial year or interim period, as shown on its statement of comprehensive income; and .
26. **Section 15.2 of National Instrument 81-106 is amended by**
- (a) **repealing subparagraph (1)(a)(i) and substituting the following:**
 - (i) multiplying the total expenses of each underlying investment fund, excluding distributions if recognized as an expense, commissions and other portfolio transaction costs, before income taxes, for the financial year or interim period, by ; **and**
 - (b) **repealing paragraph (1)(b) and substituting the following:**
 - (b) the total expenses of the investment fund, excluding distributions if recognized as an expense, commissions and other portfolio transaction costs, before income taxes, for the period.

27. Part 18 of National Instrument 81-106 is amended by adding the following before section 18.6:

18.5.1 Transition to IFRS

- (1) For the first interim period in the financial year beginning on or after January 1, 2014, an investment fund must file, with its interim financial report for that interim period, an opening statement of financial position as at the date of transition to IFRS.
- (2) For the first financial year beginning on or after January 1, 2014, an investment fund must file, with its annual financial statements for that financial year, an audited opening statement of financial position as at the date of transition to IFRS.
- (3) Despite sections 3.1, 3.2, 3.3, 3.4 and 3.6, for financial years beginning before January 1, 2014, an investment fund may present line items and use terminology in its financial statements consistent with the immediately preceding financial year.

28. Part A, Item 1 of Form 81-106F1 Contents of Annual and Interim Management Report of Fund Performance is amended by

- (a) **striking out** “This concept of materiality is consistent with the financial reporting notion of materiality contained in the Handbook.” **in paragraph (e); and**
- (b) **striking out the first sentence in paragraph (f) and substituting the following:**

All references to “net assets” or “net assets per security” in this Form are references to total equity or net assets attributable to securityholders determined in accordance with Canadian GAAP as presented in the financial statements of the investment fund.

29. Part B, Item 1 of Form 81-106F1 is amended by repealing the third paragraph and substituting the following:

Securityholders may also contact us using one of these methods to request a copy of the investment fund’s interim financial report, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

30. Part B, Item 3, section 3.1 of Form 81-106F1 is amended by

- (a) **in subsection (1), striking out** “total expenses” **in The Fund’s Net Assets Per [Unit/Share] table and substituting** “total expenses [excluding distributions]”;
- (b) **in subsection (1), striking out** “From income (excluding dividends)” **in The Fund’s Net Assets Per [Unit/Share] table and substituting** “From net investment income (excluding dividends)”;
- (c) **in subsection (1), striking out** “(excluding commissions and other portfolio transaction costs)” **in footnote (2) to the Ratios and Supplemental Data table and substituting** “(excluding [distributions], commissions and other portfolio transaction costs)” **; and**
- (d) **adding the following after subsection (7):**
 - (7.1) (a) For financial years beginning before January 1, 2014, the financial highlights may be derived from the investment fund’s financial statements prepared in accordance with subsection 2.6(1) of the Instrument.
 - (b) For financial periods beginning on or after January 1, 2014, derive the financial highlights from the investment fund’s financial statements prepared in accordance with subsection 2.6(2) of the Instrument.
 - (c) Despite paragraph (a), in an annual MRFP for a financial year beginning on or after January 1, 2014, derive the financial highlights for the immediately preceding financial year from financial statements prepared in accordance with subsection 2.6(2) of the Instrument.
 - (d) If the financial highlights relate to financial periods beginning both before and on or after January 1, 2014, disclose, in a note to the table, the accounting principles applicable to each period.

31. **Part B, Item 3, section 3.2 of Form 81-106F1 is amended by**
- (a) **striking out** “Balance Sheet” **in the Financial & Operating Highlights (with comparative figures) table and substituting** “Statement of Financial Position”; **and**
 - (b) **striking out** “Statement of Operations” **in the Financial & Operating Highlights (with comparative figures) table and substituting** “Statement of Comprehensive Income”.
32. **Part C, Item 1 of Form 81-106F1 is amended by repealing the second paragraph and substituting the following:**
- “This interim management report of fund performance contains financial highlights but does not contain either the interim financial report or annual financial statements of the investment fund. You can get a copy of the interim financial report or annual financial statements at your request, and at no cost, by calling [toll-free/collect call telephone number], by writing to us at [insert address] or by visiting our website at [insert address] or SEDAR at www.sedar.com.”
33. **This Instrument comes into force on January 1, 2014.**

