The Ontario Securities Commission

CSA NOTICE OF AMENDMENTS

MODERNIZATION OF INVESTMENT FUND PRODUCT REGULATION – ALTERNATIVE MUTUAL FUNDS

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The Ontario Securities Commission
Cadillac Fairview Tower
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario
M5H 3S8

416-593-8314 or Toll Free 1-877-785-1555

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Thomson Reuters Canada
One Corporate Plaza
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416-609-3800 or 1-800-387-5164

Contact Centre – Inquiries, Complaints:
Fax: 416-593-8122
TTY: 1-866-827-1295

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Toronto, Ontario
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CSA NOTICE OF AMENDMENTS

MODERNIZATION OF INVESTMENT FUND PRODUCT REGULATION – ALTERNATIVE MUTUAL FUNDS

CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Notice of Amendments

Modernization of Investment Fund Product Regulation – Alternative Mutual Funds

October 4, 2018

Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are adopting amendments (the **Amendments**) to the following rules in order to implement the final phase of the CSA's Modernization of Investment Fund Product Regulation Project (the **Modernization Project**) relating to the establishment of a regulatory framework for alternative mutual funds:

- National Instrument 81-102 *Investment Funds* (**NI 81-102**),
- National Instrument 81-104 *Commodity Pools* (**NI 81-104**),
- National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**),
- National Instrument 41-101 *General Prospectus Requirements* (**NI 41-101**),
- National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**), and
- National Instrument 81-107 *Independent Review Committee for Investment Funds* (**NI 81-107**), and

(collectively, the **Amendments**).

In addition, we are publishing changes (the **Related Changes**) to Companion Policy 81-102CP to National Instrument 81-102 *Investment Funds* and are withdrawing Companion Policy 81-104CP to National Instrument 81-104 *Commodity Pools*.

Subject to Ministerial Approval Requirements, the Amendments and Related Changes will come into force on January 3, 2019.

Background

The mandate of the Modernization Project has been to review the parameters of product regulation that apply to publicly offered investment funds (both mutual funds and non-redeemable investment funds) and to consider whether our current regulatory approach sufficiently addresses product and market developments in the Canadian investment fund industry, and whether it continues to adequately protect investors.

The Modernization Project has been carried out in phases. With Phase 1 and the first stage of Phase 2 now complete, the Amendments represent the second and final stage of Phase 2 of the Modernization Project.

Phase 1

In Phase 1, the CSA focused primarily on publicly offered mutual funds, codifying exemptive relief that had been frequently granted in recognition of market and product developments. As well, we made amendments to keep pace with developing global standards in mutual fund product regulation, notably introducing asset maturity restrictions and liquidity requirements for money market funds. The Phase 1 amendments came into force on April 30, 2012, except for the provisions relating to money market funds, which came into force on October 30, 2012.

Phase 2 – First Stage

In the first stage of Phase 2, the CSA introduced core investment restrictions and fundamental operational requirements for non-redeemable investment funds. We also enhanced disclosure requirements regarding securities lending activities by investment funds to better highlight the costs, benefits and risks, and keep pace with developing global standards in the regulation of these activities. The Phase 2 amendments substantially came into force on September 22, 2014, except for certain transitional provisions that came into force on March 21, 2016.

Phase 2 – Second Stage – the Proposed Amendments

The CSA first published an outline of a proposed regulatory framework for alternative funds (the **Proposed Alternative Funds Framework**), on March 27, 2013 as part of Phase 2 of the Modernization Project. In describing the Proposed Alternative Funds Framework, the CSA did not publish proposed rule amendments. Instead, a series of questions were asked that focused on the broad parameters for such a regulatory framework (the **Framework Consultation Questions**).

The Proposed Alternative Funds Framework dealt with issues such as naming conventions, proficiency standards for dealing representatives, and investment restrictions. We also proposed a number of areas where alternative investment funds could be permitted to use investment strategies or invest in asset classes not specifically permitted under NI 81-102 for mutual funds and non-redeemable investment funds, subject to certain upper limits.

On June 25, 2013, we published CSA Staff Notice 11-324 *Extension of Comment Period*, in which we advised that the CSA had decided to consider the Proposed Alternative Funds Framework at a later date, in conjunction with certain investment restrictions for non-redeemable investment funds that we considered to be interrelated with the Proposed Alternative Funds Framework (the **Interrelated Investment Restrictions**), as part of the second stage of Phase 2 of the Modernization Project.

On February 12, 2015, we published CSA Staff Notice 81-326 *Update on an Alternative Funds Framework for Investment Funds*, where we briefly described some of the feedback we received in connection with the Framework Consultation Questions.

On September 22, 2016, we published for comment draft amendments (the **Proposed Amendments**) to NI 81-102, NI 81-104, NI 41-101, NI 81-101, NI 81-106 and NI 81-107, which sought to codify a number of the parameters and proposals set out in the Proposed Alternative Funds Framework, as well as commentary we received in connection with those proposals. The Proposed Amendments were published for a 90 day comment period, and included a series of consultation questions intended to focus commentary on certain parts of the Proposed Amendments for which we sought specific feedback or commentary. We received 41 comment letters on the Proposed Amendments

Substance and Purpose

Since NI 81-104 first came into force, the range of investment fund products and strategies in the marketplace has expanded significantly, both in Canada and in other jurisdictions. The Amendments reflect the CSA's efforts to modernize the existing commodity pools regime by making the regulatory framework in Canada more effective and relevant to help facilitate more alternative and innovative strategies while at the same time maintaining restrictions that we believe to be appropriate for products that can be sold to retail investors.

The Amendments, while focused on alternative mutual funds, also include provisions that will impact other types of mutual funds, as well as non-redeemable investment funds through the Interrelated Investment Restrictions. The Amendments will move most of the regulatory framework currently applicable to commodity pools under NI 81-104 into NI 81-102 and rename these funds as "alternative mutual funds". They will also codify certain existing exemptive relief frequently granted to mutual funds, and include additional changes arising from the feedback received on the Proposed Alternative Funds Framework and the Proposed Amendments.

The key elements of the Amendments are outlined below.

(i) Defined term "Alternative Mutual Fund"

The CSA is introducing a new category of mutual fund, "alternative mutual funds" which is being defined in NI 81-102. This term effectively replaces the term "commodity pool" that exists in NI 81-104. That term is being repealed to accommodate this change and existing commodity pools will become alternative mutual funds when the Amendments come into force.

The term "alternative mutual fund" refers to the mutual funds that have adopted investment objectives that permit those funds to invest in physical commodities or specified derivatives, or, borrow cash or engage in short selling in a manner not typically permitted for other mutual funds. This definition reflects the additional investment flexibility afforded to these types of funds and is intended to distinguish them from more conventional mutual funds (**conventional mutual funds**). Paragraph (ii) below describes the investment restrictions applicable to alternative mutual funds, the changes to the investment restrictions applicable to other mutual funds, as well as the investment restrictions applicable to non-redeemable investment funds as part of the Interrelated Investment Restrictions.

(ii) Investment Restrictions

Concentration Restrictions

Alternative mutual funds will be permitted to invest up to 20% of the fund's net asset value (**NAV**) at the time of purchase, in securities of a single issuer, under section 2.1 of NI 81-102. This is an increase from the current limit of 10% of NAV applicable to all mutual funds (including commodity pools) under that section. As part of the Interrelated Investment Restrictions, we are setting the same concentration limit for non-redeemable investment funds as will be applicable to alternative mutual funds.

The higher concentration limit for both alternative mutual funds and non-redeemable investment funds ensures consistency in terms of regulatory approach for all investment funds, while also providing flexibility to offer investors access to alternative investment strategies.

Investments in Physical Commodities

Section 2.3 of NI 81-102 is being amended to permit conventional mutual funds to invest up to 10% of the fund's NAV in silver, platinum and palladium (including certificates representing those precious metals). This is in addition to investing in gold, which is already permitted under this section. This change reflects frequently granted exemptive relief.

Conventional mutual funds will also now be permitted under section 2.3 to obtain indirect exposure to any physical commodity (as that term is defined in NI 81-102) through the use of specified derivatives (as that term is defined in NI 81-102). This will be subject to the same 10% limit as direct investment in the above-referenced precious metals. In other words, conventional mutual funds will be subject to an overall 10% of NAV limit on direct or indirect investment in physical commodities.

We are also introducing subsections (3) and (4) to this section which provide a "look through" test for measuring compliance with this restriction for fund of fund investing.

As part of this change, we are introducing the new defined term "permitted precious metal" in NI 81-102 to refer to gold, silver, platinum or palladium and replacing the current term "permitted gold certificate" with "permitted precious metals certificate".

Under NI 81-104, commodity pools are exempt from the restrictions on investing in physical commodities under section 2.3 of NI 81-102 and this treatment is being maintained for alternative mutual funds under the Amendments. Non-redeemable investment funds are also exempt from these provisions and will remain exempt under the Amendments.

We are also introducing an exemption from the limits on investing in permitted precious metals for mutual funds that are "precious metals funds". This is a term currently defined in NI 81-104 which is being adopted as a definition within NI 81-102. These funds are defined as mutual funds other than alternative mutual funds that can invest substantially all of their assets in one or more permitted precious metals. The exemption from the restrictions on investing in physical commodities for these funds will only apply in respect of direct or indirect investment in permitted precious metals.

Illiquid Assets

Non-redeemable investment funds will now be subject to a limit on investing in illiquid assets under section 2.4 of NI 81-102. Under the Amendments, these funds will be permitted to invest up to 20% of their NAV at the time of purchase in illiquid assets with a hard cap of 25% of NAV.

The current limits on investing in illiquid assets applicable to mutual funds (including commodity pools) under section 2.4 of NI 81-102 are not being changed for alternative mutual funds.

Fund-of-Fund Investing

We are amending section 2.5 of NI 81-102 to permit alternative mutual funds to invest up to 100% of their net assets in any other investment fund subject to NI 81-102. Currently, commodity pools are restricted to investing only in conventional mutual funds that file a simplified prospectus.

We are also amending section 2.5 to permit conventional mutual funds to

- Invest up to 100% of their net assets in any other mutual fund (other than an alternative mutual fund) that is subject to NI 81-102, regardless of the form of prospectus they file, and
- Invest up to 10% of their net assets in alternative mutual funds or non-redeemable investment funds that are also subject to NI 81-102.

Currently, mutual funds are restricted to investing only in other mutual funds that file a simplified prospectus.

The fund of fund investing restrictions applicable to non-redeemable investment funds are not changing. The other restrictions on fund of fund investing, including multiple tiers or fee duplication will also remain unchanged.

Cash Borrowing

We are amending section 2.6 of NI 81-102 to permit alternative mutual funds to borrow cash up to 50% of their NAV, for investment purposes. These provisions will also apply to non-redeemable investment funds as part of the Interrelated Investment Restrictions.

In addition, cash borrowing for both alternative mutual funds and non-redeemable investment funds will be subject to the following requirements:

- funds may only borrow from entities that would qualify as an investment fund custodian or subcustodian under section 6.2 or 6.3 of NI 81-102, which essentially restricts borrowing to banks and trust companies (or their affiliates);
- where the lender is an affiliate or associate of the fund's investment fund manager, approval of the fund's independent review committee would be required under NI 81-107; and
- any borrowing agreements must be made in accordance with normal industry practice and be on standard commercial terms for agreements of this nature.

There will also be specific prospectus disclosure requirements regarding these borrowing arrangements under NI 41-101 and NI 81-101.

The current borrowing restrictions for mutual funds (including commodity pools) under section 2.6 of NI 81-102, which only permit them to borrow cash up to 5% of NAV on a temporary basis to fund redemption requests, will be unchanged for mutual funds that are not alternative mutual funds.

Short Selling

The short selling restrictions in section 2.6.1 are being amended to permit alternative mutual funds to short sell securities with a market value of up to 50% of the fund's NAV. This is an increase from the current limit of 20% of NAV applicable to all mutual funds including commodity pools.

Alternative mutual funds will be permitted to short sell securities of a single issuer (subject to the overall short-selling limit) up to 10% of NAV which is an increase from the 5% of NAV limit currently applicable to all mutual funds. This issuer concentration limit will not apply to the short sale of securities that are "government securities" as defined in NI 81-102.

Alternative mutual funds will also be exempted from subsections 2.6.1(2) and (3) of NI 81-102, which require funds to hold cash cover and generally prohibit the use of short sale proceeds to purchase other securities, which will allow for more flexibility in the use of this strategy by alternative mutual funds.

The short selling provisions applicable to alternative mutual funds as described above will also apply to non-redeemable investment funds as part of the Interrelated Investment Restrictions.

We are also amending section 6.8.1 of NI 81-102 to allow alternative mutual funds and non-redeemable investment funds to deposit assets up to 25% of NAV with a single borrowing agent (other than the fund's custodian or subcustodian) as security for short selling transactions. This is an increase from the 10% limit currently applicable to mutual funds (including commodity pools).

Combined Limit on Cash Borrowing and Short Selling

We are introducing section 2.6.2 which will provide an overall combined limit on cash borrowing and short selling by alternative mutual funds and non-redeemable investment funds, of 50% of NAV. This means that such a fund can only borrow cash and short sell concurrently if the combined amount does not exceed 50% of NAV.

Aggregate Exposure to Borrowing, Short Selling and Specified Derivatives

Under the Amendments, alternative mutual funds will be permitted to use leverage, both directly and indirectly, through cash borrowing, short selling and specified derivatives transactions. Currently, commodity pools are only permitted to create leverage indirectly through the use of specified derivatives.

In addition to restrictions on total short selling and cash borrowing described above, we are also introducing an overall limit on the use of borrowing, short selling and specified derivatives transactions. Under section 2.9.1 of NI 81-102, the aggregate exposure to these types of transactions will be limited to no more than 300% of the fund's NAV. Section 2.9.1 sets out how to calculate this.

To determine the aggregate exposure, the fund must add up the following and divide it by the fund's NAV:

- the value of any outstanding loans,
- the market value of its short positions, and
- the aggregate notional value of its specified derivatives positions, minus the aggregate notional value of those specified derivatives positions that are "hedging" transactions as that term is defined in NI 81-102.

Section 2.9.1 will also require funds to calculate this aggregate exposure as of any day on which the fund calculates a NAV and if the amount of exposure exceeds 300% of the fund's NAV, it must, as quickly as commercially reasonable, take all necessary steps to appropriately reduce that exposure.

As part of the Interrelated Investment Restrictions, this section will also apply to non-redeemable investment funds.

The Amendments include specific disclosure requirements both in an alternative mutual fund's prospectus and Fund Facts/ETF Facts, or a non-redeemable investment fund's prospectus as applicable, as well as in its financial statements regarding its use of leverage through these activities.

Codification of Cleared Swap Exemptive Relief

The Amendments include changes to certain provisions of NI 81-102 in order to codify existing relief granted to mutual funds regarding the use of cleared derivatives (the **Cleared Swaps Relief**). The Cleared Swaps Relief has been granted to mutual funds in order to facilitate their compliance with certain requirements of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (and the rules promulgated thereunder) in the United States and similar legislation in Europe (the **Clearing Obligation Rules**), regarding the mandatory use of the facilities of a duly sanctioned clearing corporation for facilitating trade of certain over the counter (**OTC**) derivatives. The Clearing Obligation Rules are part of a global initiative to more tightly regulate the use of OTC derivatives, in response to the 2008 financial crisis. The changes described in this section will apply to all investment funds subject to NI 81-102.

The Cleared Swaps Relief consists of an exemption from the counterparty designated rating requirement in subsection 2.7(1) of NI 81-102, the counterparty exposure limits of subsection 2.7(4) of NI 81-102 and the custody requirements in section 6.8 of NI 81-102 in order to allow investment funds to deal with futures commissions merchants and clearing corporations for clearing OTC derivatives, in accordance with their rules. The applicable sections of NI 81-102 that are referenced in the Cleared Swaps Relief have been amended accordingly.

In connection with these changes, the Amendments also include the new defined term "cleared specified derivatives" which refers to any specified derivative accepted for clearing by a "regulated clearing agency". The term "regulated clearing agency" is defined in National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives*, (which is part of the CSA's response to harmonize with the Clearing Obligation Rules) and refers to clearing agencies that are permitted to act as clearing houses under the Clearing Obligation Rules. That term has also been adopted into NI 81-102.

Other derivatives provisions

We are exempting alternative mutual funds from subsection 2.7(1) of NI 81-102, which will allow these funds to enter into specified derivatives transactions with counterparties that may not have an "approved credit rating", which will give them access to a wider variety of counterparties for these transactions than is currently available to mutual funds under this section.

We are also amending the counterparty exposure limits in section 2.7(4) of NI 81-102 to limit an investment fund's total exposure to any one counterparty under a specified derivatives transaction to 10% of the investment fund's NAV on a mark-to-market basis. This limit already applies to conventional mutual funds, but will now also apply to alternative mutual funds and non-redeemable investment funds. The Amendments include an exemption whereby this limit will not apply in respect of a cleared specified derivative or if the applicable counterparty has a "designated rating".

(iii) New Alternative Mutual Funds – Seed Capital Requirements

Under the Amendments, all mutual funds will have the same seed capital and start-up requirements. Conventional mutual funds under Part 3 of NI 81-102 are required to have at least $150,000 in seed capital, provided by either its manager or other related entities, at the time of launch. Furthermore, the manager (or other seed capital provider) is prohibited from withdrawing any portion of that seed capital until the mutual fund has received at least $500,000 in subscriptions from outside investors. These requirements will also apply to alternative mutual funds.

As part of this change, we are repealing the seed capital requirements that apply to commodity pools under NI 81-104. These provisions had a lower minimum seed capital requirement of only $50,000 and included a provision mandating that the minimum seed capital remain invested in the fund at all times.

(iv) Custody of Investment Fund Assets

We are making a small technical change to the custody requirements described in subsections 6.2(3)(a) or 6.3(3)(a) to no longer require that an affiliate of a bank or trust company referred to in those provisions have financial statements that "have been made public". This reflects the fact that in many cases, these affiliates are wholly-owned subsidiaries of an applicable bank or trust company and therefore may not have publicly available financial statements. All of the other requirements in these sections, including the requirement to have audited financial statements confirming that those entities meet the minimum asset threshold will remain unchanged.

(v) Amendments to NI 81-104

Migration of key provisions into NI 81-102 and other Instruments

While commodity pools are mutual funds and are subject to NI 81-102, NI 81-104 currently provides certain exemptions for commodity pools from the investment restrictions applicable to mutual funds under NI 81-102. Further to the goal of consolidating the operational framework and investment restrictions applicable to publicly offered investment funds within NI 81-102, the Amendments will migrate theses exemptions from NI 81-104 into NI 81-102 and apply them to alternative mutual funds. Specifically, the exemptions from sections 2.3, 2.7, 2.8 and 2.11 of NI 81-102 that currently apply to commodity pools under NI 81-104 are being repealed from that Instrument and adopted within NI 81-102.

NI 81-104 includes other commodity-pool specific provisions that are also migrating to NI 81-102 and elsewhere and being applied to alternative mutual funds. The provisions in part 5, which governs performance fees payable by a commodity pool are being adopted within Part 7 of NI 81-102 and applied to alternative mutual funds. Similarly, Part 6 of NI 81-104, which has provisions that allow commodity pools additional flexibility on redemption obligations, is being adopted within Part 10 of NI 81-102 and applied to alternative mutual funds. The Amendments will also concurrently repeal these provisions from NI 81-104.

Finally, as will be discussed below, the financial statement disclosure provisions for commodity pools in Part 8 of NI 81-104 are being repealed from that Instrument and adopted into NI 81-106 and will apply to both alternative mutual funds and non-redeemable investment funds.

Retention of Mutual Fund Dealer Proficiency Standards

The only part of NI 81-104 that is being retained under the Amendments are the proficiency standards for mutual fund dealers distributing commodity pools in Part 4 of that Instrument. These are being amended to apply to alternative mutual funds and the Instrument is being renamed as "National Instrument 81-104 *Alternative Mutual Funds*" to reflect this.

These proficiency standards act to prevent a mutual fund restricted dealer representative from distributing alternative mutual funds unless they possess one of the following:

- passing grade on the Canadian Securities Course;
- passing grade on the Derivatives Fundamentals Course;
- successful completion of the Chartered Financial Analyst Program; or
- any applicable proficiency standard mandated by a self-regulatory agency

The decision to retain these proficiency standards is recognition that alternative mutual funds can be more complex than other types of mutual funds and that additional proficiency may be needed for mutual funds dealers selling these products. It is our view that maintaining the more robust dealer proficiency standards applicable to commodity pools will help ensure that mutual fund dealers are better equipped to sell these products. It also recognizes that the CSA is engaged in ongoing work with respect to these types of dealer-focused issues. We believe any significant changes to the dealer proficiency standards are best dealt with on a more holistic basis, and retaining the existing proficiency standards is a means of not interfering with that work or causing unnecessary market disruption. When that work is completed, and an appropriate replacement for these standards is in place, we expect to repeal these provisions (and by extension fully repeal NI 81-104).

(vi) Disclosure

Form of Prospectus/Point of Sale

The Amendments include changes to NI 41-101 and NI 81-101 to fully bring alternative mutual funds within the prospectus disclosure regime applicable to other mutual funds.

Specifically, NI 81-101 is being amended so that it applies to any mutual fund that is not listed on an exchange. This means that alternative mutual funds that are not listed on an exchange will now prepare and file a simplified prospectus, annual information form and Fund Facts, with the Fund Facts having to be delivered at the point of sale.

Alternative mutual funds that are listed on an exchange will file a long form prospectus and ETF Facts under NI 41-101 and will have to comply with the point of sale delivery requirements applicable to the ETF Facts, as is the case with listed commodity pools today.

In addition, the applicable forms to those Instruments are being amended to require certain additional disclosure specific to alternative mutual funds and non-redeemable investment funds (where applicable).

Alternative mutual funds will have to provide certain prescribed textbox disclosure highlighting how the alternative mutual fund differs from conventional mutual funds, as well as additional disclosure regarding their lenders (if the fund intends to borrow cash) and the use of leverage. The text box disclosure referred to above as well as the disclosure regarding use of leverage will also have to be provided in the Fund Facts/ETF Facts.

Non-redeemable investment funds that file a prospectus will have to provide the disclosure regarding their lenders and the use of leverage referenced above.

Financial Statement Disclosure

As noted above, Part 8 of NI 81-104 requires commodity pools to include in their interim financial reports and annual financial statements disclosure regarding their actual use of leverage over the period referenced in the financial statements (the **Leverage Disclosure Requirements**).

The Leverage Disclosure Requirements are being repealed from NI 81-104 and adopted into NI 81-106 and will apply to both alternative mutual funds and non-redeemable investment funds. The disclosure will be required for both the fund's financial statements and for the fund's management report on fund performance. Funds will also have to provide disclosure about the impact of hedging transactions on the fund's overall leverage calculations.

(vii) Transition/Grandfathering

The CSA are providing transition periods to grant existing commodity pools additional time after the Amendments come into force to make any necessary operational changes in order to comply with the Amendments. Commodity pools will become alternative mutual funds once the Amendments come into force.

Existing non-redeemable investment funds will also be exempted from certain of the investment restrictions in the Amendments subject to certain conditions.

Adoption Procedures

The Amendments will be incorporated as part of rules in each of British Columbia, Alberta, Manitoba, Ontario, Nova Scotia, Prince Edward Island, New Brunswick, Newfoundland and Labrador, Northwest Territories, Yukon and Nunavut, and incorporated as part of commission regulations in Saskatchewan and regulations in Québec. The 81-102 CP Changes will be adopted as part of policies in each of the CSA jurisdictions.

Local Matters

Annex I is being published in any local jurisdiction that is making changes to local securities laws, including local notices or other policy instruments in that jurisdiction in connection with the Amendments. It also includes any additional information that is relevant to that jurisdiction only.

Summary of Comments

We received submissions from 41 commenters on the Proposed Amendments and we thank each of those commenters for their submissions. A summary of those comments together with our responses is provided in Annex B to this Notice.

Summary of Changes to the Proposed Amendments

After considering the comments received, we have made some revisions to the materials that were initially published for comment under the Proposed Amendments. These revisions are reflected in the Amendments (including the Related Changes) that we are publishing as Annexes C to I of this Notice. We do not consider these changes to be material and accordingly, we are not publishing the Amendments for a further comment period. A summary of the key changes to the Proposed Amendments is provided in Annex A to this Notice.

Questions

Please refer your questions to any of the following CSA staff:

Christopher Bent (Project Lead)
Senior Legal Counsel
Investment Funds and Structured Products Branch
Ontario Securities Commission
Phone: (416) 204-4958
Email: cbent@osc.gov.on.ca

Donna Gouthro
Senior Securities Analyst
Nova Scotia Securities Commission
Phone: (902)424-7077
Email: donna.gouthro@novascotia.ca

Hugo Lacroix
Senior Director
Investment Funds
Autorité des marchés financiers
Phone: (514) 395-0337, ext. 4461
Email: hugo.lacroix@lautorite.qc.ca

Bruno Vilone
Analyst
Investment Funds
Autorité des marchés financiers
Phone: (514) 395-0337, ext. 4473
Email: bruno.vilone@lautorite.qc.ca

Darren McKall
Manager
Investment Funds and Structured Products Branch
Ontario Securities Commission
Phone: (416) 593-8118
Email: dmckall@osc.gov.on.ca

Patrick Weeks
Corporate Finance Analyst
Manitoba Securities Commission
Phone: (204) 945-3326
Email: patrick.weeks@gov.mb.ca

Heather Kuchuran
Senior Securities Analyst
Financial and Consumer Affairs Authority of Saskatchewan
Phone: (306) 787-1009
Email: heather.kuchuran@gov.sk.ca

Chad Conrad
Legal Counsel
Corporate Finance
Alberta Securities Commission
Phone: (403) 297-4295
Email: chad.conrad@asc.caa

Ashlyn D'Aoust
Senior Legal Counsel,
Corporate Finance
Alberta Securities Commission
Phone: (403) 355-4347
Email: Ashlyn.daoust@asc.ca

Melody Chen
Senior Legal Counsel
Corporate Finance
British Columbia Securities Commission
Phone: (604) 899-6530
Email: mchen@bcsc.bc.ca

George Hungerford
Senior Legal Counsel
Legal Services, Corporate Finance
British Columbia Securities Commission
Phone: (604) 899-6690

Michael Wong
Securities Analyst
Corporate Finance
British Columbia Securities Commission
Phone: (604) 899-6852

Contents of Annexes

The text of the Amendments is contained in the following annexes to this Notice and is available on the websites of members of the CSA:

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Annex I	–	Local Matters

ANNEX A

SUMMARY OF CHANGES TO THE PROPOSED AMENDMENTS

This document summarizes the changes we made to the Proposed Amendments in response to the comments received. We do not consider these changes to be material.

Changes to NI 81-102

Part 1 – Definitions

1. The defined term "alternative fund" has been changed to "alternative mutual fund". The definition was also amended to specifically exclude "precious metals funds" from that definition.

2. The definition of "cleared specified derivatives" has been amended to refer only to a specified derivative accepted for clearing by a "regulated clearing agency", which is a term defined in National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives* (NI 94-101). This change was made to eliminate redundancies in the definition which became unnecessary once NI 94-101 came into force.

3. The definition of "public quotation" has been amended to include a reference to quotation of a price for a foreign currency forward or foreign currency option in the interbank market. This additional interpretation was initially part of NI 81-104 and has been adopted into NI 81-102 as part of the migration of the various provisions from that Instrument into NI 81-102.

Part 2 – Investments

4. Subsection 2.5(5) was amended to allow an investment fund to pay brokerage commissions to invest in any exchange traded mutual fund, instead of only those that issue "index participation units". This aligns with the change to the fund of fund restrictions that will among other things, allow mutual funds to invest in ETFs, or up to 10% of NAV in alternative mutual funds (including those that are ETFs) and non-redeemable investment funds.

5. Subsection 2.6(2) was changed to clarify that the borrowing provisions for alternative mutual funds and non-redeemable investment funds also permit those funds to grant a security interest over their assets, which is similar to the existing borrowing provisions in section 2.6.

6. Subsection 2.6(2) was also changed to expand the scope of permitted lenders to an alternative mutual fund or non-redeemable investment fund to include entities defined in section 6.3 of NI 81-102. This includes foreign banks and trust companies and certain affiliates that are permitted to act as subcustodians for non-Canadian assets of investment funds. This is in addition to permitted lenders in the Proposed Amendments, which were entities defined in section 6.2 of NI 81-102.

7. The short selling restrictions applicable to alternative mutual funds and non-redeemable investment funds in section 2.6.1 of NI 81-102 in the Proposed Amendments were changed to exempt "government securities" (as that term is defined in NI 81-102) from the short-selling issuer concentration restrictions in that section.

8. The counterparty exposure provisions for specified derivatives transactions in subsection 2.7(4) as set out in the Proposed Amendments were changed to also provide an exemption from the counterparty exposure limit in that section for counterparties that have a "designated rating". This is in addition to the exemption for cleared specified derivatives that was in the Proposed Amendments.

9. The calculation methodology for the purposes of determining an alternative mutual fund's or non-redeemable investment fund's aggregate exposure to borrowing, short selling and specified derivatives in section 2.9.1 of NI 81-102 in the Proposed Amendments has been amended to permit those funds, to subtract the aggregate notional value of their specified derivatives positions arising from "hedging" transactions (as that term is defined in NI 81-102), from the aggregate notional value of their specified derivatives positions.

Part 6 – Custodianship of portfolio assets

10. We have removed the requirements in subsections 6.2(3)(a) and 6.3(3)(a) that an affiliate of a bank or trust company referred to in sections 6.2 and 6.3 must have financial statements that are "publicly available" in order to act as a fund custodian or subcustodian under those sections.

11. Section 6.8.1 was changed to allow an alternative mutual fund or non-redeemable investment fund to deposit up to 25% of its net assets as margin in connection with a short sale of securities, with a borrowing agent that is not the fund's custodian or subcustodian.

Grandfathering of existing non-redeemable investment funds

12. We have included provisions that will grandfather certain pre-existing non-redeemable investment funds from the investment restrictions otherwise applicable to non-redeemable investment funds in sections 2.1, 2.4, 2.6, 2.6.1, and 2.9.1 under the Amendments.

Appendix F – Investment Risk Classification Methodology

13. We have added guidance in the Commentary to Item 1 regarding additional considerations to take into account when using the investment risk classification methodology (the Methodology) in respect of a fund that uses strategies in which the Methodology may not fully reflect the fund's risk level because of an atypical performance distribution – including using a manager's "upside discretion" in assigning a risk rating. The Methodology was not in force at the time of the Proposed Amendments.

Changes to NI 81-104

14. We have retained the mutual fund dealer proficiency requirements in Part 4 of NI 81-104 and have amended them to apply to alternative mutual funds. Accordingly, NI 81-104 is no longer being repealed entirely (as was proposed under the Proposed Amendments). All of the other provisions from that Instrument, with the exception of the dealer proficiency requirements in Part 4, are still being repealed or migrated to other Instruments as initially proposed in the Proposed Amendments.

Changes to NI 41-101

15. The definition of "alternative mutual fund" was added to NI 41-101.

16. We amended Form 41-101F4 ETF Facts to include alternative mutual fund-specific disclosure similar to the Fund Facts disclosure requirements under NI 81-101 that were in the Proposed Amendments. This is due to Form 41-101F4 not having been in force at the time the Proposed Amendments were published.

ANNEX B

SUMMARY OF PUBLIC COMMENTS AND CSA RESPONSES ON CSA NOTICE AND REQUEST FOR COMMENT *MODERNIZATION OF INVESTMENT FUND PRODUCT REGULATION – ALTERNATIVE FUNDS*

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PART	**TITLE**
Part I	**BACKGROUND**
Part II	**GENERAL COMMENTS ON THE PROPOSED AMENDMENTS**
Part III	**COMMENTS IN RESPONSE TO CONSULTATION QUESTIONS**
Part IV	**LIST OF COMMENTERS**

Part I – BACKGROUND

Summary of Comments

On September 22, 2016, the Canadian Securities Administrators (**CSA**) published for comment proposals to repeal National Instrument 81-104 *Commodity Pools,* (**NI 81-104**) and to amend National Instrument 81-102 *Investment Funds,* (**NI 81-102**), National Instrument 41-101 *General Prospectus Requirements* (**NI 41-101**), National Instrument 81-101 *Mutual Fund Prospectus Disclosure,* National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**), and National Instrument 81-107 *Independent Review Committee for Investment Funds* (**NI 81-107**) (the **Proposed Amendments**). The Proposed Amendments represent the final phase of the CSA's ongoing policy work to modernize investment fund product regulation and are aimed at developing a more comprehensive regulatory framework for mutual funds that seek to make use of more "alternative" investment strategies (**alternative mutual funds**).

We received submissions from 41 commenters in respect of the Proposed Amendments. The name of each commenter listed in Part IV of this Summary of Comments. We wish to thank all of those who took the time to comment.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS

ISSUE	COMMENTS	RESPONSES
General comments	There was widespread support for the proposals, with some commenters noting that the CSA should help to facilitate Canadian investors having access to similar types of funds that are sold to retail investors in other jurisdictions like Europe and the United States.	We thank the commenter for the support.
	Another commenter however, expressed concerns about a level playing field and was worried that the Proposed Amendments may unduly favour larger institutions at the expense of smaller firms.	It is not the intent of the Amendments to favour larger institutions.
	Two commenters support the proposal to divide publicly-offered investment funds into 3 categories and to bring them all within NI 81-102 and recommended that the CSA provide some clarity in the Companion Policy to NI 81-102 (the CP) around these categories and the implications of being one or the other as there may be some overlap in what the various types of funds can do.	We thank these commenters for the support. We note that under the Amendments, the terms "non-redeemable investment fund" and "alternative mutual fund" will be defined in NI 81-102, and that Instrument will clearly indicate which of the various investment restrictions will apply to which type of investment fund. We do not believe it is necessary therefore to also provide a summary of the differences between these types of funds in the Companion Policy to that Instrument.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	A different commenter urged caution in distinguishing between alternative and conventional funds and the strategies they can use as any ambiguity could be exploited by some industry participants, misleading investors.	The concern is noted.
	Some commenters recognized the opportunities that can come with expanded investment strategies and that there could be investor demand for these products but seemed to view this as more of an industry-driven initiative. These commenters expressed concern with the possible risks to retail investors of these new strategies and believe that it further emphasizes the need for the CSA to implement a regulatory best interest standard for anyone giving financial advice and that there should be proper training for dealers to ensure they understand these products and how they are different from more conventional mutual funds.	The concern is noted. We also note that some of these issues are being considered as part of the CSA's Client Focused Reforms Project.
	A different commenter expressed concern about what it believes is the lack of enforcement of current restrictions under National Instrument 81-105 *Mutual Fund Sales Practices* and worries this may led to more issues under a new alternative funds regime.	The concern is noted. Please see our response above.
	A different commenter suggested that the CSA fundamentally reconsider its approach to regulation and that risk should be judged on what is being distributed rather than how. This commenter believes that any assumption that a prospectus-qualified product is inherently less risky than an exempt product is an outdated view.	The concern is noted. However, a fundamental reconsideration of the CSA's approach to regulation in the manner this comment contemplates is beyond the scope of this Project.
	We were also urged to undertake a public education campaign in conjunction with the industry to inform investors about the features, risks and benefits of investing in alternative funds.	We have noted this suggestion and will refer it to our respective Communications and Investor Outreach teams.
Naming Conventions	A number of commenters supported the decision not to propose a naming convention for alternative funds.	We thank the commenters for the support.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	These commenters also told us that the terms "alternative fund" or "conventional mutual fund" should only be used as a descriptor for the sake of convenience, not as defined terms, and that it should be left to the product disclosure to highlight the characteristics and differences between these products, while other commenters suggested that clarification be provided in the CP.	We note that the term "conventional mutual fund" is not used as a defined term under the Amendments. We decided to create a defined term "alternative mutual fund" as a means of distinguishing these products from other types of mutual funds for the purposes of more clearly articulating the different regulatory requirements that will apply to these funds, such as different investment restrictions and disclosure requirements. This is similar to the approach that was taken with commodity pools under NI 81-104. Commodity pools will become alternative mutual funds under the Amendments.
	Other commenters suggested a naming convention mandating the use of the term "non-conventional mutual fund" for these products and that this will be more meaningful to investors than the term "alternative fund" which may not be well understood. These commenters added that this naming convention would help to protect investors.	As noted above, we are not proposing a naming convention for alternative mutual funds. This is consistent with our current approach on naming conventions – commodity pools are not required to use that term in their names, nor are there prescribed naming requirements for non-redeemable investment funds. The defined term "alternative mutual fund" is meant to differentiate these funds from other types of mutual funds for regulatory purposes, as there are different requirements applicable to them versus other mutual funds. This is similar to the manner in which the term "commodity pool" was used under NI 81-104. The prospectus disclosure requirements will also require these funds to describe themselves as alternative mutual funds in order to avoid any investor confusion.
National Instrument 81-102 *Investment Funds*		
Part I – Definitions		
"Alternative Fund"	One commenter suggested that while the proposed definition of "alternative fund" contemplates that it is the fund's investment objectives that determine if it is an alternative, it may actually be the fund's investment strategies that are more important for this definition. The commenter added that the definition should be revised to make it clear that either the fund's investment objectives or strategies can make it an alternative fund.	Change not made. We are of the view that in order to avail itself of the more flexible investment strategies available to alternative mutual funds, it must be part of the fund's fundamental investment objectives to pursue these strategies. We don't agree that just referencing this in the investment strategies, which can be amended at any time without securityholder approval, is sufficient. We note that this is consistent with the approach that was taken for the definition of "commodity pool" under NI 81-104, which "alternative mutual fund" is replacing as a defined term.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	This commenter also asked that we provide wording in the CP to clarify that it is not intended for all precious metals funds to be alternative funds, and that simply investing in precious metals should not in itself make a mutual fund a precious metals fund.	We have amended the definition of alternative mutual fund to better clarify that it excludes precious metals funds. We also note that the definition of "precious metals fund" requires that investing primarily in permitted precious metals be the fund's fundamental investment objective. Incidental investment in permitted precious metals by a mutual fund will not in itself make the mutual fund a "precious metals fund."
"Cleared Specified Derivative"	One commenter stated that this proposed definition does not distinguish between futures commissions merchants that execute and clear exchange traded derivatives and clearing corporations that clear over-the-counter (OTC) derivatives. This commenter noted that this blurring of functions is not currently an issue but could become one as new derivatives rules are refined in Canada and internationally and suggested separate definitions to more clearly distinguish these functions.	The definition now clarifies that a "cleared specified derivative" is one that is accepted for clearing by a "regulated clearing agency", which is a term defined in National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives*.
"Designated Rating"	One commenter noted recent financial events resulting in rating downgrades in the US and elsewhere, and that the pool of counterparties that would have a "designated rating" as that term is currently defined, has been materially reduced. This means that investment funds subject to NI 81-102 are forced to use a more concentrated pool of counterparties. This commenter recommended that CSA consider articulating certain limited exemptions to the designated rating requirements in NI 81-102, where there has been an industry-wide rather than institution-specific downgrade that may disrupt a manager's existing counterparty arrangements.	Change not made. There are other more appropriate means for dealing with an exceptional scenario like that occurring in the marketplace, such as applying for exemptive relief.
	Another commenter suggested adopting the definition of "designated rating" used in NI 44-101, which is a lower threshold than the term as defined in NI 81-102.	Change not made. A change of that nature is beyond the scope of this Project. We also note the ongoing CSA project concerning possible amendments to National Instrument 25-101 *Designated Rating Organizations* which may be more directly relevant to this comment.
"Illiquid Asset"	Some commenters suggested that the definition of "illiquid asset" in NI 81-102 is problematic in that defining an asset as illiquid because it does not trade on a market that has public or widely available quotations is too narrow, particularly as applied to fixed income securities, which can have deep and very liquid markets for trading.	We received a number of comments concerning changes to this definition and to the provisions governing illiquid assets held by funds generally. However, we are of the view that amending the regulatory framework and terminology regarding illiquid assets in this manner is beyond the scope of this Project as its impact would extend beyond just alternative mutual funds and strategies.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	Some of these commenters suggested the definition be amended such that securities that trade in OTC markets can be liquid if they are actively traded on such markets.	Change not made. An amendment of this nature is beyond the scope of this Project. Please see our response above.
	Another commenter believes that securities that can be readily traded for their appropriate value on a market that provides full pre-trade transparency to all participants in that market should be deemed liquid for the purposes of that definition.	Change not made. An amendment of this nature is beyond the scope of this Project. Please see our response above.
	Other commenters encouraged the CSA to consider adopting an "SEC-type" definition of illiquid asset, which focuses on the ability to dispose of an asset at its fair value within a prescribed period of time, modified to meet any policy objective specific to the Canadian markets. These commenters argue that this is a more flexible approach and is easier to apply in practice than the current definition.	Change not made. Amending the definition in this manner would be beyond the scope of this Project. Please see our response above.
	One commenter questioned why the additional interpretation "public quotation" in NI 81-104, which pertains to the definition of "illiquid asset" in regard to foreign currency forwards and options in the interbank market, was not carried into NI 81-102 as part of the Proposed Amendments.	The definition of "public quotation" in NI 81-102 has been amended to include this additional wording from NI 81-104.
	We also heard from commenters that consideration of the scope of the definition of "illiquid asset" in NI 81-102 requires further commentary and consultation and should not necessarily be tied to the alternative funds proposal and the Proposed Amendments.	We agree.
"non-redeemable investment fund"	One commenter suggested incorporating and updating the discussion that is in the Companion Policy to NI 81-106 about what is and isn't an NRIF, into the Companion Policy to NI 81-102. This commenter also suggested including some discussion points from recent CSA Notices that also discussed this topic since they believe this distinction is not very well understood.	Change not made. The definition of "non-redeemable investment fund" refers back to NI 81-106, which would necessarily include any commentary in the Companion Policy to that Instrument.
"Precious Metals Funds"	One commenter noted that the definition of "precious metals fund" in NI81-104 permits these funds to invest both directly in precious metals and in entities that invest in precious metals, which has been interpreted as including securities of companies that operate in the precious metals sector or industry. This commenter noted that this part of the definition was not carried into NI 81-102 as part of the Proposed Amendments and	Change not made. The definition is intended to capture funds that focus on direct or indirect investment in precious metals, such as gold, silver or platinum, which is consistent with exemptive relief previously granted and with the exemptions from the general restrictions on mutual funds investing in commodities. We don't believe a fund that invests primarily in equity securities of firms in the precious metal sector is the same thing as a