APPENDIX D

AMENDMENTS TO
COMPANION POLICY 81-106CP
TO NATIONAL INSTRUMENT 81-106 INVESTMENT FUND CONTINUOUS DISCLOSURE

1. **Companion Policy 81-106CP to National Instrument 81-106 Investment Fund Continuous Disclosure is amended.**

2. **Section 1.3 is amended by adding the following after subsection (2):**

- (3) The Instrument uses accounting terms that may be defined or referred to in Canadian GAAP applicable to publicly accountable enterprises. Some of these terms may be defined differently in securities legislation. National Instrument 14-101 *Definitions* provides that a term used in the Instrument and defined in the securities statute of a local jurisdiction has the meaning given to it in the statute unless the definition in that statute is restricted to a specific portion of the statute, or the context otherwise requires.

3. **Section 2.1 is amended by**

(a) **adding the following before subsection (2):**

- (1.1) Subsection 2.6(2) of the Instrument, applicable to financial years beginning on or after January 1, 2014, refers to Canadian GAAP for publicly accountable enterprises, which is IFRS incorporated into the Handbook, contained in Part I of the Handbook. IFRS is defined in National Instrument 14-101 *Definitions* as the standards and interpretations adopted by the International Accounting Standards Board.

Subsection 2.6(1) of the Instrument, applicable to financial years beginning before January 1, 2014, refers to Canadian GAAP as applicable to public enterprises, which the CSA considers to be the standards in Part V of the Handbook.;

(b) **repealing subsection (2) and substituting the following:**

- (2) The CSA believe that an investment fund's financial statements must include certain information, at a minimum, in order to provide full disclosure. The Instrument sets out these minimum requirements, but does not mandate all the required disclosure. Canadian GAAP applicable to publicly accountable enterprises also contains minimum requirements relating to the content of financial statements. An investment fund's financial statements must meet these requirements as well.

In some cases, the Instrument prescribes line items that may already be required by Canadian GAAP, but these line items are expressed more specifically for the activities of an investment fund. For example, Canadian GAAP requires a "trade and other receivables" line item on the statement of financial position, but the Instrument requires accounts receivable to be broken down into more specific categories. In other instances, the line items prescribed in the Instrument are in addition to those in Canadian GAAP.

While the Instrument prescribes line items, it does not prescribe the order in which those line items are presented. Investment funds should present line items, as well as any subtotals or totals, in a logical order that will contribute to a reader's overall understanding of the financial statements.

Investment funds are responsible for disclosing all material information concerning their financial position and financial performance in the financial statements. ; **and**

(c) **repealing subsection (3).**

4. **Part 2 is amended by adding the following after section 2.1:**

2.1.1 **Classification of Securities Issued by an Investment Fund**

- (1) One goal of the Instrument is comparable financial statement presentation between investment funds. However, the adoption of IFRS results in certain changes to this presentation. For example, the presentation is impacted by the classification of an investment fund's securities as either equity instruments or financial liabilities. Certain line items, such as "total equity or net assets attributable to

securityholders”, acknowledge the difference between an equity and liability presentation, but maintain a comparable measurement between investment funds regardless of this classification.

- (2) If an investment fund’s securities are classified as financial liabilities, IFRS requires financing costs to include certain distributions made by the investment fund to those securityholders. However, if an investment fund’s securities are classified as equity instruments, distributions to holders of these securities are not included in financing costs (and are not recognized as an expense), creating a difference that reduces comparability. To address this, the Instrument requires distributions to be excluded from certain calculations, specifically: (i) increase or decrease in net assets attributable to securityholders from operations as disclosed in the statement of comprehensive income, and (ii) determination of total expenses for the management expense ratio (MER).
- (3) For investment funds that classify their own securities as financial liabilities, “net assets attributable to securityholders” represents the equivalent of “total equity” for investment funds that classify their own securities as equity instruments. Net assets attributable to securityholders does not include amounts owed on securities issued by the investment fund that provide leverage to the fund.

5. Section 2.3 is repealed.

6. Section 2.5 is amended by striking out “statement of operations” wherever it occurs and substituting “statement of comprehensive income”.