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	suggested we reconsider that decision.	"precious metals fund", from this perspective. We note however, that the definition does not necessarily prohibit a precious metals fund from also investing in equity securities of companies in that sector.
Other terminology	We heard from one commenter that NI 81-102 contains derivatives-related terminology that is vague and inconsistent with terms used by market participants.	The concern is noted. However, a review of this nature is beyond the scope of this Project.
Part 2 – Investments		
Section 2.3 – Restrictions Concerning Types of Investments	One commenter believes the exclusion to the proposed look through test in subsection 2.3(4) should be more broad to also exclude investment by an investment fund in an underlying fund if the top fund represents less than 10% of the underlying fund's NAV.	Change not made. The look through test is intended to be consistent with similar look through provisions applicable to the general concentration restrictions in section 2.1.
Section 2.4 – Restrictions Concerning Illiquid Assets	One commenter recommended increasing illiquid asset limit for alternative funds to the same 15% of NAV limit applicable for mutual funds in the US, noting that the SEC originally increased this limit from 10% as a way of providing more capital for small business investment without significantly increasing risk to mutual funds. This commenter suggests this change would have a similar effect in Canada. Another commenter also encouraged the CSA to consider an increase in the illiquid asset limits for conventional mutual funds, specifically to 15% of NAV at time of purchase with a 20% of NAV hard cap. This commenter suggested this would allow mutual funds to better participate in long term infrastructure projects or private equity opportunities.	Change not made. We are not contemplating any changes to the illiquid asset thresholds for mutual funds under NI 81-102 as part of this Project as noted in our earlier responses above. Change not made. Please see our response above.
Section 2.5 – Investment in Other Mutual Funds	Several commenters suggested we increase the limit on investment in alternative funds or NRIFs by mutual funds from 10% of NAV to 20%, as they are all subject to NI 81-102, and because this would give mutual funds greater access to more flexible investment strategies.	Change not made. We think 10% is an appropriate balance between giving mutual funds access to these types of investments or strategies without altering the fundamental nature of the mutual funds. It will also help to reduce market confusion by limiting any overlap in strategies used by mutual funds vs alternative mutual funds so that these types of funds are more clearly distinguished from one another.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	One of those commenters added that this 20% aggregate limit could include a 10% cap on investment in any single alternative fund or NRIF, with an added requirement that this be in the mutual fund's investment objectives or strategies.	Change not made. Please see our response above.
	Another commenter believes there should be no restriction on investment by a mutual fund in any underlying fund, whether or not it is subject to NI 81-102. This commenter notes that the funds are managed by sophisticated professionals who do not need the same protection as retail investors.	Change not made. Part of the basis for the fund of fund restrictions is to ensure that funds cannot access assets and strategies through fund of fund investing that they cannot access directly. A change of this nature is inconsistent with that goal since it would allow unfettered access, through fund of fund investing, to strategies and investment that retail mutual funds are not permitted to use directly.
	We were commended by one commenter for codifying certain existing fund of fund relief for mutual funds as part of the Proposed Amendments. This commenter suggested we also consider codifying other existing relief that allows mutual funds to invest in ETFs traded in jurisdictions outside of Canada subject to certain conditions.	Change not made. The CSA has considered and, in some cases, granted exemptive relief on a case-by-case basis to allow mutual funds to invest in ETFs traded in jurisdictions outside of Canada, and continue to believe this is the best approach going forward. However, we may consider revisiting this approach in the future.
	One commenter suggested that we prohibit mutual funds from investing in alternative funds or NRIFs, adding that the proposal could make it much harder for investors to use basic asset allocation principles in constructing their portfolios and recommends that fund purity be maintained.	Change not made. The original proposal in part reflects exemptive relief previously granted to allow mutual funds a limited degree of exposure to commodity pools or NRIFs. We believe codifying this restriction is consistent with those previous orders and that the level of permitted investment in alternative mutual funds and NRIFs is sufficiently limited as to allow those funds to have some degree of exposure to strategies associated with these products, without impacting the fundamental nature of the mutual fund.
	A different commenter suggested that before adopting this change, stakeholders should be provided with information that demonstrates that this will be advantageous to investors who invest in these funds and whether the increased cost and decreased liquidity will be in the best interest of fund investor.	We note that mutual funds that choose to make these investments are required to properly disclose this to investors and that any dealers selling these funds have suitability and "know your product" obligations under securities law.
Section 2.6 – Investment Practices	We heard from commenters that alternative funds or NRIFs should be permitted to deduct cash or cash equivalents on hand from the proposed cash borrowing limit of 50% of NAV.	Change not made. The purpose of the restriction is to limit the leverage that an alternative can use through cash borrowing. Cash on hand does not in itself reduce the amount of an outstanding loan unless it is applied towards the repayment of that loan.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	Another commenter supported the 50% limit generally but expressed concern that the restrictions placed on which entities can lend cash to alternative funds may increase borrowing costs by reducing competition. There was also concern expressed that limiting cash borrowing to 50% of NAV may push funds towards greater use of derivatives which may introduce more risk to achieve strategies.	We have expanded the scope of entities permitted to act as lender to include those described under section 6.3 of NI 81-102, such as foreign banks or trust companies and their affiliates. We believe the limit of 50% of NAV on cash borrowing is an appropriate limit for introducing this strategy into the retail space in Canada and note that it is consistent with similar restrictions on this activity in other jurisdictions.
	One commenter doesn't believe NRIFs should be subject to any cash borrowing limits as their liquidity needs are very different than for mutual funds, and suggested we remove the proposed limits for NRIFs.	Change not made. We don't believe it is appropriate for a product designed to be sold to retail investors to have potentially unlimited leverage. We also note that many NRIFs already in the Canadian marketplace that borrow cash have self-imposed borrowing limits that are consistent with the limits set out in the Amendments. However, as part of the transition provisions for the Amendments, existing NRIFs that have investment objectives that would be inconsistent with this limit are exempted from complying with this restriction, although it will apply to all new NRIFs on a going forward basis.
	Another commenter suggested the following changes to the cash borrowing proposals: • Fixed income funds should be permitted to exceed the 50% of NAV limit. • Funds borrowing in specific foreign currencies should not be subjected to any cash borrowing limits as long as the fund retains an overall cash positive balance. • Alternative funds should also have the ability to use one or more custodians or prime brokers for borrowing cash and holding portfolio assets.	Changes not made. We're of the view that it is unduly complicated to establish multiple limits tied to any one fund's investment strategies, which can differ widely even amongst a particular fund type. We think that a single limit applicable to each defined type of fund is more manageable and appropriate. We think there are other avenues for addressing fund or strategy specific concerns with this, such as applying for exemptive relief. We note that the borrowing provisions in the Amendments do not prohibit alternative mutual funds from using more than one lender, or from borrowing from a prime broker We further note that the criteria for an acceptable lender that were in the Proposed Amendments have been expanded to include foreign banks and their affiliates as well.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	We also heard from two commenters that stated that they do not believe that investors are well served in liquid markets through persistent borrowing of non-negligible amounts for investment purposes. They also noted however, that in the case of illiquid assets, the ability to borrow on a long term structural basis for the purpose of providing additional investment return may be suitable.	We agree that these types of strategies may not be appropriate for all investors and note that alternative mutual funds are not necessarily intended for all investors. However, we do recognize that the ability to borrow cash for investment purposes can be a useful tool for funds with a focus on alternative investment strategies and therefore are proposing to allow it but with what we believe to be appropriate safeguards. We expect an alternative mutual fund's portfolio manager to only employ this strategy where it believes it is appropriate to do so taking into account market conditions and the fund's own investment objectives.
	One of the commenters suggested limiting cash borrowing to 10% of NAV on an incidental/short term basis for day to day management purposes (as opposed to generating leverage or return), and then granting exemptions on a case by case basis through relief, which would then require a demonstration of the rationale for such borrowing.	Change not made. Please see our response above.
	We received support for the proposal that IRC approval be required for funds that seek to borrow cash from an affiliate of the investment fund manager and that the lending be under standard commercial terms.	We thank the commenters for their support. We note that this approval requirement also includes entities that are associates of the investment fund manager as well.
	However, one commenter didn't agree that IRC approval should be necessary as it takes the view that borrowing cash from an affiliate of the manager is not materially different from other related party agreements for which IRC approval is not required, such as portfolio management or other services.	Change not made. We believe that a transaction of this nature is within the scope of the types of conflicts of interest for which IRC approval should be required.
	We also received a number of comments regarding technical fixes to the cash borrowing proposals in section 2.6, to better clarify how the proposed cash borrowing provisions for alternative funds and NRIFs in subsection 2.6(2) in the Proposed Amendments interact with the existing provisions for temporary borrowing in subsection (1):	
	• We received a suggestion that we add wording to clarify that the general restriction on borrowing in subsection (1) of section 2.6 be subject to the expanded limits proposed in subsection (2).	We have amended the wording in subsection (2) to make it more clear how it interacts with the limits in subsection (1).

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	• We were also asked to clarify in subsection (2) that alternative funds and NRIFs are permitted to provide a security interest over their assets for permitted cash borrowing as is the case in subsection (1).	That is correct. Funds that can borrow cash in accordance with subsection 2.6(2) may also provide a security interest over their assets to facilitate the cash borrowing consistent with the existing provision in section 2.6. This has been clarified in subsection (2).
	• We were also asked to clarify that borrowing under this section refers only to borrowing cash.	That is correct. Other forms of borrowing, like short-selling are addressed in separate sections of NI 81-102.
Section 2.6.1 – Short Sales	There was support for the proposed 50% short selling limit as a prudent approach for alternative funds. One commenter however, recommended we revisit the limit after a full market cycle or 5 years, to determine how funds performed and to consider appropriate adjustments.	We thank the commenters for the suggestion. The CSA does review its rules from time to time to determine if they require updating or amending. We also note that the CSA also has the ability to address more specific concerns that may arise through exemptive relief orders.
	There was also concern expressed that the limits were too low and could push funds towards possibly riskier derivatives strategies to meet their investment objectives.	We believe that the proposed short-selling limits are appropriate for these products. We also note that the Amendments include overall restrictions on leverage which also help mitigate the risk to these funds.
	Several commenters recommended that the short selling and borrowing restrictions be modified to allow 100% short selling as part of a “market neutral” strategy. Some of the commenters also suggested that we create a defined term “market neutral fund” to facilitate this.	Change not made. We believe a carve-out or exemption of this nature for a specific fund strategy like this can be better addressed through other means.
	We were also asked by several commenters to exempt securities that qualify as “government securities” or “index participation units” under NI 81-102, from the short selling issuer concentration limits, on the basis that they are essentially “risk free” securities and are often used for hedging purposes.	Government securities, as defined in NI 81-102, have been exempted from the issuer concentration limits under the short-selling restrictions for alternative mutual funds and NRIFs under the Amendments.
	Some of the commenters suggested a blanket exemption from the limits for short selling when used for hedging purposes, and the language in the CP can be added to clarify what this would mean.	Change not made. The proposed short-selling limits for alternative mutual funds are devised in the same manner as for other mutual funds, which do not allow for exemptions for short-selling used for hedging purposes.
	Another commenter suggested we raise the short selling issuer concentration limit to 20% of NAV.	Change not made. The increase in the issuer concentration limit on short selling was put in place to approximate the alternative mutual fund concentration limit for long positions. Since short selling is restricted to 50% of NAV, the equivalent to the 20% concentration limit on long positions is 10%.

Part II – GENERAL COMMENTS ON THE PROPOSED AMENDMENTS		
ISSUE	**COMMENTS**	**RESPONSES**
	A different commenter suggested the proposed 10% limit on a single issuer coupled with the 50% overall limit on short-selling shows little understanding of risk management in a long/short portfolio.	Change not made. Please see our response above. We expect that portfolio managers will determine whether or not taking full advantage of this limit is necessary or appropriate for their funds. We also note that these limits were not established solely for the purposes of use in long/short strategies.
	We also heard that NRIFs should not have any short selling restrictions in recognition of the structural differences between NRIFs and mutual funds including alternative funds.	Change not made. We do not believe unfettered short-selling discretion is appropriate for funds directed at retail investors, though we note that NRIFs will be subject to the same limits on short selling as alternative mutual funds. We do not agree that any structural differences with NRIFs necessarily warrant allowing unlimited short selling.
	We were also asked to consider easing the cash cover requirements for short sales by conventional mutual funds as well. This commenter suggested that managers are reluctant to use short selling strategies other than for hedging purposes since the current restrictions can result in a drag on performance. This commenter added that this will enable conventional mutual funds to consider the use of market neutral strategies as well.	Change not made. The CSA's views on the restrictions on the use of leverage by conventional mutual funds have not changed.
Section 2.6.2 – Total Borrowing and Short Selling	Another commenter suggested that short selling be permitted up to 100% of NAV, and that funds be permitted to borrow up to 10% cash for operational needs and therefore recommends a combined borrowing/short selling limit of 110%.	Change not made. We believe the 50% of NAV short selling limits is an appropriate regulatory standard for these funds.
	Another commenter did not agree with the rationale for applying the same overall limit to cash borrowing and short selling. The commenter noted that there are acute differences in these strategies with respect to hedging. This commenter proposed short selling and cash borrowing be subject to separate limits rather than aggregated within the same 50% limit and that the 50% limit on short selling exclude short selling for hedging purposes.	Change not made. As noted previously, the aggregate limit is intended to represent an overall cap on direct borrowing. Please see our responses above concerning exempting hedging transactions from the short-selling limits.

Section 2.7 – Transactions in Specified Derivatives for Hedging and Non-Hedging Purposes		
Provisions governing use of Derivatives generally	One commenter suggested that we reconsider our approaching to regulating investments funds' use of derivatives to take a more principles-based approach, and focus on the nature of the instrument and overall exposure and risk of a portfolio rather than strictly defined categories and labels. This commenter believes this will provide greater consistency and simplicity for investors and industry participants.	Change not made. This would be inconsistent with the mostly prescriptive approach taken with respect to the various investment restrictions in Part 2 of NI 81-102. We do note that there are exemptions from certain of these provisions that are tied to specific types of derivatives, such as the case with exemptions applicable to "cleared specified derivatives" which reflect exemptive relief already granted. However, a reconsideration of the approach to regulation of this area for investment funds is beyond the scope of this Project.
Subsection 2.7(4) Counterparty Exposure Limits	Several commenters did not agree with the proposal to no longer exempt alternative funds from the counterparty exposure limits in subsection 2.7(4). They believe it is not clear that there is any risk from exposure to a single counterparty that needs to be mitigated. They were also concerned that it may add significant operational and compliance costs.	We believe that some measures to mitigate counterparty risk are appropriate. The proposal to remove the exemption from this provision that had applied to commodity pools reflected our view that there was no clear basis for commodity pools or alternative funds being fully exempted from this restriction while other mutual funds were not. We have however, included exceptions to this restriction in cases where we believe the concerns about excessive counterparty exposure are sufficiently mitigated. The Amendments now provide for an exemption where the specified derivative is a "cleared specified derivative" or where the applicable counterparty has a "designated rating".
	These commenters also suggested that any calculation of the mark-to-market value of counterparty exposure should be net of any credit support offered by a counterparty on the basis that it eliminates credit risk of the counterparty. Some of these commenters noted that such support was provided by counterparties to NRIFs that entered into prepaid forward agreements.	We are not proposing to change the method by which mark-to-market exposure under this subsection is calculated. A change of this nature would be beyond the scope of this Project.
	Another commenter suggested counterparty exposure limits may be problematic in light of increased limits for borrowing and short-selling as it could require funds to use multiple counterparties for the same transactions which may not be efficient.	The counterparty exposure provisions in this section only apply with respect to transactions in specified derivatives. Counterparty exposure limits for other types of transactions are addressed elsewhere in NI 81-102.

	Other commenters were in favour of an exemption from the counterparty exposure, concentration and illiquid asset limits for any fund that enters into a prepaid specified derivative transaction, provided the transaction is subject to certain conditions regarding the counterparty's obligations that would protect the fund. It believes these transactions are beneficial to investment funds as a tax deferral tool.	Change not made. We believe that a specific exemption like this could be better addressed through other means, such as an application for exemptive relief.
	Another commenter believes counterparty exposure should be measured across the board, on a net basis, and not just with respect to the use of specified derivatives.	Change not made. We note that specified derivatives are not the only types of transactions for which a limit on counterparty exposure is imposed, and these different limits are in place to address counterparty risk in respect of the particular type of transaction, rather than simply relying on an overall counterparty exposure limit.
	A different commenter suggested that a counterparty with a designated rating be exempted from the counterparty exposure limits as a better balance to the CSA's goals in mitigating counterparty risk.	We have made this change. Please see our response above.
	Another commenter requested guidance on the interpretation of the counterparty exposure limit and asks the CSA to consider how exposure can be mitigated through collateralization rather than rigid limitations.	The counterparty exposure limits in this section are based on a mark-to-market calculation which takes into account offsetting positions between counterparties. We also note that this part of the provision is unchanged under the Amendments, so there is no change to how it is currently applied and calculated.
Section 2.9.1 – Leverage	One commenter supported allowing an increased use of leverage by alternative mutual funds but noted that the greater restriction on the use of borrowing/short-selling vs. derivatives implies that those strategies are inherently riskier than derivatives. This could result in some managers using riskier forms of leverage with strategies that would typically require more than 50% of NAV. This commenter suggests a solution could be to consider different tiers of restrictions depending on the risk classification of the fund.	The investment restrictions in NI 81-102 are generally not tied to any specific strategy employed by a fund. We believe this would be unduly complicated from a regulatory standpoint. There are other avenues for addressing fund or strategy-specific concerns like this, such as applying for exemptive relief, which can be better targeted to the concern being raised.
	A commenter wanted to clarify that it was not the CSA's intent for the leverage and borrowing restrictions in the Proposed Amendments to apply to conventional mutual funds, but only to alternative funds and NRIFs.	That is correct. The proposed borrowing provisions allowing up to 50% cash borrowing, as well as the leverage restrictions in section 2.9.1 will only apply to alternative mutual funds and non-redeemable investment funds. The wording in section 2.9.1 has been amended to make this clearer. The restrictions on the use of leverage by conventional mutual funds are unchanged by the Amendments.
	Another commenter suggested a separate higher limit for fixed income funds (similar to the IIROC rules) and that further review of the proposal is warranted.	We are of the view that a single leverage limit, applied consistently for alternative mutual funds and non-redeemable investment funds, is the best approach for the sake of clarity and comparability.

	This commenter was also in favour of excluding hedging transactions by netting off transactions involving the same instrument, same reference asset, maturity and other material terms.	We have amended the leverage calculation in section 2.9.1 to allow for the deduction of specified derivatives transactions for "hedging" purposes as that term is defined in NI 81-102. We note that this is consistent with the approach to the use of specified derivatives for conventional mutual funds under sections 2.7 and 2.8 of NI 81-102.
	One commenter was in favour of there being no limit on leverage, as long as the leverage used is disclosed.	Change not made. We do not agree that unlimited leverage is appropriate for a retail-focused mutual fund from a risk perspective and do not believe that disclosure alone would be sufficient.
	Some commenters do not agree that having both individual limits on borrowing and short selling and an aggregate "3 buckets" limit on leverage will provide better protection. They note that many PMs run strategies that employ one primary form of leverage – compartmentalizing in this way may force manager to use alternative forms of leverage that may not be a good fit for their strategy.	Change not made. We believe placing a hard limit of 50% on cash borrowing and short selling is a prudent measure for introducing this form of leverage into the retail space. We also believe that, an overall leverage limit is appropriate to ensure that indirect leverage through derivatives is also appropriately managed.
	Another commenter recommends increasing the leverage limit to 400% as it would facilitate a wider variety of strategies.	Change not made. We think the 3x limit is appropriate. As indicated above, the calculation methodology is being amended to allow for the deduction of derivatives transactions that are for hedging purposes.
Section 2.12 – Securities Loans	One commenter recommended we revisit the rules related to permitted collateral for securities lending to allow for the delivery of equities as this would put Canada on par with global parties that accept equities as collateral, including UCITS funds in Europe.	A change of this nature is not within the scope of this Project.
Part 3 – New Mutual Funds ***Seed Capital Requirements for Alternative Funds***	One commenter was against the removal of the permanent seed capital requirement that applied to commodity pools under NI 81-104. This commenter believes that fund managers should be required to permanently retain capital within a fund.	Change not made. The proposed change will result in alternative mutual funds being subject to the same seed capital requirements as any other mutual fund subject to NI 81-102, which do not include a requirement to maintain permanent capital in the fund. We note that the seed capital requirements in NI 81-102 are designed to ensure that funds have adequate capital to launch and not as a means of ensuring fund manager prudence. Investment fund managers are required to always act in a fund's best interest under securities law. In addition, investment fund managers are also subject to registration and to independent review committee oversight which was not the case when the commodity pool seed capital requirements were first put into place in NI 81-104.

Part 6 – Custodianship Of Portfolio Assets		
Section 6.2 – Entities Qualified to Act as a Custodian or Sub-Custodian for Assets held in Canada.	A number of commenters recommended we expand the scope of entities permitted to hold portfolio assets for alternatives funds, to include any IIROC registered dealers, rather than requiring a primary custodian for portfolio assets pursuant to section 6.2, with selected carve-outs for certain types of transactions, as this would allow prime brokers to also act as fund custodians. These commenters also noted that IIROC has robust rules for dealers holding client assets that would mitigate concerns about this.	A more broad-based change of this nature to the custody requirements in NI 81-102 is beyond the scope of this Project. We have however, removed the requirement for bank-affiliated entities that act as custodians to have financial statements that have been made public, in response to feedback this has prevented certain entities that are wholly-owned affiliates of a bank, such as their related dealers or prime brokers, from acting as custodians or sub-custodians, because they do not have separate public financial statements, which was not the intent of that provision.
	A different commenter suggested we ensure that an IIROC registered dealer that meets the criteria set out in subsection 6.2(3) of NI 81-102 can act as a custodian to an alternative fund.	Change not made. As noted above, we are not contemplating expanding the scope of permitted custodians in this manner as part of this Project.
	Another commenter sought assurance that the custodial provisions will be broad enough to allow prime brokers, including non-Canadian prime brokers, to hold portfolio assets for alternative funds.	If a prime broker can meet the criteria set out in sections 6.2 or 6.3 under the Amendments, it can act as an investment fund's custodian. The provisions are not intended to specifically apply to or exclude those entities. We also note that the custodial provisions governing specific types of transactions such as borrowing, short selling, securities lending or use of specified derivatives in section 6.8 and 6.8.1 are broad enough to contemplate entities other than the fund's main custodian, including prime brokers, holding fund assets to facilitate those types of transactions.
	Another commenter expressed concern that many prime brokers may not necessarily have the intra-company infrastructure in place to meet the custodian requirements in NI 81-102 and may also not be set up to meet the review and compliance reporting requirements. This commenter asked that prime brokers be specifically exempt from meeting those requirements. They noted that if alternative funds are required to have a custodian in addition to a prime broker, it could impose additional costs in respect of establishing new operational infrastructure which may deter some firms from creating products in the NI 81-102 space.	Change not made. We do not believe there is a policy basis for exempting prime brokers from the review and compliance reporting requirements that are intended to apply to any entity that acts as an investment fund's custodian. We note that many of these requirements do not apply in respect of the custody provisions governing the transactions referred to in sections 6.8 and 6.8.1 which are they types of transactions for which prime brokers are often employed.
Section 6.8 – Custodial Provisions relating to Borrowing, Derivatives, Securities Lending	One commenter expressed support for the proposal to codify in NI 81-102 exemptive relief to facilitate funds investing in OTC derivatives that are cleared in accordance with the provision of the "Dodd-Frank" legislation in the US, and similar provisions in Europe. However, this commenter suggested amendments to the custodian requirements in section 6.8 of NI 81-102 to better	While we have not made the specific amendments mentioned in the comment, we have made changes to the applicable provisions to better reflect the terms of the exemptive relief they are based on.

Repurchase and Reverse Repurchase Agreements ***Codification of "Cleared OTC Derivatives" Relief***	reflect the terms of the relief. This commenter suggested we amend subsection 6.8(1) to specifically contemplate banks, as they are typically the counterparties to derivatives transactions in Canada, and a change to subsection 6.8(2) to adopt the "regulated clearing agency" language in National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives* (**NI 94-101**).	
Section 6.8.1 – Custodial Provisions Relating to Short Selling.	A number of commenters pointed out a technical issue with the short-selling custodial provisions in section 6.8.1. They noted that section 6.8.1 restricts deposits with a single sub-custodian for short sales to no more than 10% of NAV. However, with the proposed 50% short selling limit, this could require an alternative fund to have several different borrowing agents in order to take advantage of the higher limit, which may not be operationally efficient for the fund. A number of these commenters recommended solutions to this issue.	We have amended the applicable provisions to allow an alternative mutual fund or NRIF's to deposit up to 25% of its net assets with a single counterparty for short selling transactions, to better align with the increase in overall short-selling to 50% of NAV permitted for alternative mutual funds and NRIFs under the Amendments.
	Other commenters recommended increasing the limit with any one borrowing agent to 20%, as it would strike a balance between efficiently executing strategies and alleviating potential counterparty risk.	We are changing the limit to 25%. Please see the response above.
	One commenter recommended increasing the deposit limit to 25% to allow funds to use only two agents rather five or more under the current proposal.	Change made. Please see the response above.
	Another commenter recommended an exemption from the 10% deposit limit for prime brokers.	Change not made. Please see the response above.
	A different commenter recommend that we allow funds to simply deposit sufficient collateral with the prime broker/borrowing agent against such borrowing or short selling based on the current regulatory margin rates for IIROC broker dealers and that proceeds from short sales be included as eligible margin for that purpose.	Change not made. Please see the response above.
Rehypothecation of Collateral	One commenter suggested that the CSA specifically permit rehypothecation of collateral pledged by a fund for borrowing, short selling or derivatives as this could result in lower fees for funds. This commenter noted that IIROC rules permit this for unsegregated client assets held with a dealer.	Change not made. The CSA's view regarding rehypothecation by a counterparty of collateral pledged by an investment fund has not changed in connection with this Project.

	Another commenter asked for clarification of recent OSC guidance regarding hypothecation of collateral pledged with a counterparty, borrowing agent or sub-custodian.in these circumstances.	This request is beyond the scope of this Project.
Part 7 – Performance Fees	One commenter told us it believes fee disclosure, particularly of performance fees must be very clear. This commenter notes that alternative funds can charge performance fees on a total return up to a certain high water mark and that private funds will often reset the high water mark on a regular basis, but that there is no provision to do so under the Proposed Amendments. Another commenter wants the CSA to provide a definition of "high water mark" and to test the disclosure of performance fees with investors to ensure the description is understood.	We agree and note that alternative mutual funds will be required to fully disclose the terms of any performance fees arrangements, consistent with current disclosure requirements for other investment funds. We note that the term "high water mark" is not used anywhere in this section, in regard to performance fees. Therefore defining it is unnecessary. We also note that these provisions are replacing the same requirement applicable to commodity pools under NI 81-104.
Part 9 – Sale of Securities of an Investment Fund **Part 10 – Redemption of Securities of an Investment Fund**	Several commenters noted a technical issue regarding a discrepancy in the regime for purchase and redemptions for alternative funds. This issue is with the provisions that require a daily NAV calculation under 81-106 versus purchase/redemption requirements in Parts 9 and 10 of NI 81-102 that mandate which NAV must be used for purchases and redemptions. These commenters noted that this can pose a problem for alternative funds that do not accept daily redemptions. One of the commenters suggested amending the relevant provisions in Parts 9 and 10 to allow alternative funds that do not offer daily redemptions to have more flexibility to accept purchases or pay redemptions. Specifically, the commenter suggests allowing these funds to pay redemptions or accept purchases based on the NAV determined as of the fund's next purchase or redemption date, instead of the most recent NAV calculated within a prescribed time period after receipt of the purchase/redemption order, as is currently required. The commenter added this would better address the concern than the wording under the currently proposed subsection 10.3(5) of NI 81-102.	Change not made. This is a requirement applicable to all mutual funds and is not specific to alternative mutual funds. Mutual funds are not required to offer daily purchases or redemptions. As such it is not clear to us that a modification to these provisions specific to alternative mutual funds is necessary and that fund manufacturers can find solutions within the scope of these provisions to address these concerns.

Part 15 – Sales Communications and Prohibited Representations		
Section 15.6 – Performance Data – General Requirements	Several commenters asked that we give a limited exemption from the provisions regarding the use of historical performance data to permit existing pooled funds that may convert to alternative funds under NI 81-102 to be able to use their historical performance data prior to conversion in sales communications, with appropriate qualifications. Some expressed concern that without this data, investors will not have a full picture of a manager's skill set.	Change not made. We note that the restriction is in place in part because funds sold in the exempt market are not subject to the same investment restrictions as funds under NI 81-102 and therefore are able to use strategies not available to funds under NI 81-102. Any disclosure of performance history on this basis can be misleading to investors.
Marketing Materials	One commenter recommended we provide additional guidance expanding on previous guidance regarding the use of marketing materials by alternative funds including guidance on appropriate classification, and how products/strategies will be used by portfolio managers in certain market conditions. Another commenter wants the CSA to review the marketing requirements for investment funds and determine whether the rules need revision or strengthening and wants better enforcement of existing sales practice rules.	We note that the guidance on the use of marketing materials in Part 15 applies to all mutual funds including alternative mutual funds. This request is beyond the scope of this Project.
National Instrument 81-104 *Commodity Pools*		
Part 4 – Proficiency And Supervisory Requirements	There was support for our proposal to repeal the proficiency requirements for mutual fund dealers dealing in commodity pools from Part 4 of NI 81-104, and to engage with the Mutual Fund Dealers Association (**MFDA**) regarding reviewing how existing proficiency requirements may need to be reconsidered in respect alternative funds.	We have reconsidered our initial proposal on mutual fund dealer proficiency for alternative mutual funds and decided to retain those provisions within NI 81-104. We recognize that any consideration of revisions to these proficiency standards should be conducted as part of a larger review of overall dealer proficiency requirements which would be beyond the scope of this Project.

	A number of these commenters added that they do not believe that the Proposed Amendments for alternative funds represent a significant departure from conventional mutual funds in terms of complexity, in that many of the same strategies can be employed by both types of products – the difference relates primarily to the extent these strategies can be used. They recommend we take a principles based approach to any additional proficiency requirements, consistent with general registrant proficiency requirements in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**).	Please see our response above.
	A different commenter suggested the proficiency for selling alternative funds should be the same as for selling hedge funds as they are equally complex.	Please see our response above.
	One commenter expressed concern that any proposed changes in proficiency requirements not create increased confusion or burden for investors, noting that in some cases, an investor may have to deal with multiple dealers in the same firm with respect to different investment funds in their account with that firm.	Please see our response above.
	Others agreed that proficiency is best dealt with through the MFDA. These commenters added that the current proficiency requirements under NI 81-104 have been a significant impediment to distribution by mutual fund dealers and that establishing unnecessarily strict proficiency requirements again would result in the same issue.	Please see our response above.
	One commenter recommended specific proficiency requirements for trading in alternative funds. It added that if the CSA decides to raise the base level for mutual fund dealers then it should recommend a refresher course for all existing dealers as well to level the playing field. This commenter suggests that any additional proficiency courses and content be validated in collaboration with the MFDA, the CSA and any applicable proficiency course providers to ensure consistency and has offered to participate in that process.	Please see our response above. We welcome any input in this area.

	Two commenters expressed concern that similar issues that have arisen in the past with the mis-selling of certain products by dealers due to inadequate training can occur again with alternative funds. They believe specific training is required for dealing representatives with evidence of successful completion of the training being retained in personnel records. These commenters added that deficiencies in the "know your client" process could be harmful for investors investing in alternative funds. They also believe that the current suitability standard is inadequate and that a fiduciary or "best interest" standard should be applied to dealers. They added that they do not expect these products to be sold on a "DSC" basis. They also took note of the concurrent work the CSA is engaged in regarding the relationship between dealers and clients, notably under *CSA Consultation Paper 33-404* which may address some of these concerns.	The concerns are noted. Please see our response above regarding the mutual fund dealer proficiency standards for alternative mutual funds. As the commenter notes, the CSA is currently working on initiatives that are intended to address some of these concerns and issues.
NI 81-106 – *Investment Fund Continuous Disclosure*		
Part 3 – Financial Disclosure Requirements	Some commenters expressed concern with what they see as limited guidance on the inclusion of short selling/borrowing expenses in the calculation of an alternative fund's management expense ratio (**MER**) or trading expense ratio (**TER**). The concern is with the inconsistency in how amounts are applied which can result in less comparability. These commenters added their view that these expenses should be more properly characterized as TER.	We note that funds have been permitted to engage in these activities for several years already and therefore have already been providing this disclosure in their financial statements. It's not clear to us how the Amendments would be the cause for any particular confusion on these issues. As such we think this is a question that may be better addressed outside of the purview of this Project.
	One of the commenters also stated that some clarification of the potential impacts of the Proposed Amendments on existing MRFP disclosure requirements would be helpful, in particular relating to TER and total return calculations. They also suggested that commentary on the treatment of costs related to short sale transactions would be beneficial to ensure consistency.	We note that this isn't a new requirement – commodity pools have been required to provide this disclosure under NI 81-104 for a number of years. It is simply being migrated to NI 81-106. As such it is not clear what particular impact to the MRFP this comment is concerned about.
	Some of these commenters added that the requirement to bifurcate returns for long and short position should be removed for alternative funds as it could be misleading in terms of understanding an alternative fund's strategies.	Change not made. All mutual funds already have the ability to sell securities short, so it is not clear why different reporting requirements should apply to alternative mutual funds relative to other mutual funds in this regard.

Part 14 – Calculation Of Net Asset Value	One commenter believes that the operational demands and costs for an alternative fund manager to provide daily NAV calculation as a result of using derivatives is not justified nor is such frequency likely to be demanded by investors. This commenter recommends that NI 81-106 be updated to permit alternative funds to calculate NAV on up to a monthly basis. A different commenter expressed similar a concern about the requirement to provide a daily NAV. This commenter suggested amending the definition of "specified derivative" in NI 81-102 to exclude derivatives used for hedging purposes as this would allow funds that only use derivatives for hedging purposes to calculate a NAV once a week instead of daily.	Change not made. This requirement applies to all publicly-offered investment funds, many of which use derivatives. We don't believe alternative mutual funds should be treated differently in this regard. Change not made. Please see above.
NI 81-107 – *Independent Review Committee For Investment Funds*		
Applicability to Alternative Funds	One commenter questioned whether the provisions of NI 81-107 will be adequate for alternative funds and suggests this may require considerable analysis and reflection.	NI 81-107 applies to any publicly-offered investment fund, which includes commodity pools and NRIFs. We do not believe that alternative mutual funds will create any unique issues within this Instrument.
Other Comments		
Impact of exempt market dealer amendments on alternative funds	One commenter reiterated comments they had previously provided in respect of then proposed amendments to NI 31-103 and OSC Rule 33-506 (*Commodity Futures Act*) *Registration Information*, regarding changes to the exempt market dealer requirements. This commenter expressed concern that if the Proposed Amendments come into force, the exempt market dealer changes could result in those dealers being prohibited from distributing alternative strategies in the retail space that it can distribute in the exempt market.	We thank the commenter for this comment but note that it refers to matters that are beyond the scope of this Project.

Part III – COMMENTS IN RESPONSE TO CONSULTATION QUESTIONS

1. Under the Proposed Amendments, we are seeking to replace the term "commodity pool" with "alternative fund" in NI 81-102. We seek feedback on whether the term "alternative fund" best reflects the funds that are to be subject to the Proposed Amendments. If not, please propose other terms that may better reflect these types of funds. For examples, would the term "non-conventional mutual fund" better reflect these types of funds?

Comments	Responses
Most commenters agreed with using the term "alternative fund" as being a more accurate term than "commodity pool". Some suggested slight modifications to the definition to better clarify operational differences from other mutual funds.	We have changed the defined term to "alternative mutual fund" to make it clearer that these products will be mutual funds, and have amended the wording of the definition to better clarify those operational differences.
Some commenters weren't as comfortable with the term "alternative fund" to describe these products. They noted that the term is already in common use in the marketplace, and generally refers to hedge funds sold under a prospectus exemption.	We have amended the defined term to "alternative mutual fund", to better distinguish these products from hedge funds.
Some of these commenters questioned why the proposed definition refers only to a type of mutual fund or why we are proposing to integrate that term in NI 81-102.	The regime for alternative mutual funds is largely derived from the current regime for commodity pools, which are defined as mutual funds. The term is being integrated into NI 81-102 as part of the migration of the current NI 81-104 requirements in that rule.
Another of the commenters suggested a preference for the term "alternative mutual fund", which they believe is more consistent with language used in other jurisdictions.	Change made. Please see our responses above.
Some other commenters noted that there are publicly-offered funds in the marketplace that use the term "alternative" or "liquid alternative" in their names and recommended the CSA provide guidance in the CP to NI 81-102 on whether those funds would have to become alternative funds or remove that term from their names to avoid confusion.	We agree. While we are not prescribing a naming convention for alternative mutual funds, it is our expectation that only mutual funds that are "alternative mutual funds" as defined in the Amendments will use the term "alternative" in either their name or description. It could otherwise be misleading to investors. We have provided guidance in the CP to NI 81-102 to clarify the CSA's views on this.
A different commenter was not in favour of referring to existing NI 81-102 mutual funds as "conventional mutual funds" as it may stigmatize alternative funds by comparison, although this commenter did note that was not being proposed under the Proposed Amendments. This commenter is of the view that the terms "mutual fund", "alternative fund" and "non-redeemable investment fund" are sufficient differentiators.	We agree and thank the commenter for the support.

Part III – COMMENTS IN RESPONSE TO CONSULTATION QUESTIONS	
One commenter suggested that there is a risk that the term "alternative fund" could result in investors believing the fund only invests in alternative asset classes like real estate or infrastructure and suggested a term like "Alpha funds" may be more appropriate.	Alternative mutual funds will be required to disclose the types of assets they are permitted to invest in, in accordance with their investment objectives and regulatory restrictions, as is the case with other investment funds subject to NI 81-102. As well, NI 81-102 will generally prohibit alternative mutual funds from investing in these types of assets. Investors will also have the ability to speak to their advisor or dealer about these products to clarify that they do not invest in these types of assets. We further note that alternative mutual funds will not be required to use the word "alternative" in their names. The term "alternative mutual fund" is a definition for regulatory purposes, so we don't believe there is a significant risk of confusion on that basis.
Another commenter doesn't think the term "non-conventional mutual fund" is appropriate for these products as it pre-supposes that investors would understand and appreciate what are "conventional" investment strategies for investment funds.	We agree.
One commenter recognized the need to adopt legal definitions for the purposes of distinguishing amongst categories and is fine with the proposed term "alternative fund" so long as it is not accompanied by a naming or labelling requirement.	We are not proposing a naming convention for alternative mutual funds.
A different commenter preferred that the term "alternative fund" be used solely as a descriptive term and not as a defined term.	Alternative mutual funds are a separate category of mutual fund with different investment restrictions than other mutual funds. A definition is therefore necessary in order to properly distinguish these mutual funds from other mutual funds for regulatory and disclosure purposes.
2. We are seeking feedback on whether there are particular asset classes common under typical "alternative" investment strategies, but have not been contemplated for alternative funds under the Proposed Amendments, that we should be considering, and why.	
Comments	**Responses**
Several commenters felt that most asset classes typically associated with liquid alternative strategies are contemplated in the Proposed Amendments.	We thank the commenters for their support.
Other comments specifically highlighted "market neutral" strategies as one in which the Proposed Amendments may be problematic in that that proposed short selling restrictions may not allow for the most efficient implementation of that strategy.	We are of the view that there are other avenues for better addressing concerns with the impact on specific fund strategies like this outside of rule-making.

Part III – COMMENTS IN RESPONSE TO CONSULTATION QUESTIONS

Other commenters suggested that private loans/debt, (without regard to administrative responsibilities), real estate/real property and mortgages (whether guaranteed or not), as examples of typical "alternative" asset classes that should be contemplated for investment by alternative funds.	Change not made. The CSA's view generally is that owning or managing real estate assets or administering loans is not consistent with being an investment fund as defined in securities legislation. As well, we note that the prohibition on investing in non-guaranteed mortgages was extended to all publicly offered investment funds in connection with the "Phase 2" amendments to NI 81-102 published in 2013. This reflected the CSA's view that these products may not be appropriate investments for publicly offered investment funds, and that position has not changed in connection with this Project.
A different commenter noted that the categories of "alternative investment strategies" is always changing, though given the need for frequent redemptions at NAV, they expected that only commodity pools and certain hedge fund strategies will be able to utilize the Proposed Amendments.	We recognize that not every alternative strategy in the hedge fund space can be adapted to fit within the Amendments for the alternative mutual funds regime, and it is not the intent of the Project to facilitate that.
This commenter also recommended the applicable investment restrictions on NRIFs be returned to their pre-2014 levels.	Change not made. For the reasons articulated previously in the earlier phases of the Modernization Project, we think the investment restrictions for NRIFs set out in the Amendments are appropriate for publicly-offered investment funds. We note however, that the transition provisions will allow for some grandfathering for pre-existing NRIFs.

3. We are proposing to raise the concentration limit for alternative funds to 20% of NAV at the time of purchase, meaning the limit must be observed only at the time of purchasing additional securities of an issuer. Should we also consider introducing an absolute upper limit or "hard cap" on centration, which would require a fund to begin divesting its holdings of an issuer if the hard cap is breached, even passively, which is similar to the approach taken with illiquid assets under NI 81-102? Please explain why or why not.

Comments	Response
Many commenters supported the proposed 20% of NAV concentration limit for alternative funds, but do not believe a "hard cap" limit is necessary. These commenters cited concerns that a hard cap could result in forced sales of assets which may not be in a fund's best interest.	We are not proposing a hard cap on the concentration limits for alternative mutual funds.
One commenter suggested that this proposed new limit be extended to more conventional mutual funds as well.	Change not made. We do not believe a higher concentration limit would be appropriate for more conventional mutual funds.
Another commenter added that we should consider allowing greater flexibility in the concentration limits for funds that track an index.	Subsection 2.1(2) of NI 81-102 already provides an exemption from the concentration restrictions for funds that track an index. That provision is not being changed under the Amendments.
One of the commenters noted that while it may be the case that a majority of NRIFs already abide by a lower concentration limit, they don't believe it is necessary to codify this and suggested a broader fixed portfolio exemption than is contemplated, that would essentially exempt any proposed fund that adopts a "rules based" or formulaic approach to investing.	We have replaced the defined term "fixed portfolio ETFs" with "fixed portfolio investment fund" which extends the exemption to NRIFs that employ a similar structure. We also note that the exemption for funds that track an index remains intact. We are not in favour of introducing any further carve-outs from this restriction in the Instrument at this time.

Part III – COMMENTS IN RESPONSE TO CONSULTATION QUESTIONS	
Another commenter stated that some investors may find more concentrated positions more appealing in an alternative fund or NRIF as they will often focus on diversity at a portfolio not a fund level.	We note that the concentration restrictions for alternative mutual funds will be double the limit applicable to more conventional mutual funds.
One commenter recommended that the CSA consider whether conventional concentration limits are appropriate and in particular whether timely disclosure in the investment strategies and Management Discussion and Analysis of an alternative fund would be preferable to a hard cap. This commenter added that if a hard cap is imposed, that there be a reasonable transition period and readily available exemptive relief for existing funds.	We are not imposing a hard cap on the concentration restriction. The 20% limit will be a "time of purchase" test, in line with how the restriction for conventional mutual funds is applied.
A different commenter advocated for aligning the CSA rules with the rules applicable to European UCITS, which allow for higher concentration limits for investments in government/supranational assets and the like. This commenter also suggests this limit also include mark-to-market exposure of OTC derivatives, and believes that the concentration limit apply on an ongoing basis and not just at the time of purchase, with a plan to reduce exposure if the limit is passively exceeded.	Subsection 2.1(2) of NI 81-102 already provides for an exemption from the concentration for investments in "government securities", which are generally defined as those issued by the Government of Canada or a province/territory, or the Government of the United States. The Companion Policy to NI 81-102 also discusses that the CSA will consider exemptive relief to permit a higher concentration limit for investment in securities issued by foreign governments or supranational agencies that meet certain minimum credit rating criteria. That relief has been granted numerous times in the past. We also note that the concentration limits in section 2.1 of NI 81-102 include a "look-through" test in regards to derivatives or underlying funds held by a fund. These provisions will remain unchanged under the Amendments.
One commenter stated that concentration risk in isolation is not informative and may oversimplify the risk associated with additional asset classes under the proposal. As a result this commenter does not agree with increasing the concentration limit for alternative funds, and alternatively proposes a limit in which no more than 50% of a fund's NAV can comprise holdings that individually exceed 10% of fund's NAV. This commenter also does not support a hard cap as it could result in a forced sale under distressed conditions.	Change not made. The approach to the concentration limit for alternative mutual funds and NRIFs is intended to be consistent with the approach taken for other mutual funds under NI 81-102, which are "time of purchase" limits and do not include a hard cap.
Another commenter believes that control limits should be similarly increased along with concentration limits. This commenter noted that it is not inconsistent from a practical standpoint, with several funds from the same manager having significant holdings of the same issuer.	Change not made. We do not agree that permitting mutual funds to hold a higher proportion of an issuer's securities is comparable to allowing a higher proportion of a fund's portfolio to be invested in an issuer. We note that the purpose of the control restrictions in section 2.2 in part is to avoid conflict with take-over bid legislation.

4. We are not proposing to raise the illiquid asset limits for alternative funds under the Proposed Amendments. Are there strategies commonly used by alternative funds for which a higher illiquid asset investment threshold would be appropriate? Please be specific.

Comments	Responses
Several commenters suggested we increase the limit to 15% of NAV at the time of purchase with 20% hard cap.	Change not made. These Amendments are intended to facilitate alternative strategies for funds that will retain similar structural and liquidity characteristics to more conventional mutual funds. Accordingly we favour the same illiquid asset limits for alternative mutual funds as for other mutual funds.
These commenters also suggested we amend the definition of "illiquid asset" in conjunction with the increased limit. These commenters suggested the definition either explicitly contemplate OTC transactions without references to "market facilities" or "public quotations", or that we adopt an approach similar to the SEC in the United States, where the definition is linked to how quickly an asset can be disposed of at its market value.	As we have noted previously, amending the definition of "illiquid asset" in this manner is beyond the scope of the Project.
Another commenter suggested we increase the limit to match the proposed limit for NRIFs. This commenter noted that alternative funds are intended to have greater flexibility to pursue different strategies than mutual funds and having a higher illiquid asset limit would help provide this.	Change not made. As noted above, we expect alternative mutual funds will be structurally similar to other mutual funds and likely have similar redemption policies. The higher illiquid asset limit for NRIFs is recognition of the difference in fund structure and means of securityholder liquidity for NRIFs compared to mutual funds. NRIFs tend to offer limited redemption rights (if any) and their securities are primarily traded over an exchange. Therefore, it is our view that these funds can manage a higher illiquid asset limit than mutual funds.
Some commenters stated investment in distressed securities, loans, real property and non-guaranteed mortgages, as well as arbitrage strategies are examples of strategies in which a higher illiquid asset limit might be more appropriate as the intent is to capture the illiquidity premium.	Please see our earlier response above in regard to publicly-offered investment funds investing in these types of assets.
Other commenters told us that we should consider allowing alternative funds to invest a portion of their assets in pooled funds in order to give greater access to less liquid alternative strategies without creating greater risk as retail investors may benefit from some access to these types of investments.	Change not made. The proposed fund of fund restrictions in NI 81-102 for alternative mutual funds are in part designed to limit the ability of a fund to indirectly invest in assets or access strategies they cannot invest in directly. Pooled funds are not subject to any of the investment restrictions in NI 81-102, therefore it would be inconsistent with the intent of the fund of fund provisions to allow alternative mutual funds to invest in pooled funds in the manner contemplated.
Another commenter agreed that there should not be a higher illiquid asset limit for alternative funds, as there is no reason to believe the liquidity needs for alternative funds are different than for other mutual funds. This commenter added that the limits are necessary for products that offer daily liquidity.	We agree and thank the commenter for the support.