7. Section 2.5.1 is repealed and the following substituted:

2.5.1 Disclosure of Investment Portfolio

- (1) The term “statement of investment portfolio” is used to describe the disclosure required by section 3.5 of the Instrument. As this term is not used in the Handbook, preparers may refer to it as a “schedule of investment portfolio” within a complete set of investment fund financial statements. Regardless of how the disclosure is described, sections 2.1 and 2.3 of the Instrument require it to be included within a complete set of investment fund financial statements, and subsection 2.1(2) of the Instrument requires annual financial statements to be accompanied by an auditor’s report, for the purposes of securities legislation.

If financial statements for more than one investment fund are bound together, Part 7 of the Instrument requires all of the information pertaining to each investment fund to be presented together and not intermingled with information relating to another investment fund. The CSA is of the view that this requirement applies equally to the portfolio disclosure, which should be presented together with the other financial information relating to the investment fund.

- (2) If an investment fund invests substantially all of its assets directly, or indirectly through the use of derivatives, in securities of one other investment fund, the investment fund should provide in the statement of investment portfolio, or the notes to that statement, additional disclosure concerning the holdings of the other investment fund, as available, in order to assist investors in understanding the actual portfolio to which the investment fund is exposed. The CSA is of the view that such disclosure is consistent with the requirements in the Handbook relating to financial instrument disclosure.

8. Section 2.7 is amended by

(a) in the title, striking out “Accounting For”;

(b) repealing subsection (1) and substituting the following:

- (1) Section 3.8 of the Instrument imposes certain reporting requirements on investment funds in connection with any securities lending transactions entered into by the investment fund. These requirements were included to ensure that certain aspects of securities lending transactions are disclosed in the same manner.

Generally, in a securities lending transaction, the investment fund is able to call the original securities back at any time, and the securities returned must be the same or substantially the same as the original securities. The investment fund retains substantially all of the risks and rewards of ownership.
; and

(c) *repealing subsection (2).*

9. **Subsection 2.8(3) is amended by striking out** “Interim financial statements” **and substituting** “The interim financial report”.

10. **Section 3.2 is repealed and the following substituted:**

3.2 Modification of Opinion

- (1) The Instrument prohibits an auditor’s report from expressing a modified opinion under Canadian GAAS. A modification of opinion includes a qualification of opinion, an adverse opinion, and a disclaimer of opinion.
- (2) Part 17 of the Instrument permits the regulator or securities regulatory authority to grant exemptive relief from the Instrument, including the requirement that an auditor’s report express an unmodified opinion or other similar communication that would constitute a modification of opinion under Canadian GAAS. However, we will generally recommend that such exemptive relief should not be granted if the modification of opinion or other similar communication is
 - (a) due to a departure from accounting principles permitted by the Instrument, or
 - (b) due to a limitation in the scope of the auditor’s examination that
 - (i) results in the auditor being unable to form an opinion on the financial statements as a whole,
 - (ii) is imposed or could reasonably be eliminated by management, or
 - (iii) could reasonably be expected to be recurring.

11. **Section 3.3 is repealed and the following substituted:**

3.3 Auditor’s Involvement with Management Reports of Fund Performance - Investment funds’ auditors are expected to comply with the Handbook with respect to their involvement with the annual and interim management reports of fund performance required by the Instrument as these reports contain financial information extracted from the financial statements.

12. **Section 3.4 is amended by**

(a) **in the title, striking out** “Interim Financial Statements” **and substituting** “Interim Financial Reports”;

(b) **repealing subsection (1) and substituting the following:**

- (1) The board of directors of an investment fund that is a corporation or the trustees of an investment fund that is a trust, in discharging their responsibilities for ensuring a reliable interim financial report, should consider engaging an external auditor to carry out a review of the interim financial report.;

(c) **in subsection (2), striking out the first occurrence of** “interim financial statements” **and substituting** “interim financial report”;

(d) **in subsection (2), striking out the second occurrence of** “interim financial statements” **and substituting** “an interim financial report”; **and**

(e) **repealing subsections (3) and (4) and substituting the following:**

- (3) The terms “review” and “written review report” used in section 2.12 of the Instrument refer to the auditor’s review of and report on an interim financial report using standards for a review of an interim financial report by the auditor as set out in the Handbook.
- (4) The Instrument does not specify the form of notice that should accompany an interim financial report that has not been reviewed by the auditor. The notice accompanies, but does not form part of, the interim financial report. We expect that the notice will normally be provided on a separate page

appearing immediately before the interim financial report, in a manner similar to an auditor's report that accompanies annual financial statements.