5. Should we consider how frequently an alternative fund accepts redemptions in considering an appropriate illiquid asset limit? If so, please be specific. We also seek feedback regarding whether any specific measures to mitigate the liquidity risk should be considered in those cases.	
Comments	**Responses**
Most commenters agreed that we should take redemption frequency into account in considering an illiquid asset for alternative funds – specifically, a higher limit for funds with less frequent redemptions, and lower limits for more frequent redemptions.	Change not made. We have determined that crafting illiquid asset restrictions in this manner would be unduly complex and impractical from a rule-making perspective. There may be better avenues for considering a more flexible approach like this depending on the particulars of the applicable fund or strategy. Managers should also be considering their liquidity needs as part of their duty of care to their investment funds.
One of the commenters added that alternative funds should be permitted to pursue strategies that involve investing in a greater proportion of illiquid assets as long as the manager has policies and procedure to manage liquidity risk and that this is disclosed to investors. This commenter also suggested we allow greater flexibility for longer notice periods for withdrawals or for the ability of managers to suspend redemptions.	Change not made. We believe a prescribed limit on illiquid assets is appropriate for alternative mutual funds given that they are expected to be liquid investments with regular redemptions. We note that this approach is consistent with other international jurisdictions regarding publicly offered mutual funds. We also note, however, that Part 10 of NI 81-102 includes provisions that allow for the suspension of redemptions in certain circumstances and the Amendments will include provisions specific to alternative mutual funds that will allow for some additional flexibility on redemption policies. Nonetheless, we do encourage manager-driven initiatives in developing policies and procedures to manage liquidity risks within this regulatory framework.
One commenter suggested that only funds that utilize more "liquid alternative" strategies will likely be able to safely access the restrictions under the Amendments. This commenter expressed concern that if a higher illiquid asset limit were tied to less frequent redemption rights, it could encourage the use of more illiquid strategies which could pose other unforeseen challenges around performance benchmarking, which could impact disclosure and the use of standard deviation as a risk methodology, as well as possibly under the *Income Tax Act*, which has requirements for mutual funds to offer redemptions on demand. This commenter recommended that we use a single definition for "redemption on demand" for all types of mutual funds.	We agree that a single limit on illiquid assets for all alternative mutual funds is the best approach in this case and is consistent with how this limit is applied to other types of investment funds. We do not prescribe or mandate a particular redemption frequency for mutual funds but note that Part 10 of NI 81-102 does prescribe requirements for when redemption proceeds must be paid upon receipt of a redemption request by a fund.
Another commenter suggested that the illiquid asset limit be based on the type of asset, with a higher proposed limit of 20% of NAV with a 25% hard cap for listed illiquid securities, and the existing limits in place for unlisted illiquid securities or restricted securities.	Similar to our responses above, we think it would be unduly complicated and impractical to attempt to craft an illiquid asset limit that varies by asset type. There may be other avenues in which more fund or strategy specific restrictions can be considered, such as applying for exemptive relief.

6. We are also proposing to cap the amount of illiquid assets held by a non-redeemable investment fund, at 20% of NAV at the time of purchase, with a hard cap of 25% of NAV. We seek feedback on whether this limit is appropriate for most non-redeemable investment funds. In particular we seek feedback on whether there are any specific types or categories of non-redeemable investment funds, or strategies employed by those funds, that may be particularly impacted by this proposed restriction and what a more appropriate limit, or provisions governing investment in illiquid assets might be in those circumstances. In particular, we seek comments relating to the non-redeemable investment funds which may, by design or structure, have a significant proportion of illiquid assets, such as "labour sponsored or venture capital funds" (as that term is defined in NI 81-106) or "pooled MIEs" (as that term was defined in CSA Staff Notice 31-323 *Guidance Relating to the Registration Obligations of Mortgage Investment Entities).*

Comments	Response
Several commenters told us they believe it should be left to the manager, fund sponsor and underwriters of a NRIF to determine an appropriate illiquid asset limit to manage the fund's liquidity needs and that such a limit should not be prescribed under NI 81-102.	Change not made. Many if not most NRIFs now offer some kind of redemption rights – in some cases, multiple redemption rights per year. Therefore, a limit on illiquid assets is appropriate, much like with mutual funds. As noted previously, the higher limit relative to mutual funds is recognition of an NRIFs different business model, and mode of providing liquidity to investors.
Another commenter told us the proposed illiquid asset limit for NRIFs should be higher than what is being proposed.	Change not made. We believe the limit is appropriate for a retail focused product and note that many NRIFs in the market already follow comparable illiquid asset limits on their own.
One of the commenters expressed concern that limit could impact Flow-Throw funds as their holdings are typically initially subject to a hold period which would make those assets illiquid until the applicable hold period is completed.	We have decided not to change the illiquid asset limit for NRIF that was proposed under the Proposed Amendments. We recognize that there could be certain strategies that are impacted by this but we ultimately decided that a single illiquid asset limit for NRIFs is the most practical approach from a rule-making standpoint and is consistent with our approach to other investment restrictions in NI 81-102. We note that there may be other avenues for addressing these kinds of fund or strategy specific concerns such as applying for exemptive relief.
There was also concern expressed about the impact on Labour Sponsored or Venture Capital Funds. One commenter noted that many of these funds are exempted from a number of the investment restrictions under NI 81-102 and sought assurances that these exempted would not be impacted by the Proposed Amendments, particularly in respect of concentration and investment in illiquid assets, or that at a minimum, these funds would be grandfathered from the Proposed Amendments.	These products are already exempted from a number of the investment restrictions in NI 81-102 either by way of that Instrument or their own governing legislation. We are not making any changes to those exemptions, and therefore do not expect the Amendments to impact these funds.

7. Although non-redeemable investment funds have a feature allowing securities to be redeemable at NAV once a year, we also seek feedback on whether a different limit on illiquid assets should apply in circumstances where a non-redeemable investment fund does not allow securities to be redeemed at NAV.

Comments	Response
Several commenters told us that they believe that any NRIF or alternative fund with limited or no redemption rights should have no prescribed illiquid asset limit as liquidity is not relevant for those kinds of funds, and they should be left to manage their own liquidity needs.	We do not agree that this is the case. As noted above, we anticipate the alternative mutual funds under this Project to have similar liquidity characteristics as other mutual funds, and other regular redemptions at NAV, consistent with other retail-focused mutual funds. We note that this approach is also consistent with fund liquidity management in many jurisdictions. We further note that since most closed-end funds also have some form of redemption rights, we believe a general illiquid asset restriction, although one that does recognize the structural differences in these products is also appropriate. We do recognize that there may be other avenues for considering more fund or strategy specific strategies than through rule-making, such as applying for exemptive relief, and that these may be more appropriate avenues for considering questions like this in certain circumstances.
One of these commenters added that if a limit is deemed necessary in that circumstance it would recommend a limit of 25% of NAV, introduced 6 months before the NRIF's expected termination date.	Change not made. We do not believe that it is practical to craft an illiquid asset restriction in this manner from a rule-making perspective.
Another commenter does not agree with allowing a higher illiquid asset limit in that circumstance as it might inadvertently encourage or result in the offering of additional products that do not have a redemption feature, which may not be appropriate for retail investors.	We thank the commenter for this comment. We are not changing the proposed illiquid asset limits NRIFs.

8. Should alternative funds and non-redeemable investment funds be permitted to borrow from entities other than those that meet the definition of a custodian for investment fund assets in Canada? Will this requirement unduly limit the access borrowing for investment funds? If so, please explain why.

Comments	Response
There was general agreement that funds should be permitted to borrow from a broader range of entities than is contemplated under the Proposed Amendments.	We have expanded the scope of permitted lenders to include entities that would qualify as foreign subcustodians under section 6.3 of NI 81-102, which includes foreign banks, trust companies and certain affiliates.
Some of these commenters recommended we expand the scope of acceptable Canadian lenders to also include any non-bank dealers that are members of IIROC, which they noted is a similar approach to that taken regarding the definition of "Canadian custodian" under (then) proposed amendments to NI 31-103.	Change not made. We note that the custody amendments to NI 31-103 specifically exclude funds subject to NI 81-102 as recognition of the differences between funds distributed in the exempt space and those in the retail space. As noted above, however, we have expanded the scope of permitted lenders for the purposes of the borrowing provisions in subsection 2.6(2).

A number of these commenters also recommended the CSA consider allowing funds to borrow cash from entities that meet the definition of a sub-custodian for assets held outside of Canada, under section 6.3 of NI 81-102.	Change made. Please see our response above.
These commenters also suggested the CSA should permit borrowing from non-Canadian prime brokers provided any such entity is subject to prudential supervision or other regulatory oversight in their home jurisdiction.	Please see our response above. The changes to this provision would allow non-Canadian prime brokers to act as lenders provided certain conditions are met.
One of the commenters noted in particular that permitting funds to borrow from non-Canadian lenders would allow for greater efficiencies relating to loans in foreign currencies.	Change made. Please see our response above.
Several commenters also had suggestions in the event the CSA decided against expanding the scope of acceptable lenders to any entity that qualifies as a sub-custodian under section 6.3 of NI 81-102: • One commenter suggested that we limit the scope to US lenders that meet the section 6.3 criteria. • Another commenter suggested geographically narrowing the scope to entities organized and regulated within the European Economic Area (EEA), G7, and Australia and New Zealand. • Another commenter suggested simply limiting funds to borrowing from a “credit institution” authorized in any of: Canada, the EEA, any signature state to the Basel Capital Convergence Agreement of July 1998, Australia, New Zealand or any other G7 country.	Please see our response above concerning the changes to the scope of permitted lenders.
A number of commenters noted an issue with the custodian requirements under section 6.2(3) and 6.3(3) of NI 81-102, namely that many bank dealer affiliates are wholly-owned and don’t have public financial statements as is required under that section, even if they meet the other criteria. These commenters suggested an amendment to require only the minimum equity threshold be met without the need for public financial statements and noted this is similar to the approach taken in recent proposed amendments to the definition of “Canadian custodian” in NI 31-103. The concern was that absent this fix, many dealers who act as prime brokers would be excluded from lending cash to funds under the Proposed Amendments.	We have amended sections 6.2 and 6.3 to make that change. Please see our responses above.
One commenter suggested we also consider permitting interfund borrowing as is permitted in the US and other countries.	Change not made. We note that investment funds are currently prohibited from lending cash under NI 81-102 and we are not contemplating any change to this restriction for alternative mutual funds.

Another commenter was of the view that there is no need to change the proposals to expand the range of permitted lenders for alternative funds or NRIFs beyond what is proposed.	We believe the proposed change will allow for a wider range of potential lenders, thereby allowing for more competitive pricing for funds, without increasing the risk to a fund. These funds will still be restricted to borrowing cash only from entities (or certain affiliates of those entities) that are qualified to act as a fund's custodian or sub-custodian under NI 81-102.
9. Are there specific types of funds, or strategies currently employed by commodity pools or non-redeemable investment funds that will be particularly impacted by the proposed 3 times leverage limit? Please be specific.	
Comments	**Response**
Some commenters noted that the current restrictions applicable to commodity pools and NRIFs don't set a limit on leverage through derivatives – this change could impact some commodity pools and NRIFs in the marketplace.	We recognize that the leverage limit could impact certain strategies currently employed by existing funds. However, in light of some of the investment flexibility being introduced under the Amendments, including the ability to borrow cash and more flexibility on short-selling, we believe it is appropriate to curtail the amount of leverage that can be generated through specified derivatives in exchange. We have, however, amended the leverage calculation to allow for the deduction of specified derivatives transactions that are for hedging purposes from the overall leverage limits which should provide greater flexibility. We have also included provisions in the Amendments to allow for some grandfathering of existing NRIFs.
A number of commenters told us that for absolute return funds or fixed income/credit-based funds, the proposed leverage limit will be insufficient, particularly if those funds use multiple hedging instruments, unless certain exclusions for hedging transactions are permitted from the leverage calculations.	We are changing the leverage calculation methodology to allow for the deduction of hedging transactions from the gross notional exposure amount under section 2.9.1.
Market Neutral strategies are another type of strategy cited by commenters that would be negatively impacted by the proposed total leverage limit, as well as the short selling limits.	Please see above regarding changes to the leverage calculation methodology. Please also see our earlier responses regarding our preferred approach for dealing with specific strategies like this as well as our earlier responses to comments regarding market neutral funds.
We were told that the proposed leverage restrictions would make it difficult to offer products that use global macro strategies, managed futures strategies and many risk parity and unconstrained bond strategies. It was further noted that Canadian retail investors already have far less access to these types of risk-managing products than investors in other countries due to the current derivatives restrictions in NI 81-102.	Please see our responses above concerning changes to the leverage calculation methodology.

We were also told that the proposed limit is too low and will restrict the ability of alternative funds to achieve their objectives through the use of derivatives and could have unintended consequences of alternative funds increasingly using long only strategies that are increasingly susceptible to market volatility. These commenters don't agree that using derivatives to gain exposure to assets increases the risk of a fund since they can have similar risk and return characteristics of the underlying asset and with proper risk controls in place, derivatives can provide certain benefits to the fund. These Commenters suggested that rather than imposing a single leverage limit, the CSA consider a broader approach and allow funds to disclose risk through value at risk (**VaR**), similar to the approach used in the European UCITS framework, as this would provide more flexibility. They agreed that there is value in disclosing notional exposure, and recommended that in addition to VaR, there be a requirement to disclose a fund's expected notional exposure, and that the fund be prohibited from exceeding those levels. This would provide a more complete picture of a fund's exposure and risk while allowing alternative funds greater flexibility to implement strategies.	We recognize that VaR is one of the methodologies permitted for measuring leverage risk employed under the UCITS framework. However, the leverage methodology under section 2.9.1 is not strictly intended as a measure of leverage risk – it is intended to be a uniform measure of economic exposure for the purposes of ensuring compliance with a prescribed regulatory limit. As such, we determined that it was more appropriate to employ a methodology that used clearly defined numbers, with less room for more subjective elements in order to facilitate comparability between funds and for measuring compliance with the regulatory limits. We also note that this approach is consistent with the more prescriptive approach taken to other investment restrictions under NI 81-102.
Another commenter was not in favour of a one size fits all approach to measuring leverage and told us that the use of leverage does not imply higher risk than a fund that doesn't use leverage. This commenter added that the proposed leverage limits could be insufficient for certain strategies used by alternative funds. This commenter recommended a higher overall leverage limit in order to accommodate most alternative strategies, with a requirement that the maximum amount be disclosed in the Fund Facts.	As noted above, we don't believe that a customized approach to calculating and measuring leverage is appropriate for introducing these concepts in the retail marketplace. We have however made amendments to the leverage calculation methodology which should allow for more flexibility, but we recognize that it will still not accommodate all alternative strategies.
Another commenter told us that NRIFs should not be subject to the same leverage limits as alternative funds as it would cause NRIF managers to cease to launch new offerings. In particular, the commenter believes NRIFs should not be subject to any kind of borrowing or leverage limit and that it should be left to market intermediaries to set those parameters. Alternatively, they recommend higher than what is currently proposed (e.g., 4x leverage, 150% borrowing and short selling), as well as permitting hedging or offsetting transactions to reduce this amount and allowing NRIFs to prescribe their own methodology for measuring exposure and requiring it be disclosed.	We don't agree that NRIFs should necessarily be entitled to a higher leverage limit relative to alternative mutual funds and have not made this change. This view is part of the basis for the Interrelated Investment Restrictions. We further believe that the changes we have made to the leverage methodology will better accommodate more strategies in this space, which may address some of the concerns cited in this comment. We recognize that the Amendments will not accommodate all alternative strategies.

10. The method for calculating total leverage proposed under the Proposed Amendments contemplates measuring the aggregate notional amount under a fund's use of specified derivatives. Should we consider allowing a fund to include offsetting or hedging transactions to reduce its calculated leverage exposure? Should we exclude certain types of specified derivatives that generally are not expected to help create leverage? If so, does the current definition of "hedging" adequately describe the types of transaction that can reasonably be seen as reducing a fund's net exposure to leverage?

Comments	Response
Several commenters asked that we remove the proposed 3x limit on leverage and replace it with a requirement to disclosure a fund's expected maximum leverage as well as the methodology for measuring leverage to be used by the manager. These commenters noted that there are generally recognized methodologies for determining notional risk exposure under a derivatives transaction.	Change not made. The Proposed Amendments contemplate an expansion of venues for alternative mutual funds to employ leverage (through cash borrowing and short-selling), and we feel it is a fair trade-off to subject this to an overall leverage limit as a means of limiting risk to the funds and that this approach is appropriate for retail-focused products. We note that these changes will have no impact on hedge funds or other mutual funds that are not reporting issuers and are sold only by way of prospectus exemptions, as these funds are not subject to NI 81-102.
Most commenters supported the idea that funds should be permitted to subtract or disregard from the total leverage calculation derivatives or other transactions (like short selling) used for hedging purposes, including: currency hedging, interest rate exposure, and single name credit exposure. The intent would be to allow for the subtraction of transactions that either reduce risk or that do not create additional leverage.	The leverage methodology has been amended to account for specified derivatives transactions that are for hedging purposes. Please see our earlier responses above on this point.
It was also recommended that we exclude from the calculation any notional amount of short selling for hedging purposes and adjust the calculation to account for positions where the fund's immediate delivery obligation is tied to premiums paid rather than delivery of the entire notional amount. The view is that will exclude transactions that do not contribute to a fund's leverage and therefore alternative funds should not be discouraged from using them.	Please see our responses above concerning changes to the leverage methodology.
Some commenters suggested we consider increasing maximum leverage to more than 3x NAV. One of the commenters noted that there are funds currently in the market that have 4 times aggregate leverage without significantly increasing their long term volatility.	We have not made this change. Please see our response above concerning the changes we have made to the leverage calculation methodology.
Another commenter also supported allowing funds to use "industry standard" calculation methods for the purposes of calculating an alternative fund's exposure to leverage as this will permit funds to apply the same methodology consistently for calculating gross exposure as well as their NAV.	We thank the commenter for the support and note that we have included wording in the CP to NI 81-102 to better clarify this.
This commenter also supported allowing funds to calculate their exposure net of any directly offsetting specified derivatives transactions that are the same type of instrument and have the same underlying reference asset, maturity and material terms, as these types of transactions are designed to reduce or eliminate a fund's economic exposure.	As noted in our responses above, we have amended the leverage calculation methodology proposals to allow for some offsetting of hedging transactions.

Other commenters agreed that funds should be permitted to net positions between derivatives instruments provided that the positions refer to the same underlying asset, even if the respective maturity date is different. These commenters also specifically supported the use of the "commitment method" for determining this, which is used in Europe.	Please see our responses above concerning changes to the leverage calculation for hedging transactions.
We were also told that allowing for offsetting/hedging transactions to be subtracted from the total leverage limit would give a more accurate picture of the fund's actual market exposure or risk, which they do not believe is accurately reflected under a notional aggregate exposure calculation methodology.	Please see our responses above concerning changes to the leverage calculation for hedging transactions.
Others agreed that the leverage calculation should focus only on transactions that actually create leverage and disregard transactions that do not create additional leverage, similar to what is required for dealers under IIROC Rule 100.4.	Please see our responses above.
Some commenters noted that the proposed methodology creates an inconsistency between mutual funds and alternative funds, as mutual funds are essentially subject to no limit on the use of derivatives for hedging purposes, but alternatives would be restricted in the use of hedging under the proposed leverage limit and methodology. These commenters added that if the proposed methodology were applied to conventional mutual funds in the same manner it would effectively prohibit the use of hedging strategies by those funds as well.	Please see above. We believe the revisions to the methodology will address this concern.
We were asked to provide clarification of the CSA's expectations regarding "generally recognized standard for determining notional exposure" as described in proposed section 3.6.3 of the CP, including examples, in order to resolve any ambiguity in that wording.	We have amended the CP language in NI 81-102 to offer more clarity on this point.
Another commenter disagrees with a leverage calculation that uses gross notional amount in a manner that does not take netting or hedging into account. This commenter pointed towards both the SEC's proposed rule 18f-4 and the UCITS rules in Europe, which both allow for some netting in their calculations, but suggests both approaches are unduly complex and overly restrictive. Instead, this commenter argues in favour of retaining a more principles-based approach that also allows funds to exclude from any leverage limits exposure from derivatives transactions used for hedging purposes.	Please see our responses above concerning changes to the leverage calculation methodology.

Another commenter noted that the SEC is actively considering revisions to the proposed rule 18f-4 (which uses a similar methodology) in response to industry feedback. This commenter also expressed concern that if Canadian rules are too dissimilar to those in the US or Europe it may hamper access to derivatives by Canadian funds as non-Canadian counterparties may find it too inefficient to deal with Canadian funds, which will result in higher costs. This commenter also added that an aggregate notional amount calculation does not reflect the reality of a fund's exposure as it doesn't account for hedging transactions. They stated that what matters for the purposes of measuring this exposure is a fund's actual mark-to-market net exposure as that reflects the actual amount at risk to the fund and that any concerns about the risk of loss of capital can be mitigated by ensuring the aggregate net exposure of derivatives positions does not exceed 100% of NAV. This commenter suggests that if the counterparty exposure restrictions in subsection 2.7(4) of NI 81-102 were revised in this manner, an overall leverage limit will be unnecessary.	Please see our responses above concerning changes to the leverage methodology. While we look to other jurisdictions to help inform our rule-making, we try to craft our rules in a way that recognizes that our market is different.
This commenter further added that the current definition of "hedging" in NI 81-102 is difficult to administer under the approach to derivatives taken by many Canadian mutual funds because certain hedges such as interest rate hedges are not simply correlation hedges and would therefore be offside clause (ii) of that definition. They suggest that clauses (i) and (iii) of the definition would be sufficient for these purposes and would allow for more easily drafting exclusionary language for use in a leverage limit calculation.	We did not consider any changes to the definition of "hedging" as it would have an impact that is beyond the scope of the Project.
Several commenters thought the current definition of "hedging" in NI81-102 is sufficient for describing activities that offset exposure to leverage.	We thank the commenters for the support.
Another commenter recommended specific modifications to the derivatives aspect of the leverage calculation to ensure sufficient flexibility for alternative strategies while imposing reasonable limits on leverage, including the following: • Exclude derivatives transactions for hedging purposes entirely, which is consistent with the approach used for mutual funds under NI 81-102 • Focus the calculation only on transactions that actually create an obligation • Consider the nature of the underlying asset • Allow funds to enter into an offsetting transaction to reduce their exposure rather than being forced to close out positions. The commenters note that if the CSA is not receptive to these options, then it should consider increasing the leverage limit instead.	Please see our responses above regarding changes to the leverage calculation methodology.