13. Section 9.2 is repealed and the following substituted:

9.2 Fair Value Guidance – Section 14.2 of the Instrument requires an investment fund to calculate its net asset value based on the fair value of the investment fund's assets and liabilities. This may differ from the calculation of "current value" for financial statement purposes. Section 3.6 of the Instrument requires an explanation of this difference.

While investment funds are required to comply with the definition of "fair value" in the Instrument when calculating net asset value, they may also look to the Handbook for guidance on the measurement of fair value. The fair value principles articulated in the Handbook can be applied by investment funds when valuing assets and liabilities.

14. Section 9.3 is repealed.

15. Section 9.4 is amended by

(a) in the title, striking out "Determination of Fair Value" and substituting "Determination of Fair Value in Calculating Net Asset Value"; and

(b) repealing subsection (1) and substituting the following:

(1) A market is generally considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices reflect actual and regularly occurring market transactions on an arm's length basis. Accordingly, fair value should not reflect the amount that would be received or paid in a forced transaction, involuntary liquidation or distress sale.

16. Section 10.1 is amended by

(a) repealing subsection (2) and substituting the following:

(2) Paragraph 15.1(1)(a) requires the investment fund to use its "total expenses" (other than distributions if these are an expense for the investment fund) before income taxes for the relevant period as the basis for the calculation of MER. Total expenses, before income taxes, include interest charges and taxes, including sales taxes, GST and capital taxes payable by the investment fund. Withholding taxes need not be included in the MER calculation.

The CSA is of the view that if an investment fund issues debt-like securities or securities that otherwise provide leverage to the fund, payments to holders of these securities should be treated as financing costs from the perspective of the investment fund's other classes of securities (the classes that benefit from the financing or leverage). These costs should not be excluded from total expenses when calculating the MER of the investment fund's other classes of securities. Securities that provide leverage generally include preferred shares.

Non-optional fees paid directly by investors in connection with the holding of an investment fund's securities do not have to be included in the MER calculation. ;

(b) in subsection (5),

(i) striking out "Handbook Section 1506 Accounting Changes" and substituting "International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors" in the first paragraph;

(ii) striking out "retroactive restatement of the financial information" and substituting "retrospective application of the change" in the first paragraph; and

(iii) striking out "retroactively" in the second paragraph.

17. **Appendix B is amended by**

(a) **striking out**

Alberta Securities Commission
4th Floor
300 - 5th Avenue S.W.
Calgary, Alberta
T2P 3C4
Attention: Corporate Finance

and substituting

Alberta Securities Commission
Suite 600
250 - 5th Street SW
Calgary, Alberta
T2P 0R4
Attention: Corporate Finance ;

(b) **striking out**

New Brunswick Securities Commission
606 – 133 Prince William Street
Saint John, NB
E2L 2B5
Attention: Corporate Finance

and substituting

Financial and Consumer Services Commission (New Brunswick)
85 Charlotte Street, Suite 300
Saint John, NB
E2L 2J2
Attention: Corporate Finance ;

(c) **striking out**

Newfoundland and Labrador Securities Commission
P.O. Box 8700
2nd Floor, West Block
Confederation Building
75 O'Leary Avenue
St. John's, NFLD
A1B 4J6
Attention: Director of Securities

and substituting

Financial Services Regulation Division
Department of Government Services
P.O. Box 8700
St. John's, NL
A1B 4J6
Attention: Superintendent of Securities ;

(d) **in the address for Department of Justice, Northwest Territories,**

(i) **striking out** "Legal Registries" **and substituting** "Securities Office", **and**

(ii) **striking out** "Director, Legal Registries" **and substituting** "Superintendent of Securities";

- (e) **in the address for Department of Justice, Nunavut, striking out** “Attention: Director, Legal Registries Division” **and substituting** “Attention: Superintendent of Securities”;
- (f) **in the address for Ontario Securities Commission,**
 - (i) **striking out** “Suite 1903, Box 55”, **and**
 - (ii) **striking out** “20 Queen Street West” **and substituting** “20 Queen Street West, 22nd Floor”;
- (g) **in the address for Autorité des marchés financiers, striking out** “Direction des marchés des capitaux” **and substituting** “Direction des fonds d’investissement”;
- (h) **striking out**
Saskatchewan Financial Services Commission - Securities Division
6th Floor,
1919 Saskatchewan Drive
Regina, SK S4P 3V7
Attention: Deputy Director, Corporate Finance
and substituting
Financial and Consumer Affairs Authority of Saskatchewan – Securities Division
601 – 1919 Saskatchewan Drive
Regina, SK
S4P 4H2
Attention: Deputy Director, Corporate Finance ; and
- (i) **in the address for the Government of Yukon, striking out** “Registrar of Securities” **wherever it occurs and substituting** “Superintendent of Securities”.

18. **These amendments become effective on January 1, 2014.**

APPENDIX E

AMENDMENTS TO
NATIONAL INSTRUMENT 41-101 GENERAL PROSPECTUS REQUIREMENTS

Although this amendment instrument amends section headers in National Instrument 41-101, section headers do not form part of the instrument and are inserted for ease of reference only.

1. **National Instrument 41-101 General Prospectus Requirements is amended by this instrument.**
2. **The general instructions of Form 41-101F2 Information Required in an Investment Fund Prospectus are amended in instruction (3) by striking out** “This concept of materiality is consistent with the financial reporting notion of materiality contained in the Handbook.”
3. **Section 1.5 of Form 41-101F2 is amended by striking out** “reporting”.
4. **Section 1.15 of Form 41-101F2 is amended by striking out** “interim financial statements” **and substituting** “interim financial report”.
5. **Subsection 3.6(4) of Form 41-101F2 is amended by**
 - (a) **striking out** ““MER” means management expense ratio based on total expenses, excluding commissions and other portfolio transaction costs and expressed as an annualized percentage of daily average net asset value.” **and substituting** ““MER” means management expense ratio based on management fees and operating expenses (excluding commissions and other portfolio transaction costs) expressed as an annualized percentage of daily average net asset value.”, **and**
 - (b) **striking out** ““TER” means trading expense ratio and represents total commissions and portfolio transaction costs expressed as an annualized percentage of daily average net asset value.” **and substituting** ““TER” means trading expense ratio and represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value.”.
6. **Section 11.1 of Form 41-101F2 is amended by**
 - (a) **striking out** ““MER” means management expense ratio based on total expenses, excluding commissions and other portfolio transaction costs and expressed as an annualized percentage of daily average net asset value.” **and substituting** ““MER” means management expense ratio based on management fees and operating expenses (excluding commissions and other portfolio transaction costs) expressed as an annualized percentage of daily average net asset value.”, **and**
 - (b) **striking out** ““TER” means trading expense ratio and represents total commissions and portfolio transaction costs expressed as an annualized percentage of daily average net asset value.” **and substituting** ““TER” means trading expense ratio and represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value.”.
7. **Section 37.1 of Form 41-101F2 is amended by striking out** “interim financial statements” **and substituting** “interim financial report”.
8. **Subsection 38.1(4) of Form 41-101F2 is amended by striking out** “opening balance sheet” **and substituting** “opening statement of financial position”.
9. **Section 38.2 of Form 41-101F2 is amended by striking out** “Interim Financial Statements” **and substituting** “Interim Financial Reports” **in the section header.**
10. **This Instrument comes into force on January 1, 2014.**

APPENDIX F

AMENDMENTS TO
NATIONAL INSTRUMENT 81-101 *MUTUAL FUND PROSPECTUS DISCLOSURE*

1. ***National Instrument 81-101 Mutual Fund Prospectus Disclosure is amended by this instrument.***
2. ***Section 1.1 of National Instrument 81-101 is amended by adding the following after the definition of “executive officer”:***