Another commenter expressed concern that the look through requirements in the leverage calculation could be operationally difficult to manage from a compliance standpoint and may drive managers to only invest in affiliated underlying funds.	The purpose of the look through provisions is to ensure that funds cannot indirectly circumvent the restrictions through fund of fund investing. We expect managers to take the appropriate steps to ensure that they have the necessary access to these measures from any underlying funds they invest in to properly manage this.

11. We note that the proposed leverage calculation method has its limits and its applicability through different types of derivatives transactions may vary. We also acknowledge that the notional amount doesn't necessarily act as a measure of the potential risk exposure (e.g. Interest rate swaps, credit default swaps) or is not a representative metric of the potential losses (e.g. short position on futures), from leverage transactions. Are there leverage measurement methods that we should consider, that may better reflect the amount of and potential risk to a fund from leverage? If so, please explain and please consider how such methods would provide investors with a better understanding of the amount of leverage used.

Comments	Response
Several commenters told us that multiple measures of leverage should be permitted in order to address the variability of different strategies, and that clear disclosure of those measures will also be required.	Change not made. We are of the view that having multiple measures in this manner would be confusing for investors and would hamper comparability across funds.
Several other commenters specifically supported utilizing the VaR model used for UCITS in Europe and it believes this takes a more holistic approach to risk assessment.	Change not made. Please see our responses above regarding our views on using VaR as the leverage calculation methodology for alternative mutual funds under NI 81-102.
Some commenters thought that the "sum of notionals" approach may not be an appropriate measure of risk and could be misleading. They do not believe that a single methodology exists that accurately explains leverage in all cases and suggests therefore that any single prescriptive approach will unfairly penalize some strategies over others. While they support limits on borrowing and short selling, they do not support creation of a single limit for leverage, as the risks represented by derivatives are distinct enough to require a different approach. These commenters also support the use of the VaR framework which is used in Europe.	We believe the adjustments we've made to the leverage calculation methodology will address some of these concerns. Please see our responses above on that point. Please also see our responses above outlining the reasons we are not using VaR as the leverage calculation methodology under the Amendments.
They also suggest requiring funds to provide, in addition to their disclosure of their notional exposure, a practical example of how each derivative instrument in the portfolio is being handled. They believe this will force managers to invest in more sophisticated risk control procedures and compliance oversight.	We encourage funds to improve their prospectus disclosure as they deem to be appropriate within the framework of the various Form requirements.
Another commenter is generally supportive of the proposed notional exposure methodology for cash borrowing. For derivatives, they suggest that mark-to-market exposure be the measure, rather than aggregate notional as it better reflects the market reality of most derivatives transactions.	Please see our responses above concerning the changes made to these provisions.

One commenter also noted that the gross notional exposure measure of leverage is not used in Europe and cited a recent hedge fund survey by the Financial Conduct Authority in the United Kingdom that states that gross leverage measures do not accurately represent an amount of money/value at risk. This commenter added that in certain scenarios a hard wired leverage limit can increase a funds distress by forcing it to sell or unwind positions at inopportune times and can therefore impact a manager's ability to manage risk in those situations.	Please see our responses above concerning why we chose this leverage calculation methodology in favour of others like VaR. Please also note that we have amended the methodology to allow for the deduction of specified derivatives transactions that are for hedging purposes. The Amendments also provide for funds that exceed the limit to take commercially reasonable steps to get under the limit, which we believe helps to mitigate the risk of a forced sale in distressed markets.
Another commenter expressed that they were generally satisfied with use of notional amount for calculation of leverage.	We thank the commenter for their support.

12. We seek feedback on the other Interrelated Investment Restrictions and particularly their impact on non-redeemable investment funds. Are there any identifiable categories of non-redeemable investment funds that may be particularly impacted by any of the Interrelated Investment Restrictions? If so, please explain.

Comments	**Response**
One commenter is concerned that narrowing investment restrictions for NRIFs will result in far less innovative offerings, given their higher cost and narrower distribution channels.	We believe the proposed investment restrictions are reasonable for retail-focused products and will accommodate a variety of strategies while maintaining limits or controls on those strategies that we believe are appropriate for retail-focused products.
Another commenter agreed, adding that cash borrowing in particular should not be too restricted, as there is little to no counterparty risk. This commenter added access to cash is important for less liquid NRIFs and that prudential standards imposed on Canadian banks/trust companies may make them slow to respond at times and limit the availability of borrowing. This could impact the ability of the smaller NRIFs to obtain financing on favourable terms or at all. This commenter expressed that there is no overarching benefit to restricting access to cash borrowing for NRIFs.	NRIFs and alternative mutual funds will be permitted to borrow cash up to 50% of NAV and as noted above, we have expanded the range of permitted lenders from what was initially proposed. We believe this will provide sufficient access to cash borrowing for NRIFs.
A different commenter doesn't believe there should be any restriction on short selling for NRIFs. This commenter noted that short selling restrictions in the Proposed Amendments appear to have an implicit bias towards the use of derivatives.	We believe the short selling provisions allow for more flexibility in the use of this strategy than is currently permitted for mutual funds and commodity pools under NI 81-102, while keeping appropriate controls in place for this strategy in the retail space. The restrictions proposed for NRIFs are the same as those proposed for alternative mutual funds.
We were also told that the particular investment restrictions for NRIFs were negotiated amongst the various intermediaries and do not appear to have created any issues would have necessitated these changes. These commenters believe disclosure is sufficient and the prescribed investment restrictions are unnecessary.	We do not agree that relying solely on intermediaries and disclosure is sufficient for regulating NRIFs, which are sold to the same investors as mutual funds subject to a more robust regulatory framework. One of the goals of the Modernization Project was to integrate NRIFs into the NI 81-102 regulatory framework, and establishing appropriate investment restrictions for NRIFs is a key part of that goal. We do not believe the restrictions set out in the Amendments will unduly hamper the investment strategies available to NRIFs. Nonetheless, the Amendments provide for some grandfathering of existing NRIFs that may be impacted by the changes.

13. Are there any changes to the form requirement for Fund Facts, in addition to or instead of those proposed under the Proposed Amendments that should be incorporated for alternative funds in order to more clearly distinguish them from conventional mutual funds? We encourage commenters to consider this question in conjunction with the proposals to mandate a summary disclosure document for exchange-traded mutual funds outlined in the CSA Notice and Request for Comment published on June 18, 2015.

Comments	Response
Regarding the proposed text box disclosure we were told by a number of commenters that it may be difficult to include all of the proposed information. Instead it was suggested that disclosure pertaining to the features and strategies of the alternative fund be provided under the applicable headings that already speak to those matters. These commenters added that the proposed text box disclosure is unnecessary and may require further explanations which may be at odds with the goal of the fund facts. They suggested instead the inclusion of a simple statement that a fund is an alternative fund and that it has the ability to invest in assets or use strategies not permitted by other mutual funds and encourage investors to read the prospectus.	We believe this disclosure is necessary so that investors understand that they are considering investing in a product that is unlike other types of mutual funds, and that has access to strategies that are not otherwise available in the retail mutual fund space. As such, it is important that the nature of these funds be clearly distinguished from other, more conventional mutual funds. We also do not agree that the current Funds Facts/ETF Facts format will be unable to accommodate this additional disclosure. We further note that the prospectus requirements in the Amendments are consistent with the recent regulatory changes for other mutual funds to have the Funds Facts or ETF Facts be the only disclosure document delivered to investors at the time the investment decision is being made.
A number of commenters also expressed concerns with the proposed “warning language”. They believe the statements about the potential for losing money are overly dire and not entirely accurate in light of modern day alternative funds relative to mutual funds.	We think it prudent to advise investors that certain of the strategies that can be employed by an alternative mutual fund (and that distinguish these funds from other types of mutual funds) are different from those permitted for conventional mutual funds and that they can have a different risk of loss. As noted above, this is particularly the case as these funds will have access to strategies that have not been previously available in the retail mutual fund space.
These commenters are felt it was unfair to mandate this warning language for alternative funds when no similar warning is needed for NRIFs, as it implies that alternative funds are inherently riskier.	The requirement to prepare a Funds Facts/ETF Facts currently only applies to mutual funds, which will include alternative mutual funds. Extending this requirement to NRIFs is beyond the scope of this Project.
There was also concern expressed with the proposals that would require comparative disclosure between alternative funds and other mutual funds as it could be misleading to investors.	We do not agree that requiring this comparative language will be misleading to investors.

One of those commenters noted for example that for ETF Facts there is only a requirement to disclose unique trading and pricing characteristics of ETFs but no requirement for comparative language with other mutual funds.	The unique disclosure requirements for ETF Facts are based on the fact that they are listed products and therefore have a different distribution and trading model than mutual funds that are not listed. This is what primarily distinguishes ETFs from mutual funds that are not listed. They are subject to substantially the same investment restrictions and therefore similar comparative language about investment strategies is unnecessary. The specific disclosure requirements applicable to alternative mutual funds, which are distinguishable from other mutual funds by virtue of the strategies they are permitted to employ or assets they can invest in, are consistent with this approach. We also note that alternative mutual funds that are listed for trading will be required to use the ETF facts and the same disclosure requirements for alternative mutual funds included in the Fund Facts will apply to the ETF Facts as well.
This commenter also felt that disclosure requiring an alternative fund to state that it is an alternative fund is not consistent with the CSA's expressed intent not to mandate naming or labelling conventions for alternative funds.	We disagree. Alternative mutual fund will be a defined term under securities legislation so it is appropriate to require funds to identify themselves as such. We do not agree that this can be equated to a naming convention. We further note that a similar identification requirement already exists for funds that prepare a long form prospectus under Form 41-101F2, which is currently the only prospectus form that is used by more than one type of investment fund (e.g. NRIFs, commodity pools and ETFs).
Another commenter urged the CSA to be consistent in disclosure rules and abandon comparisons between conventional mutual funds and alternative funds in relevant disclosure documents and instead ensure the disclosure focuses on features that are unique to alternative funds.	Alternative mutual funds are defined by how they can invest in asset classes and use strategies that are not available to other types of mutual funds. The disclosure requirements are therefore consistent with how these funds are defined.
This commenter added, however, that given the additional complexity and risk that alternative strategies and leverage introduce they were not sure that a Fund Facts is appropriate for the level of disclosure needed to properly explain this to investors.	The Fund Facts/ETF Facts is now the only disclosure document provided to mutual fund investors at or near the point of sale so it is, in our view, an appropriate document for this type of disclosure. We note that commodity pool ETFs, which can use some of the strategies that will be permitted for alternative mutual funds currently use the ETF Facts as their primary disclosure document.
One commenter suggested requiring a textbox permitting a brief description of an alternative fund's expected leverage or types of derivatives to be permitted, if the VaR methodology adopted.	As noted above, VaR will not be the leverage methodology used under the Amendments.
One commenter believes that while disclosure is necessary it is not sufficient on its own to provide investor protection. This commenter added that any summary document should focus extra attention on risk disclosure, redemption constraints and taxation more so than current fund facts for mutual funds.	The concern is noted. The existing disclosure requirements for Fund Facts and ETF Facts require this type of disclosure, and which must be tailored to the specifics of the particular fund. This will also apply to alternative mutual funds. As noted above, there is also specific additional disclosure for alternative mutual funds that focuses on the different strategies permitted by these products and the impact of those strategies on the potential risk of loss.

Another commenter expressed concerns with the statement in the Notice about the CSA's goal of harmonizing the disclosure regime for mutual funds and suggested that this is an ominous statement for the future of the exempt market in Canada. This commenter believes that the Proposed Amendments will increase the risk and reduce the returns of hedge funds. This commenter added that the disclosure proposals for alternative funds appears oblivious to the dangers of disclosing short positions as it could result in a "short squeeze" against the fund and suggests this is a key reason why liquid alternative funds have failed to replicate the success of their hedge fund counterparts in Europe and the US.	The Amendments will only apply to funds that are reporting issuers subject to NI 81-102. Hedge funds that are sold in the exempt market will not be subject to these requirements and the statement referenced in the comment about harmonizing the disclosure regime for mutual funds does not refer to or include hedge funds. We further note that the portfolio disclosure requirements for Fund Facts and ETF Facts do not require real time disclosure of portfolio holdings, nor does it require disclosure of a fund's full portfolio, so we do not agree that it exacerbates the risk of a short squeeze. We note that conventional mutual funds, which already have the ability to short sell, are currently required to provide this disclosure in the same manner as is proposed for alternative mutual funds.
Some commenters recommended to us that we consult specifically on the content of any proposed alternative fund point of sale disclosure, and as part of this consultation it was suggested we provide for comment, a sample Fund Facts for alternative funds, with the proposed new disclosure.	We do not agree that the additional disclosure requirements for alternative mutual funds set out in the Amendments warrant specific consultation as they can be addressed in the course of the prospectus review process as the other disclosure requirements were. We do not expect this additional disclosure to materially alter the format of the Fund Facts or ETF Facts.
One commenter generally agrees with the proposals but believes they will need periodic review.	We agree and note that we do periodically review the investment restrictions in NI 81-102 to determine if they need updating. The current Modernization Project is the result of such an exercise.
Other commenters made note of the proposal to introduce fund facts for unlisted alternatives, and the impending requirement for an ETF Facts, to highlight that NRIFs will be one of the few investment products that cannot transact based on a summary disclosure document, and that the policy reasons for this exclusion are unclear.	This concern is noted. The decision of whether to introduce a similar summary disclosure document for NRIFs is beyond the scope of this Project.
We were told that modifications to the mandatory risk disclosure will be needed for alternative funds that will adequately highlight the risks of alternative funds in light of liquidity constraints, leverage, derivatives and otherwise. This commenter added that any prescribed text box should use terms the average retail investor will understand.	We note that alternative mutual funds will have the same liquidity requirements as more conventional mutual funds and note that the additional disclosure requirements for alternative mutual funds include discussion of the impact of the strategies it uses. Fund Facts and ETF Facts are already required to use plain language wording to facilitate investor understanding and this expectation is not changing under the Amendments.

14. It is expected that the Fund Facts, and eventually the ETF Facts, will require the risk level of the mutual fund described in that document to be disclosed in accordance with the CSA Risk Classification Methodology (the Methodology) once it comes into effect. In the course of our consultations related to the Methodology, we have indicated our view that standard deviation can be applied to a broad range of fund types (asset class exposures, fund structures, manager strategies, etc.). However, in light of the proposed changes to the investment restrictions that are being contemplated, we seek feedback on the impact the Proposed Amendments would have on the applicability of the Methodology to alternative funds. In particular, given that alternative funds will have broadened access to certain asset classes and investment strategies, we seek feedback on what modifications might need to be made to the Methodology. For example, would the ability of alternative funds to engage in strategies involving leverage require additional factors beyond standard deviation to be taken into account?

Comments	Response
Several commenters told us they agree that the same general risk classification methodology should be used for conventional and alternative funds but that the methodology should be altered to allow managers to use other risk measures besides standard deviation. These commenters also anticipate some challenges for alternative fund managers and recommends revisiting/consulting on the methodology before going final on the Proposed Amendments.	We have decided not to change the Methodology for alternative mutual funds, as we believe using the same methodology across all mutual funds will foster greater comparability of risk ratings for those funds. We have however, included additional commentary for the Methodology to provide further guidance on additional factors to consider for funds that use strategies that may produce atypical performance distribution under the standard deviation calculation used for the Methodology, including the use of "upside discretion" for risk ratings permitted under the Methodology.
Other commenters agreed that more work may need to be done on the Methodology for alternative funds, but appreciated that there will not be a presumption that alternative funds are necessarily always risker that more conventional mutual funds.	Please see our response above.
Another commenter also agreed with using a single standard but cautions that the CSA not impose a higher risk rating on alternative funds solely as a result of their strategies. This commenter also seeks guidance with respect to Risk Classification Methodology in light of alternative strategies that may not have a comparable permitted index for the purposes of the Methodology.	Please see our response above.
Another commenter also wants the CSA to ensure there are clear rules about how the risk classification methodology is to be used for alternative funds before Proposed Amendments go final.	Please see our response above.
Another commenter agreed that a single measure of risk across all retail mutual funds fosters helpful benchmarking and comparisons, and believes that any shortcomings in using standard deviation as a risk measure for alternative funds are not significant and are outweighed by the benefits of a single standard.	We thank the commenter for the support.
Another commenter was pleased that standardized methodology for risk was adopted but disappointed that the proposed numerical scale was not accompanied by a narrative description of its limitations and an explanation of risks not covered in the scale, as is mandated in Europe and cited by IOSCO in its point of sale disclosure report.	We thank the commenter for the support. The Methodology was enacted as part of a different CSA initiative and therefore changes of this kind are beyond the scope of this Project. We note however, that the prospectus disclosure requirements associated with the Methodology include a statement that the Methodology only measures volatility.

Other commenters also supported the use of standard deviation as the risk measure for alternative funds. However they do not believe that alternative funds with less than 10 years history should be required to use the reference index performance as contemplated in the Methodology. The concern is that without additional flexibility, appropriate reference indexes may not be identifiable. These commenters recommended that the reference index requirement within the Methodology be amended to afford greater flexibility to alternative fund managers so that managers have some discretion to adjust the risk rating where the most appropriate reference index does not, in the manager's opinion, accurately reflect returns. The manager would also be required to explain the use of any such discretion in the fund facts.	Change not made. Please see our response above concerning the decision to use the Methodology for alternative mutual funds, including the additional guidance included as part of the Amendments. We note that the Methodology already affords managers some discretion in applying the appropriate risk rating to their fund, to better reflect its expected risk profile.
One of those commenters also suggests that in addition to allowing discretion to use qualitative factors, fund managers should also be allowed to use such other risk methodologies as they may deem to be more appropriate, provided that an explanation of methodology is provided in the fund's disclosure documents, including any material differences with the Methodology.	Please see our response above.
One commenter advocated for the adoption of VaR as a risk measure, similar to what is used in Europe for UCITS, conditional on certain additional controls like back testing. This commenter does not believe that the introduction of VaR will be a significant challenge for larger asset managers operating in Canada.	Change not made. However, we note that the additional commentary for the Methodology provided does contemplate managers considering the use of additional methodologies or factors to help arrive at an appropriate risk rating if they feel it is necessary to better reflect the fund's risk profile.
Other commenters agreed that standard deviation alone may not be sufficient in light of the various strategies that can be employed by alternative funds and that additional metrics such as VaR should also be considered.	Please see our response above.
Another commenter does not agree with volatility as a useful measure of risk and would object to anything similar for alternative funds.	Change not made. The risk measure used for the Methodology was developed under a different CSA initiative and as noted above was intended to apply to all mutual funds subject to NI 81-102. Changing the metric as the commenter suggests is beyond the scope of this Project.

15. We seek feedback from fund managers regarding any specific or unique challenges or expenses that may arise with implementing point of sale disclosure for non-exchange traded alternative funds compared to other mutual funds that have already implemented a point of sale regime.

Comments	**Response**
Most of the respondents who commented on this question did not foresee significant unique challenges for alternative funds implementing point of sale.	We thank the commenters for their support.
It was suggested the biggest challenge would be in educating those dealers required to deliver the documents and that the training to transition to this new regime could result in some transition costs for distributors.	We agree and thank the commenters for the feedback.

One commenter urged the CSA to specifically permit managers to consolidate both alternative funds and conventional mutual funds into the same prospectus given that the disclosure requirements will be substantially similar under the Proposed Amendments.	Change not made. This requirement is consistent with current disclosure requirements that prohibit combining commodity pools with other types of mutual funds in the same prospectus document.
16. We are seeking feedback on the proposed transition periods under the Proposed Amendments and whether they are sufficient to allow existing funds to transition to the updated regulatory regime? Please be specific.	
Comments	**Response**
Some commenters told us the proposed transition period should be adequate.	We thank the commenters for their views. We have made some changes to the transition provisions to afford existing funds additional time to adapt to the changes.
We were warned, however, that some existing funds that may be adversely impacted, or may struggle to adapt to the changes, may need more time to adjust their portfolios to the new restrictions.	For NRIFs, the transition provisions allow for grandfathering of existing funds that may be unduly impacted by the changes, subject to certain conditions. For commodity pools, we have adjusted to transition provisions to allow for more time to make any necessary adjustments to accommodate the Amendments. We note that if specific issues arise that are accounted for in the transition periods, there may be other avenues for managers to address these concerns, such as applying for exemptive relief.
It was also noted that there could be additional costs in forcing existing funds to change strategies, such as unitholder approvals and other operational costs, as well as possible tax implications.	Please see our response above.
One commenter suggested that we grandfather existing funds or exempt them having to transition to the new regime to recognize the commercial bargain between investors and the funds at the time of their creation or purchase. This commenter also made specific recommendations regarding transition:	Please see our responses above regarding grandfathering of existing NRIFs.
• Allow existing commodity pools to make any necessary changes by the time of their next renewal prospectus as long as it is more than 3 months after rules come into force.	The transition provisions are consistent with this suggestion.
• Commodity pools that do not wish to comply with the new rules be allowed to continue operations “as is” provided they close their funds to new purchases no more than 1 year after the rules come into force.	Change not made. We have decided that from a regulatory compliance standpoint it is more appropriate to have the same transition provisions apply to existing commodity pools.
• After the rules come into force, any private/hedge fund that wishes to become an alternative fund must become compliant as of the time of filing its preliminary prospectus.	The transition provisions are consistent with this suggestion.

• Any public mutual fund that wants to convert to an alternative fund after the rules come into force be required to make the necessary changes to objectives/strategies and file an amended and restated prospectus if changes come into force before the next prospectus renewal.	The transition provisions are consistent with this suggestion. We note that since the definition of alternative mutual fund includes a requirement that its fundamental investment objectives state that it uses strategies not otherwise permitted by mutual funds, we would expect that any conventional mutual fund that would seek to convert to an alternative mutual fund would necessarily have to amend its investment objectives (and take any necessary regulatory steps in connection with such a fundamental change) in order to give effect to such a conversion.
Other commenters recognized that the period required to adjust to the new regime will be determined by the final implemented changes and encourages CSA to allow enough time for funds to adapt. These commenters suggested at least a year following publication of the final rules which would allow for proper revisions of disclosure documents, to apply for exemptive relief if necessary, or for any other necessary operational changes.	Please see our responses above regarding changes to the transition provisions.
It was also suggested that we consider different timelines for implementing different aspects of proposals. This commenter noted for example that concentration or illiquid asset restrictions should be implemented in such a way as to not to cause a forced sale of assets by existing funds.	The transition provisions accommodate this. In particular, we have allowed more time for funds to adjust to the investment restrictions and certain of the prospectus requirements relative to the other changes contemplated under the Amendments.
We were also encouraged to inform the market as soon as possible if grandfathering will be permitted and to what extent.	We have announced these provisions in connection with the publication of the Amendments, and note that there will be a 90 day period between publication and coming into force of the Amendments, which should provide adequate notice of the applicability of the transition provisions.
Some commenters told us that an alternative fund should have the flexibility to be either a mutual fund or an NRIF. If it's listed it should be required to have an annual redemption at NAV and if it's not listed, it should be able to adopt a redemption frequency of its choosing.	The term "alternative mutual fund" only applies to mutual funds, but the investment restrictions applicable to alternative mutual funds and NRIFs are substantially similar, so a fund could opt to launch as a NRIF or an alternative mutual fund without any significant impact on the strategies it can use. We note that our rules do not mandate any particular redemption frequency for mutual funds.