“financial statements” includes interim financial reports;.
3. ***Clause 2.3(1)(b)(i)(A) of National Instrument 81-101 is amended by striking out “draft opening balance sheet” and substituting “draft opening statement of financial position”.***
4. ***Subparagraph 2.3(3)(a)(ii) of National Instrument 81-101 is amended by striking out “audited balance sheet” and substituting “audited statement of financial position”.***
5. ***Section 3.1 of National Instrument 81-101 is amended by***
 - (a) ***striking out “interim financial statements” wherever it occurs and substituting “interim financial report”, and***
 - (b) ***striking out “audited balance sheet” in paragraph 1.3 and substituting “audited statement of financial position”.***
6. ***Section 3.1.1 of National Instrument 81-101 is amended by striking out “interim financial statements” and substituting “interim financial reports”.***
7. ***Section 3.1 of Part A of Form 81-101F1 Contents of Simplified Prospectus is amended by striking out “interim financial statements” and substituting “interim financial report”.***
8. ***Section 3.2 of Part A of Form 81-101F1 is amended by striking out “interim financial statements” and substituting “interim financial report”.***
9. ***This Instrument comes into force on January 1, 2014.***

APPENDIX G

AMENDMENTS TO
COMPANION POLICY 81-101CP
TO NATIONAL INSTRUMENT 81-101 MUTUAL FUND PROSPECTUS DISCLOSURE

1. *Companion Policy 81-101CP to National Instrument 81-101 Mutual Fund Prospectus Disclosure is amended.*
2. *Section 2.4 is amended by striking out “interim statements” and substituting “interim financial reports”.*
3. *These amendments become effective on January 1, 2014.*

APPENDIX H

AMENDMENTS TO
NATIONAL INSTRUMENT 81-102 *MUTUAL FUNDS*

1. ***National Instrument 81-102 Mutual Funds is amended by this instrument.***
2. ***Section 1.1 of National Instrument 81-102 is amended by***
 - (a) ***repealing the definition of “net asset value” and substituting the following:***

“net asset value” means the value of the total assets of the investment fund less the value of the total liabilities, other than net assets attributable to securityholders, of the investment fund, as at a specific date, determined in accordance with Part 14 of National Instrument 81-106 *Investment Fund Continuous Disclosure*; **and**
 - (b) ***in the definition of “report to securityholders”, striking out “annual or interim financial statements” and substituting “annual financial statements or interim financial reports”.***
3. ***Subparagraph 5.6(1)(f)(iii) of National Instrument 81-102 is amended by striking out “annual and interim financial statements” and substituting “annual financial statements and interim financial reports”.***
4. ***Subsection 5.6(2) of National Instrument 81-102 is amended by striking out “contains a reservation” and substituting “contains a modified opinion”.***
5. ***Section 6.2 of National Instrument 81-102 is amended by striking out “shareholders’ equity” wherever it occurs and substituting “equity”.***
6. ***Section 6.3 of National Instrument 81-102 is amended by striking out “shareholders’ equity” wherever it occurs and substituting “equity”.***
7. ***Paragraph 15.8(3)(b) of National Instrument 81-102 is amended by striking out “balance sheet” and substituting “statement of financial position”.***
8. ***Appendix B-1 – Audit Report, Appendix B-2 – Audit Report, and Appendix B-3 – Audit Report of National Instrument 81-102 are amended by striking out “We conducted our audit in accordance with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants.” and substituting “We conducted our audit in accordance with standards for assurance engagements set out in the CICA Handbook – Assurance.”.***
9. ***Appendix B-1 – Audit Report of National Instrument 81-102 is amended by striking out “In our opinion, the Fund’s report presents fairly, in all material respects, the Fund’s compliance for the year ended [insert date]” and substituting “In our opinion, the Fund’s statement of compliance for the year ended [insert date] complies, in all material respects,”.***
10. ***Appendix B-2 – Audit Report and Appendix B-3 – Audit Report of National Instrument 81-102 are amended by striking out “In our opinion, the Company’s report presents fairly, in all material respects, the Company’s compliance for the year ended [insert date]” and substituting “In our opinion, the Company’s statement of compliance for the year ended [insert date] complies, in all material respects,”.***
11. ***This instrument comes into force on January 1, 2014.***

APPENDIX I

AMENDMENTS TO
NATIONAL INSTRUMENT 81-104 *COMMODITY POOLS*

1. *National Instrument 81-104 Commodity Pools is amended by this instrument.*
2. *Subsection 8.5(1) of National Instrument 81-104 is amended by striking out “interim financial statements” and substituting “interim financial reports”.*
3. *This Instrument comes into force on January 1, 2014.*

APPENDIX J

ADDITIONAL INFORMATION REQUIRED IN ONTARIO

This appendix contains 2 parts:

- Part I provides notice of amendments to a local rule; and
- Part II provides notice that, in Ontario, amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* and other required materials were delivered to the Minister of Finance.

PART I – NOTICE OF AMENDMENTS TO OSC RULE 81-801 IMPLEMENTING NATIONAL INSTRUMENT 81-106 INVESTMENT FUND CONTINUOUS DISCLOSURE

Introduction and Background

The Canadian Securities Administrators (CSA) are making amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* (NI 81-106), Companion Policy 81-106CP *Investment Fund Continuous Disclosure*, and certain related consequential amendments (as set out in the CSA Notice to which this Appendix is annexed), to accommodate the transition of financial reporting for investment funds to International Financial Reporting Standards (IFRS). In connection with these amendments, the OSC is amending OSC Rule 81-801 *Implementing National Instrument 81-106 Investment Fund Continuous Disclosure* (OSC Rule 81-801).

Provided ministerial approval is obtained, the amendments to OSC Rule 81-801 will come into force on January 1, 2014.

Substance and Purpose of the Amendments to OSC Rule 81-801

OSC Rule 81-801 is a local Ontario rule implementing NI 81-106. The primary purpose of the amendments to OSC Rule 81-801 is to reflect the changes to NI 81-106 resulting from the transition by investment funds to IFRS for financial years beginning on or after January 1, 2014. The amendments to OSC Rule 81-801 replace existing Canadian GAAP terms with IFRS terms and phrases.

The amendments to OSC Rule 81-801 were published for comment on October 16, 2009. No comments were received.

Text of Amendments to OSC Rule 81-801

The amendments to OSC Rule 81-801 are:

Amendments to Ontario Securities Commission Rule 81-801 Implementing National Instrument 81-106 Investment Fund Continuous Disclosure

Although this amendment instrument amends section headers in Ontario Securities Commission Rule 81-801, section headers do not form part of the rule and are inserted for ease of reference only.

1. **Ontario Securities Commission Rule 81-801 Implementing National Instrument 81-106 Investment Fund Continuous Disclosure is amended by this instrument.**
2. **Section 3.2 is amended in the title by striking out “Interim Financial Statements – Content” and substituting “Interim Financial Reports – Content”.**
3. **Section 3.4 is amended in the title by striking out “Filing Interim Financial Statements – Exemption” and substituting “Filing Interim Financial Reports – Exemption”.**
4. **Paragraph 3.5(b) is amended by striking out “interim financial statements” and substituting “interim financial reports”.**
5. **Section 4.1 is amended by renumbering it as subsection 4.1(1) and by adding the following after subsection (1):**
 - (2) Despite subsection (1), the amendments to this Rule which came into force on January 1, 2014 only apply to financial periods relating to financial years beginning on or after January 1, 2014.

6. *These amendments only apply to financial periods relating to financial years beginning on or after January 1, 2014.*
7. *This instrument comes into force on January 1, 2014.*

PART II – ONTARIO SECURITIES COMMISSION NOTICE OF DELIVERY TO THE MINISTER

The CSA are making amendments (the CSA Amendments) to:

- NI 81-106, including Form 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance*
- Companion Policy 81-106CP *Investment Fund Continuous Disclosure*
- Form 41-101F2 *Information Required in an Investment Fund Prospectus*
- National Instrument 81-101 *Mutual Fund Prospectus Disclosure*
- Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure*
- National Instrument 81-102 *Mutual Funds*,
- National Instrument 81-104 *Commodity Pools*.

The CSA Amendments are described in the CSA Notice to which this Appendix is annexed.

Delivery to the Minister

The CSA Amendments, the amendments to OSC Rule 81-801 and other required materials (the Materials) were delivered to the Minister of Finance on or about September 30, 2013. The Minister may approve or reject the Materials or return them for further consideration. If the Minister approves the Materials (or does not take any further action), the CSA Amendments and the amendments to OSC Rule 81-801 will come into force on January 1, 2014.

Questions

Please refer your questions to:

Vera Nunes
Manager, Investment Funds Branch
Ontario Securities Commission
416-593-2311
vnunes@osc.gov.on.ca

Stacey Barker
Senior Accountant, Investment Funds Branch
Ontario Securities Commission
416-593-2391
sbarker@osc.gov.on.ca

October 3, 2013