Part IV – LIST OF COMMENTERS

Commenters

- AGF Investments Inc.
- Alternative Investment Management Association (AIMA)
- Arrow Capital Management Inc.
- AUM Law Professional Corporation
- Aviva Investors Canada Inc.
- BlackRock Asset Management Canada Limited
- BMO Capital Markets and BMO Global Asset Management
- Borden Ladner Gervais LLP
- Brompton Funds Limited
- Canadian Advocacy Council for Canadian CFA Institute Societies
- The Canadian Foundation for Advancement of Investor Rights (FAIR)
- Canadian Imperial Bank of Commerce
- Canadian Securities Institute, The (CSI)
- East Coast Fund Management Inc.
- First Asset Investment Management Inc.
- Jeffrey L. Glass and Darrin R. Renton
- Invesco Canada Ltd.
- The Investment Funds Institute of Canada (IFIC)
- Investors Group Inc.
- Irwin, White & Jennings (on behalf of Growthworks Capital Ltd.)
- Kenmar Associates
- Lawrence Park Asset Management Ltd.
- Lightwater Partners Ltd.
- Lysander Funds Limited
- Mackenzie Financial Corporations
- Manulife Asset Management Limited
- McCarthy Tétrault LLP
- McMillan LLP
- Morgan Meighen & Associates Limited
- Picton Mahoney Asset Managements
- Portfolio Management Association of Canada
- Hedge Fund Standards Board
- RBC Capital Markets
- RBC Global Asset Management Inc.
- RP Investment Advisors
- Stikeman Elliott LLP (Financial Products and Services Group)
- Sun Life Global Investments (Canada) Inc.
- TD Securities Inc.
- Tim McElvaine
- Vision Capital Corporation
- Wildeboer Dellece LLP

ANNEX C-1

AMENDMENTS TO NATIONAL INSTRUMENT 81-102 *INVESTMENT FUNDS*

1. National Instrument 81-102 Investment Funds is amended by this Instrument.

2. Section 1.1 is amended

(a) by repealing the definition of "acceptable clearing corporation***",***

(b) in the definition of "cash cover" by replacing "a mutual fund***" with "***an investment fund***", and by replacing "***the mutual fund***" with "***the investment fund***" wherever it occurs,***

(c) in the definition of "clearing corporation***" by replacing "***options or standardized futures***" with "***specified derivatives***",***

(d) by repealing the definition of "fixed portfolio ETF",

(***e) in the definition of "***illiquid asset***" by replacing "***mutual fund***" with "***investment fund***" in paragraph (a) and by replacing "***a mutual fund, the resale of which is prohibited by a representation, undertaking or agreement by the mutual fund or by the predecessor in title of the mutual fund***" with "***an investment fund***" in paragraph (b),***

(f) by repealing the definition of "Joint Regulatory Financial Questionnaire and Report***",***

(g) by repealing the definition of "permitted gold certificate***",***

(***h) in the definition of "physical commodity" by adding "***electricity, water, or,***" before "***in an original or processed state***",***

(i) by replacing the definition of "public quotation" with the following:

"public quotation" includes, for the purposes of calculating the amount of illiquid assets held by an investment fund, any quotation of a price for any of the following:

(a) a fixed income security made through the inter-dealer bond market,

(b) a foreign currency forward or foreign currency option in the interbank market;***,***

(j) in the definition of "restricted security" by replacing "mutual fund or by the mutual fund's predecessor***" with "***investment fund or by the investment fund's predecessor***", and***

(k) by adding the following definitions:

"alternative mutual fund" means a mutual fund, other than a precious metals fund, that has adopted fundamental investment objectives that permit it to invest in physical commodities or specified derivatives, to borrow cash or engage in short selling in a manner not permitted for other mutual funds under this Instrument;***,***

"cleared specified derivative" means a bilateral specified derivative that is accepted for clearing by a regulated clearing agency;***,***

"fixed portfolio investment fund" means an exchange traded mutual fund not in continuous distribution or a non-redeemable investment fund that

(a) has fundamental investment objectives that include holding and maintaining a fixed portfolio of publicly traded equity securities of one or more issuers the names of which are disclosed in its prospectus, and

(b) trades the securities referred to in paragraph (a) only in the circumstances disclosed in its prospectus;***,***

"non-redeemable investment fund" has the meaning ascribed to that term in National Instrument 81-106 *Investment Fund Continuous Disclosure*;***,***

"permitted precious metal" means gold, silver, platinum or palladium;***,***

"permitted precious metal certificate" means a certificate representing a permitted precious metal if the permitted precious metal is held in Canada in the form of bars or wafers and is

(a) available for delivery in Canada, free of charge, to or to the order of the holder of the certificate,

(b) in the case of a certificate representing gold, of a minimum fineness of 995 parts per 1000,

(c) in the case of a certificate representing silver, platinum or palladium, of a minimum fineness of 999 parts per 1000, and

(d) if not purchased from a bank listed in Schedule, I, II or III of the *Bank Act* (Canada), fully insured against loss and bankruptcy by an insurance company licensed under the laws of Canada or a jurisdiction;***,***

"precious metals fund" means a mutual fund that has adopted a fundamental investment objective to invest primarily in one or more permitted precious metals;***, and***

"regulated clearing agency" has the meaning ascribed to that term in National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives*;***.***

3. Section 1.2 is amended

(a) in paragraph 1.2(3)(a) by replacing "sections 2.12 to 2.17;***" with "***section 2.6.1 and sections 2.7 to 2.17;***", and***

(b) by adding the following subsection:

(5) Despite paragraph (1)(a.1), the following provisions do not apply to a non-redeemable investment fund that was established before October 4, 2018, unless the fund has filed a prospectus for which a receipt was issued after that date:

(a) sections 2.1 and 2.4,

(b) paragraphs 2.6(1)(a), (b) and (c), and subsection 2.6(2), and

(c) sections 2.6.1, 2.6.2 and 2.9.1**.**.

4. Section 2.1 is amended

(a) in subsection (1) by replacing "A mutual fund***" with "***A mutual fund, other than an alternative mutual fund,***", by replacing "***index participation units***" with "***an index participation unit***", by replacing "***10 percent***" with "***10%***"and by adding "***one***" after "***any***",***

(b) by adding the following subsection:

(1.1) An alternative mutual fund or a non-redeemable investment fund must not purchase a security of an issuer, enter into a specified derivatives transaction or purchase an index participation unit if, immediately after the transaction, more than 20% of its net asset value would be invested in securities of any one issuer.***,***

(c) in subsection (2) by replacing "Subsection (1) does***" with "***Subsections (1) and (1.1) do***", by replacing "***a mutual fund***" with "***an investment fund***" wherever it occurs, and in paragraph (e) by replacing "***fixed portfolio ETF***" with "***fixed portfolio investment fund***",***

(d) by replacing subsection (3) with the following:

(3) For the purposes of this section, for each long position in a specified derivative that is held by an investment fund for a purpose other than hedging and for each index participation unit held by the investment fund, the investment fund is considered to hold directly the underlying interest of that specified derivative or its proportionate share of the securities held by the issuer of the index participation unit***., and***

(e) by replacing subsection (4) with the following:

(4) Despite subsection (3), for the purposes of this section, an investment fund is considered to not hold a security or instrument if that security or instrument is a component of, but represents less than 10% of,

(a) a stock or bond index that is the underlying interest of a specified derivative, or

(b) the securities held by the issuer of an index participation unit**.**.

5. Section 2.3 is amended

(***a) in subsection (1) by adding "***do any of the following:***" after "***must not***",***

(b) in paragraph (1)(c) by replacing "10 percent***" with "***10%***",***

(c) by replacing paragraph (1)(d) with the following:

(d) purchase a precious metal certificate, other than a permitted precious metal certificate;**,**

(d) by replacing paragraph (1)(e) with the following:

(e) purchase a permitted precious metal, a permitted precious metal certificate, or a specified derivative of which the underlying interest is a physical commodity if, immediately after the purchase, more than 10% of the mutual fund's net asset value would be made up of permitted precious metals, permitted precious metal certificates, or specified derivatives of which the underlying interests are physical commodities;**,**

(e) by replacing paragraph (1)(f) with the following:

(f) purchase a physical commodity, except to the extent permitted by paragraph (d) or (e);**,**

(f) by adding "or***" to the end of paragraph (1)(g),***

(g) by repealing paragraph (1)(h),

(h) by adding the following subsections:

(1.1) Paragraphs (1)(d), (e) and (f) do not apply to an alternative mutual fund.

(1.2) Paragraph (1)(e) does not apply to a precious metals fund with respect to purchasing a permitted precious metal, a permitted precious metal certificate or a specified derivative of which the underlying interest is one or more permitted precious metals.***, and***

(i) by adding the following subsections:

(3) For the purposes of this section, for each long position in a specified derivative that is held by an investment fund for a purpose other than hedging and for each index participation unit or underlying investment fund held by the investment fund, the investment fund is considered to hold directly the underlying interest of that specified derivative or its proportionate share of the assets held by the issuer of the index participation unit or underlying investment fund.

(4) Despite subsection (3), for the purposes of this section, an investment fund is considered to not hold a security or instrument if that security or instrument is a component of, but represents less than 10% of,

(a) a stock or bond index that is the underlying interest of a specified derivative, or

(b) the securities held by the issuer of an index participation unit or underlying investment fund.*.*

6. Section 2.4 is amended

(a) by replacing "percent***" with "***%***" wherever it occurs,***

(b) in subsection (2) by replacing "must not have invested,***" with "***must not hold,***", and***

(c) by adding the following subsections:

(4) A non-redeemable investment fund must not purchase an illiquid asset if, immediately after the purchase, more than 20% of its net asset value would be made up of illiquid assets.

(5) A non-redeemable investment fund must not hold, for a period of 90 days or more, more than 25% of its net asset value in illiquid assets.

(6) If more than 25% of the net asset value of a non-redeemable investment fund is made up of illiquid assets, the non-redeemable investment fund must, as quickly as commercially reasonable, take all necessary steps to reduce the percentage of its net asset value made up of illiquid assets to 25% or less.*.*

7. Subsection 2.5(2) is amended

(a) by replacing paragraph (a) with the following:

(a) if the investment fund is a mutual fund, other than an alternative mutual fund, either of the following applies:

(i) the other investment fund is a mutual fund, other than an alternative mutual fund, that is subject to this Instrument;

(ii) the other investment fund is an alternative mutual fund or a non-redeemable investment fund that is subject to this Instrument and, at the time of the purchase of that security, the investment fund holds no more than 10% of its net asset value in securities of alternative mutual funds and non-redeemable investment funds,*,*

(b) in paragraph (a.1) by adding "an alternative mutual fund or***" before "***a non-redeemable investment fund***" wherever it occurs,***

(c) by replacing paragraph (c) with the following:

(c) the other investment fund is a reporting issuer in a jurisdiction,*, and*

(d) by repealing paragraph (c.1).

8. Subsection 2.5(3) is amended by replacing "(a.1), (c) and (c.1)***" with "***(a.1) and (c)***".***

9. Subsection 2.5(5) is replaced with the following:

(5) Paragraphs (2)(e) and (f) do not apply to brokerage fees incurred for the purchase or sale of securities issued by an investment fund that are listed for trading on a stock exchange.*.*

10. Section 2.6 is amended

(a) by adding "Borrowing and Other***" before "***Investment Practices***" in the heading,***

(b) by renumbering it as subsection 2.6(1),

(c) in subsection (1) by replacing "not,***" with "***not***",***

(d) in paragraph (1)(a) by deleting "in the case of a mutual fund,***",***

(e) ***in subparagraph (1)(a)(i) replacing "***mutual fund***" with "***investment fund***" wherever it occurs, and by replacing "***five percent***" with "***5%***",***

(f) ***in subparagraph (1)(a)(ii) and (iii) by replacing "***mutual fund***" with "***investment fund***",***

(g) ***in subparagraph (1)(a)(iv) by adding "***or a non-redeemable investment fund***" after "***continuous distribution***",***

(h) ***in paragraphs (1)(b) and (c) by deleting "***in the case of a mutual fund,***", and***

(i) ***by adding the following subsection:***

(2) Despite paragraphs (1)(a) and (b), an alternative mutual fund or a non-redeemable investment fund may borrow cash or provide a security interest over any of its portfolio assets if each of the following apply:

(a) any borrowing of cash is

(i) from an entity described in section 6.2 or 6.3, and

(ii) if the lender is an affiliate or associate of the investment fund manager of the alternative mutual fund or non-redeemable investment fund, under a borrowing agreement approved by the independent review committee as required under section 5.2 of NI 81-107;

(b) the borrowing agreement is in accordance with normal industry practice and on standard commercial terms for the type of transaction;

(c) the value of cash borrowed, when aggregated with the value of all outstanding borrowing by the alternative mutual fund or non-redeemable investment fund, does not exceed 50% of the alternative mutual fund or non-redeemable investment fund's net asset value..

11. Subsection 2.6.1(1) is amended

(a) ***by replacing "***A mutual fund***" with "***An investment fund***",***

(b) ***in subparagraph (b)(i), by replacing "***mutual fund***" with "***investment fund***", and***

(c) ***by replacing paragraph (c) with the following:***

(c) at the time the investment fund sells the security short,

(i) the investment fund has borrowed or arranged to borrow from a borrowing agent the security that is to be sold under the short sale,

(ii) if the investment fund is a mutual fund, other than an alternative mutual fund, the aggregate market value of the securities of the issuer of the securities sold short by the mutual fund does not exceed 5% of the net asset value of the mutual fund,

(iii) if the investment fund is a mutual fund, other than an alternative mutual fund, the aggregate market value of the securities sold short by the mutual fund does not exceed 20% of the net asset value of the mutual fund,

(iv) if the investment fund is an alternative mutual fund or a non-redeemable investment fund, the aggregate market value of the securities of the issuer of the securities sold short by the investment fund, other than government securities sold short by an alternative mutual fund or non-redeemable investment fund, does not exceed 10% of the net asset value of the investment fund, and

(v) if the investment fund is an alternative mutual fund or a non-redeemable investment fund, the aggregate market value of the securities sold short by the investment fund does not exceed 50% of the net asset value of the investment fund..

12. ***Subsection 2.6.1(2) is amended by replacing "***A mutual fund***" with "***A mutual fund, other than an alternative mutual fund,***" and by replacing "***all" ***with "***the***" after "***aggregate market value of***".***

13. ***Subsection 2.6.1(3) is amended by replacing "***A mutual fund***" with "***A mutual fund ,other than an alternative mutual fund,***".***

14. ***The Instrument is amended by adding the following section:***

2.6.2 Total Borrowing and Short Sales

(1) Despite sections 2.6 and 2.6.1, an investment fund must not borrow cash or sell securities short if, immediately after entering into a cash borrowing or short selling transaction, the aggregate value of cash borrowed combined with the aggregate market value of the securities sold short by the investment fund would exceed 50% of the investment fund's net asset value.

(2) Despite sections 2.6 and 2.6.1, if the aggregate value of cash borrowed combined with the aggregate market value of the securities sold short by the investment fund exceeds 50% of the investment fund's net asset value, the investment fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the aggregate value of cash borrowed combined with the aggregate market value of securities sold short to 50% or less of the investment fund's net asset value.**.**

15. ***Section 2.7 is amended***

(a) ***in subsection (1) by replacing "***A mutual fund***" with "***An investment fund***", by adding "***forward***" before "***contract***" in paragraphs (1)(b) and (c), by replacing "***rating.***" with "***rating;***", in paragraph (c) and by adding the following paragraph:***

(d) the option, debt-like security, swap or forward contract is a cleared specified derivative.***,***

(b) ***by replacing subsection (2) with the following:***

(2) If the credit rating of an option, debt-like security, swap or forward contract, or the credit rating of the equivalent debt of the writer or guarantor of the option, debt-like security, swap or forward contract, falls below the level of designated rating while the option, debt-like security, swap or forward contract is held by an investment fund , the investment fund must take the steps that are reasonably required to close out its position in the option, debt-like security, swap or forward contract in an orderly and timely fashion, unless either of the following applies:

(a) the option is a clearing corporation option;

(b) the option, debt-like security, swap or forward contract is a cleared specified derivative.***,***

(c) ***in subsection (3) by replacing "***a mutual fund***" with "***an investment fund***",***

(d) ***by replacing subsection (4) with the following:***

(4) The mark-to-market value of the exposure of an investment fund under its specified derivatives positions with any one counterparty, calculated in accordance with subsection (5), must not exceed, for a period of 30 days or more, 10% of the net asset value of the investment fund unless either of the following applies:

(a) the specified derivative is a cleared specified derivative;

(b) the equivalent debt of the counterparty, or of a person or company that has fully and unconditionally guaranteed the obligations of the counterparty in respect of the specified derivative, has a designated rating.***,***

(e) ***in subsection (5) by replacing "***a mutual fund***" with "***an investment fund,***" and by replacing "***the mutual fund***" with "***the investment fund***" wherever it occurs, and***

(f) by adding the following subsection:

(6) Subsections (1), (2) and (3) do not apply to an alternative mutual fund or a non-redeemable investment fund.*.*

16. Section 2.8 is amended by adding the following subsection:

(0.1) This section does not apply to an alternative mutual fund.*.*

17. The Instrument is amended by adding the following section:

2.9.1 Aggregate Exposure to Borrowing, Short Selling and Specified Derivatives

(1) An alternative mutual fund or non-redeemable investment fund's aggregate exposure to cash borrowing, short selling and specified derivatives transactions must not exceed 300% of the fund's net asset value.

(2) For the purposes of subsection (1), an alternative mutual fund or non-redeemable investment fund's aggregate exposure is the sum of the following, divided by the fund's net asset value:

(a) the aggregate value of the alternative mutual fund's or non-redeemable investment fund's outstanding indebtedness under any borrowing agreements to which subsection 2.6(2) applies,

(b) the aggregate market value of all securities sold short by the alternative mutual fund or non-redeemable investment fund as permitted by section 2.6.1, and

(c) the aggregate notional amount of the alternative mutual fund's or non-redeemable investment's fund's specified derivatives positions, minus the aggregate notional amount of the specified derivative positions that are hedging transactions.

(3) For the purposes of this section the alternative mutual fund or non-redeemable investment fund must include in its calculation its proportionate share of the assets of any underlying investment fund for which a similar calculation is required.

(4) An alternative mutual fund or non-redeemable investment fund must determine its aggregate exposure in accordance with subsection (2) as of the close of business of each day on which it calculates a net asset value.

(5) If the alternative mutual fund or non-redeemable investment fund's aggregate exposure as determined in accordance with subsection (2) exceeds 300% of its net asset value, the alternative mutual fund or non-redeemable investment fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the aggregate exposure to 300% its net asset value or less.*.*

18. Section 2.11 is amended by adding the following subsection:

(0.1) This section does not apply to an alternative mutual fund.*.*

19. Section 6.2 is amended in paragraph 3.(a) by deleting "that have been made public,***".***

20. Section 6.3 is amended in paragraph 3.(a) by deleting "that have been made public,***".***

21. Subsection 6.8(1) is amended

(a) by adding "Borrowing,***" before "***Derivatives***" in the heading,***

(b) by replacing "futures or***" with "***futures,***",***

(c) by adding "or cleared specified derivatives with a member of a regulated clearing agency or***" after "***standardized futures***",***

(d) by adding "member or***" after "***margin already held by the***", and***

(e) by replacing "10 percent***" with "***10%***".***

22. Subsection 6.8(2) is amended

(a) by adding "member of a regulated clearing agency or with a***" after "***portfolio assets with a***", by replacing "***or***" with "***,***" after "***options on futures***" and by adding "***or cleared specified derivatives***" after "***standardized futures"***,***

(b) in paragraph (a) by replacing "in the case of standardized futures and options on futures, the***" with "***the member or***", by adding "***regulated clearing agency,***" before "***futures exchange***", by deleting "***, in the case of clearing corporation options, is a member of a***", by replacing "***either case***" with "***any case***" and by replacing "***;***" with "***,***",***

(c) in paragraph (b) by adding "member or***" before "***dealer***", by deleting "***that have been made public***" and by replacing "***;***" with "***,***", and***

(d) in paragraph (c) by adding "member or***" before "***dealer***", and by replacing "***10 percent" with "***10%***".***

23. Section 6.8 is amended by adding the following subsection:

(3.1) An investment fund may deposit with its lender, portfolio assets over which it has granted a security interest in connection with a borrowing agreement to which section 2.6 applies.***.***

24. Subsection 6.8(4) is amended by replacing "(2) or (3)***" with "***(2), (3) or (3.1)***".***

25. Subsection 6.8(5) is amended by adding "borrowing,***" before "***securities lending***".***

26. Section 6.8.1 is amended

(a) by replacing subsection (1) with the following:

(1) Unless the borrowing agent is the investment fund's custodian or sub-custodian, if an investment fund deposits portfolio assets with a borrowing agent as security in connection with a short sale of securities, the market value of portfolio assets deposited with the borrowing agent must not, when aggregated with the market value of portfolio assets already held by the borrowing agent as security for outstanding short sales of securities by the investment fund,

(a) in the case of a mutual fund, other than an alternative mutual fund, exceed 10% of the net asset value of the mutual fund at the time of deposit, and

(b) in the case of an alternative mutual fund or a non-redeemable investment fund, exceed 25% of the net asset value of the alternative mutual fund or non-redeemable investment fund at the time of deposit.***, and***

(b) in paragraph (3)(b) by deleting "that have been made public***".***

27. Section 7.1 is amended

(a) by renumbering it as subsection 7.1(1),

(b) in subsection (1) by replacing "A mutual fund***" with "***A mutual fund, other than an alternative mutual fund,***", and by replacing "***, unless***" with "***unless***", and***

(c) by adding the following subsection:

(2) An alternative mutual fund must not pay, or enter into arrangements that would require it to pay, and must not sell securities of an alternative mutual fund on the basis that an investor would be required to pay, a fee that is determined by the performance of the alternative mutual fund unless

(a) the payment of the fee is based on the cumulative total return of the alternative mutual fund for the period that began immediately after the last period for which the performance fee was paid, and

(b) the method of calculating the fee is described in the alternative mutual fund's prospectus.**.**

28. Paragraph 9.1.1(b) is amended by adding "short***" before "***position***".***

29. Section 10.1 is amended by adding the following subsection:

(2.1) If disclosed in its prospectus, an alternative mutual fund may include, as part of the requirements contemplated in subsection (2), a provision that securityholders of the alternative mutual fund may not redeem their securities for a period up to 6 months after the date on which the receipt is issued for the initial prospectus of the alternative mutual fund.*.*

30. Section 10.3 is amended by adding the following subsection:

(5) Despite subsection (1), an alternative mutual fund may redeem securities of the alternative mutual fund at a price that is equal to the net asset value for those securities determined on the first or second business day after the date of receipt by the alternative mutual fund of the redemption order if

(a) the alternative mutual fund has established a policy providing for the redemption price to be calculated on such a basis, and

(b) the policy has been disclosed in the alternative mutual fund's prospectus before the policy's implementation.*.*

31. Subsection 10.4(1.1) is amended by adding "or an alternative mutual fund or***" after "***continuous distribution***".***

32. Subsection 15.13(2) is amended by replacing "a commodity pool***" with "***an alternative mutual fund***" wherever it occurs and by deleting "a***s defined in National Instrument 81-104 *Commodity Pools*".***

33. Appendix A – Futures Exchanges for the Purpose of Subsection 2.7(4) – Derivative Counterparty Exposure Limits is repealed.

Transition

34. If a commodity pool, as that term was defined in National Instrument 81-104 *Commodity Pools* on January 2, 2019, has filed a prospectus for which a receipt was granted on or before that date, this Instrument does not apply to that commodity pool until July 4, 2019.

Effective Date

35. This Instrument comes into force on January 3, 2019.

ANNEX C-2

CHANGES TO COMMENTARY TO NATIONAL INSTRUMENT 81-102 *INVESTMENT FUNDS*

1. National Instrument 81-102 Investment Funds is changed by this document.

2. The Commentary to Item 1 of Appendix F – Investment Risk Classification Methodology is changed by adding the following after Commentary (2):

*(3) In deciding whether to exercise the discretion to increase a mutual fund's investment risk level as permitted in subsection (2) above, consideration should be given as to whether the standard deviation calculation applied under the Investment Risk Classification Methodology may result in a risk level that is below the manager's own expectations for the mutual fund. This can occur, for example, when a mutual fund employs investment strategies that produce an atypical or non-normal distribution of performance results. In such circumstances mutual funds are encouraged to consider supplementing the Investment Risk Classification Methodology with other factors or risk metrics in order to determine whether it would be appropriate to make an upward adjustment of the mutual fund's risk level to better reflect the features of the mutual fund.***.***

3. This change becomes effective on January 3, 2019.

ANNEX C-3

BLACKLINE OF NATIONAL INSTRUMENT 81-102 *INVESTMENT FUNDS* TO HIGHLIGHT THE AMENDMENTS

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NATIONAL INSTRUMENT 81-102
INVESTMENT FUNDS

PART 1 DEFINITIONS AND APPLICATION

1.1 Definitions – In this Instrument

"acceptable clearing corporation" ~~means a clearing corporation that is an acceptable clearing corporation under the Joint Regulatory Financial Questionnaire and Report~~[Repealed];

"advertisement" means a sales communication that is published or designed for use on or through a public medium;

"alternative mutual fund" means a mutual fund, other than a precious metals fund, that has adopted fundamental investment objectives that permit it to invest in physical commodities or specified derivatives, to borrow cash or engage in short selling in a manner not permitted for other mutual funds under this Instrument;

"asset allocation service" means an administrative service under which the investment of a person or company is allocated, in whole or in part, among mutual funds to which this Instrument applies and reallocated among those mutual funds and, if applicable, other assets according to an asset allocation strategy;

"book-based system" means a system for the central handling of securities or equivalent book-based entries under which all securities of a class or series deposited within the system are treated as fungible and may be transferred or pledged by bookkeeping entry without physical delivery;

"borrowing agent" means any of the following:

(a) a custodian or sub-custodian that holds assets in connection with a short sale of securities by an investment fund;

(b) a qualified dealer from whom an investment fund borrows securities in order to sell them short;

"cash cover" means any of the following assets of ~~a mutual~~an investment fund that are held by the ~~mutual~~investment fund, have not been allocated for specific purposes and are available to satisfy all or part of the obligations arising from a position in specified derivatives held by the ~~mutual~~investment fund or from a short sale of securities made by the ~~mutual~~investment fund:

(a) cash;

(b) cash equivalents;

(c) synthetic cash;

(d) receivables of the ~~mutual~~investment fund arising from the disposition of portfolio assets, net of payables arising from the acquisition of portfolio assets;

(e) securities purchased by the ~~mutual~~investment fund in a reverse repurchase transaction under section 2.14, to the extent of the cash paid for those securities by the ~~mutual~~investment fund;

(f) each evidence of indebtedness that has a remaining term to maturity of 365 days or less and a designated rating;

(g) each floating rate evidence of indebtedness if

(i) the floating interest rate of the indebtedness is reset no later than every 185 days, and

(ii) the principal amount of the indebtedness will continue to have a market value of approximately par at the time of each change in the rate to be paid to the holders of the evidence of indebtedness;

(h) securities issued by a money market fund;

"cash equivalent" means an evidence of indebtedness that has a remaining term to maturity of 365 days or less and that is issued, or fully and unconditionally guaranteed as to principal and interest, by

(a) the government of Canada or the government of a jurisdiction,

(b) the government of the United States of America, the government of one of the states of the United States of America, the government of another sovereign state or a permitted supranational agency, if, in each case, the evidence of indebtedness has a designated rating, or

(c) a Canadian financial institution, or a financial institution that is not incorporated or organized under the laws of Canada or of a jurisdiction if, in either case, evidences of indebtedness of that issuer or guarantor that are rated as short term debt by a designated rating organization or its DRO affiliate have a designated rating;

"cleared specified derivative" means a bilateral specified derivative that is accepted for clearing by a regulated clearing agency;

"clearing corporation" means an organization through which trades in ~~options or standardized futures~~specified derivatives are cleared and settled;

"clearing corporation option" means an option, other than an option on futures, issued by a clearing corporation;

"clone fund" means an investment fund that has adopted a fundamental investment objective to track the performance of another investment fund;

"conventional convertible security" means a security of an issuer that is, according to its terms, convertible into, or exchangeable for, other securities of the issuer, or of an affiliate of the issuer;

"conventional floating rate debt instrument" means an evidence of indebtedness of which the interest obligations are based upon a benchmark commonly used in commercial lending arrangements;

"conventional warrant or right" means a security of an issuer, other than a clearing corporation, that gives the holder the right to purchase securities of the issuer or of an affiliate of the issuer;

"currency cross hedge" means the substitution by an investment fund of a risk to one currency for a risk to another currency, if neither currency is a currency in which the investment fund determines its net asset value per security and the aggregate amount of currency risk to which the investment fund is exposed is not increased by the substitution;

"custodian" means the institution appointed by an investment fund to hold portfolio assets of the investment fund;

"dealer managed investment fund" means an investment fund the portfolio adviser of which is a dealer manager;

"dealer managed mutual fund" [Repealed]

"dealer manager" means

(a) a specified dealer that acts as a portfolio adviser,

(b) a portfolio adviser in which a specified dealer, or a partner, director, officer, salesperson or principal shareholder of a specified dealer, directly or indirectly owns of record or beneficially, or exercises control or direction over, securities carrying more than 10 percent of the total votes attaching to securities of the portfolio adviser, or

(c) a partner, director or officer of a portfolio adviser referred to in paragraph (b);

"debt-like security" means a security purchased by a mutual fund, other than a conventional convertible security or a conventional floating rate debt instrument, that evidences an indebtedness of the issuer if

(a) either

(i) the amount of principal, interest or principal and interest to be paid to the holder is linked in whole or in part by a formula to the appreciation or depreciation in the market price, value or level of one or more underlying interests on a predetermined date or dates, or

(ii) the security provides the holder with a right to convert or exchange the security into or for the underlying interest or to purchase the underlying interest, and

(b) on the date of acquisition by the mutual fund, the percentage of the purchase price attributable to the component of the security that is not linked to an underlying interest is less than 80 percent of the purchase price paid by the mutual fund;

"delta" means the positive or negative number that is a measure of the change in market value of an option relative to changes in the value of the underlying interest of the option;

"designated rating" means,

(a) for the purposes of paragraph 4.1(4)(b), a designated rating under paragraph (b) of the definition of "designated rating in National Instrument 44-101 *Short Form Prospectus Distributions,* or

(b) except as described in paragraph (a), a credit rating from a designated rating organization listed below, from a DRO affiliate of an organization listed below, from a designated rating organization that is a successor credit rating organization of an organization listed below or from a DRO affiliate or such successor credit rating organization, that is at or above one of the following corresponding rating categories, or that is at or above a category that replaces one of the following corresponding rating categories, if

(i) there has been no announcement by the designated rating organization or from a DRO affiliate of the organization, from a designated rating organization that is a successor credit rating organization or from a DRO affiliate of such successor credit rating organization, of which the investment fund or its manager is or reasonably should be aware that the rating of the security or instrument to which the designated rating was given may be down-graded to a rating category that would not be a designated rating, and

(ii) no designated rating organization listed below, no DRO affiliate of an organization listed below, no designated rating organization that is a successor credit rating organization of an organization listed below and no DRO affiliate or such successor credit rating organization, has rated the security or instrument in a rating category that is not a designated rating:

Designated Rating Organization	**Commercial Paper/ Short Term Debt**	**Long Term Debt**
DBRS Limited	R-1 (low)	A
Fitch Ratings Inc.	F1	A
Moody's Canada Inc.	P-1	A2
S&P Global Ratings Canada	A-1 (Low)	A

"designated rating organization" means, if designated under securities legislation, any of

(a) DBRS Limited, Fitch Ratings Inc., Moody's Canada Inc., or S&P Global Ratings Inc., or

(b) a successor credit rating organization of a credit rating organization listed in paragraph (a);

"DRO affiliate" has the same meaning as in section 1 of National Instrument 25-101 *Designated Rating Organizations*;

"equivalent debt" means, in relation to an option, swap, forward contract or debt-like security, an evidence of indebtedness of approximately the same term as, or a longer term than, the remaining term to maturity of the option, swap, contract or debt-like security and that ranks equally with, or subordinate to, the claim for payment that may arise under the option, swap, contract or debt-like security;

"fixed portfolio ETF" [Repealed]

"fixed portfolio ~~ETF~~investment fund" means an exchange-traded mutual fund not in continuous distribution or a non-redeemable investment fund that

(a) has fundamental investment objectives ~~which~~that include holding and maintaining a fixed portfolio of publicly traded equity securities of one or more issuers the names of which are disclosed in its prospectus, and

(b) trades the securities referred to in paragraph (a) only in the circumstances disclosed in its prospectus;

"floating rate evidence of indebtedness" means an evidence of indebtedness that has a floating rate of interest determined over the term of the obligation by reference to a commonly used benchmark interest rate and that satisfies any of the following:

(a) if the evidence of indebtedness was issued by a person or company other than a government or a permitted supranational agency, it has a designated rating;

(b) the evidence of indebtedness was issued, or is fully and unconditionally guaranteed as to principal and interest, by any of the following:

(i) the government of Canada or the government of a jurisdiction of Canada;

(ii) the government of the United States of America, the government of one of the states of the United States of America, the government of another sovereign state or a permitted supranational agency, if, in each case, the evidence of indebtedness has a designated rating;

"forward contract" means an agreement, not entered into with, or traded on, a stock exchange or futures exchange or cleared by a clearing corporation, to do one or more of the following on terms or at a price established by or determinable by reference to the agreement and at or by a time in the future established by or determinable by reference to the agreement:

1. Make or take delivery of the underlying interest of the agreement.

2. Settle in cash instead of delivery;

"fundamental investment objectives" means the investment objectives of an investment fund that define both the fundamental nature of the investment fund and the fundamental investment features of the investment fund that distinguish it from other investment funds;

"futures exchange" means an association or organization operated to provide the facilities necessary for the trading of standardized futures;

"government security" means an evidence of indebtedness issued, or fully and unconditionally guaranteed as to principal and interest, by any of the government of Canada, the government of a jurisdiction or the government of the United States of America;

"guaranteed mortgage" means a mortgage fully and unconditionally guaranteed, or insured, by the government of Canada, by the government of a jurisdiction or by an agency of any of those governments or by a corporation approved by the Office of the Superintendent of Financial Institutions to offer its services to the public in Canada as an insurer of mortgages;

"hedging" means the entering into of a transaction, or a series of transactions, and the maintaining of the position or positions resulting from the transaction or series of transactions

(a) if

(i) the intended effect of the transaction, or the intended cumulative effect of the series of transactions, is to offset or reduce a specific risk associated with all or a portion of an existing investment or position or group of investments or positions,

(ii) the transaction or series of transactions results in a high degree of negative correlation between changes in the value of the investment or position, or group of investments or positions, being hedged and changes in the value of the instrument or instruments with which the investment or position is hedged, and

(iii) there are reasonable grounds to believe that the transaction or series of transactions no more than offset the effect of price changes in the investment or position, or group of investments or positions, being hedged, or

(b) if the transaction, or series of transactions, is a currency cross hedge;

"IIROC" means the Investment Industry Regulatory Organization of Canada;

"illiquid asset" means

(a) a portfolio asset that cannot be readily disposed of through market facilities on which public quotations in common use are widely available at an amount that at least approximates the amount at which the portfolio asset is valued in calculating the net asset value per security of the ~~mutual~~investment fund, or

(b) a restricted security held by ~~a mutual fund, the resale of which is prohibited by arepresentation, undertaking or agreement by the mutual fund or by the predecessor in title of the mutual~~an investment fund;

"independent review committee" means the independent review committee of the investment fund established under National Instrument 81-107 *Independent Review Committee for Investment Funds*;

"index mutual fund" means a mutual fund that has adopted fundamental investment objectives that require the mutual fund to

(a) hold the securities that are included in a permitted index or permitted indices of the mutual fund in substantially the same proportion as those securities are reflected in that permitted index or those permitted indices, or

(b) invest in a manner that causes the mutual fund to replicate the performance of that permitted index or those permitted indices;

"index participation unit" means a security traded on a stock exchange in Canada or the United States and issued by an issuer the only purpose of which is to

(a) hold the securities that are included in a specified widely quoted market index in substantially the same proportion as those securities are reflected in that index, or

(b) invest in a manner that causes the issuer to replicate the performance of that index;

"investment fund conflict of interest investment restrictions" means the provisions of securities legislation that are referred to in Appendix D;

"investment fund conflict of interest reporting requirements" means the provisions of securities legislation that are referred to in Appendix E;

"investor fees" means, in connection with the purchase, conversion, holding, transfer or redemption of securities of an investment fund, all fees, charges and expenses that are or may become payable by a securityholder of the investment fund to,

(a) in the case of a mutual fund, a member of the organization of the mutual fund other than a member of the organization acting solely as a participating dealer, and

(b) in the case of a non-redeemable investment fund, the manager of the non-redeemable investment fund;

"Joint Regulatory Financial Questionnaire and Report" ~~means the Joint Regulatory Financial Questionnaire and Report of various Canadian SROs on the date that this Instrument comes into force and every successor to the form that does not materially lessen the criteria for an entity to be recognized as an "acceptable clearing corporation";~~[Repealed]

"long position" means a position held by an investment fund that, for

(a) an option, entitles the investment fund to elect to purchase, sell, receive or deliver the underlying interest or, instead, pay or receive cash,

(b) a standardized future or forward contract, obliges the investment fund to accept delivery of the underlying interest or, instead, pay or receive cash,

(c) a call option on futures, entitles the investment fund to elect to assume a long position in standardized futures,

(d) a put option on futures, entitles the investment fund to elect to assume a short position in standardized futures, and

(e) a swap, obliges the investment fund to accept delivery of the underlying interest or receive cash;

"management expense ratio" means the ratio, expressed as a percentage, of the expenses of an investment fund to its average net asset value, calculated in accordance with Part 15 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

"manager" means an investment fund manager;

"manager-prescribed number of units" means, in relation to an exchange-traded mutual fund that is in continuous distribution, the number of units determined by the manager from time to time for the purposes of subscription orders, exchanges, redemptions or for other purposes;

"material change**"** has the meaning ascribed to that term in National Instrument 81-106 *Investment Fund Continuous Disclosure*;

"member of the organization" has the meaning ascribed to that term in National Instrument 81-105 *Mutual Fund Sales Practices*;

"MFDA" means the Mutual Fund Dealers Association of Canada;

"money market fund" means a mutual fund that invests its assets in accordance with section 2.18;

"mortgage" includes a hypothec or security that creates a charge on real property in order to secure a debt;

"mutual fund conflict of interest investment restrictions" [Repealed]

"mutual fund conflict of interest reporting requirements" [Repealed]

"mutual fund rating entity" means an entity

(a) that rates or ranks the performance of mutual funds or asset allocation services through an objective methodology that is

(i) based on quantitative performance measurements,

(ii) applied consistently to all mutual funds or asset allocation services rated or ranked by it, and

(iii) disclosed on the entity's website,

(b) that is not a member of the organization of any mutual fund, and

(c) whose services to assign a rating or ranking to any mutual fund or asset allocation service are not procured by the promoter, manager, portfolio adviser, principal distributor or participating dealer of any mutual fund or asset allocation service, or any of their affiliates;

"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*;

"NI 81-107" means National Instrument 81-107 *Independent Review Committee for Investment Funds*;

"non-redeemable investment fund" has the meaning ascribed to that term in National Instrument 81-106 *Investment Fund Continuous Disclosure;*

"non-resident sub-adviser" means a person or company providing portfolio management advice

(a) whose principal place of business is outside of Canada,

(b) that advises a portfolio adviser to an investment fund, and

(c) that is not registered under securities legislation in the jurisdiction in which the portfolio adviser that it advises is located;

"option" means an agreement that provides the holder with the right, but not the obligation, to do one or more of the following on terms or at a price established by or determinable by reference to the agreement at or by a time established by the agreement:

1. Receive an amount of cash determinable by reference to a specified quantity of the underlying interest of the option.

2. Purchase a specified quantity of the underlying interest of the option.

3. Sell a specified quantity of the underlying interest of the option;

"option on futures" means an option the underlying interest of which is a standardized future;

"order receipt office" means, for a mutual fund

(a) the principal office of the mutual fund,

(b) the principal office of the principal distributor of the mutual fund, or

(c) a location to which a purchase order or redemption order for securities of the mutual fund is required or permitted by the mutual fund to be delivered by participating dealers or the principal distributor of the mutual fund;

"overall rating or ranking" means a rating or ranking of a mutual fund or asset allocation service that is calculated from standard performance data for one or more performance measurement periods, which includes the longest period for which the mutual fund or asset allocation service is required under securities legislation to calculate standard performance data, other than the period since the inception of the mutual fund;

"participating dealer" means a dealer other than the principal distributor that distributes securities of a mutual fund;

"participating fund" means a mutual fund in which an asset allocation service permits investment;

"performance data" means a rating, ranking, quotation, discussion or analysis regarding an aspect of the investment performance of an investment fund, an asset allocation service, a security, an index or a benchmark;

"permitted gold certificate" ~~means a certificate representing gold if the gold is~~[Repealed]

~~(a) available for delivery in Canada, free of charge, to or to the order of the holder of the certificate,~~

~~(b) of a minimum fineness of 995 parts per 1,000,~~

~~(c) held in Canada,~~

~~(d) in the form of either bars or wafers, and~~

~~(e) if not purchased from a bank listed in Schedule I, II or III of the Bank Act (Canada), fully insured against loss and bankruptcy by an insurance company licensed under the laws of Canada or a jurisdiction;~~

"permitted index" means, in relation to a mutual fund, a market index that is

(a) both

(i) administered by an organization that is not affiliated with any of the mutual fund, its manager, its portfolio adviser or its principal distributor, and

(ii) available to persons or companies other than the mutual fund, or

(b) widely recognized and used;

"permitted precious metal" means gold, silver, platinum or palladium;

"permitted precious metal certificate" means a certificate representing a permitted precious metal if the permitted precious metal is held in Canada in the form of bars or wafers and is

(a) available for delivery in Canada, free of charge, to or to the order of the holder of the certificate,

(b) in the case of a certificate representing gold, of a minimum fineness of 995 parts per 1000,

(c) in the case of a certificate representing silver, platinum or palladium, of a minimum fineness of 999 parts per 1000, and

(d) if not purchased from a bank listed in Schedule I, II or III of the Bank Act (Canada), fully insured against loss and bankruptcy by an insurance company licensed under the laws of Canada or a jurisdiction;

"permitted supranational agency" means the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development and the International Finance Corporation;

"physical commodity", means, electricity, water, or, in an original or processed state, an agricultural product, forest product, product of the sea, mineral, metal, hydrocarbon fuel product, precious stone or other gem;

"portfolio adviser" means a person or company that provides investment advice or portfolio management services under a contract with the investment fund or with the manager of the investment fund;

"portfolio asset" means an asset of an investment fund;

"precious metals fund" means a mutual fund that has adopted a fundamental investment objective to invest primarily in one or more permitted precious metals;

"pricing date" means, for the sale of a security of a mutual fund, the date on which the net asset value per security of the mutual fund is calculated for the purpose of determining the price at which that security is to be issued;

"principal distributor" means a person or company through whom securities of a mutual fund are distributed under an arrangement with the mutual fund or its manager that provides

(a) an exclusive right to distribute the securities of the mutual fund in a particular area, or

(b) a feature that gives or is intended to give the person or company a material competitive advantage over others in the distribution of the securities of the mutual fund;

"public quotation" includes, for the purposes of calculating the amount of illiquid assets held by ~~a mutual~~an investment fund, any quotation of a price for any of the following:

(a) a fixed income security made through the inter-dealer bond market,

(b) a foreign currency forward or foreign currency option in the interbank market;

"purchase" means, in connection with an acquisition of a portfolio asset by an investment fund, an acquisition that is the result of a decision made and action taken by the investment fund;

"qualified security" means

(a) an evidence of indebtedness that is issued, or fully and unconditionally guaranteed as to principal and interest, by

(i) the government of Canada or the government of a jurisdiction,

(ii) the government of the United States of America, the government of one of the states of the United States of America, the government of another sovereign state, or a permitted supranational agency, if, in each case, the evidence of indebtedness has a designated rating, or

(iii) a Canadian financial institution or a financial institution that is not incorporated or organized under the laws of Canada or of a jurisdiction if, in either case, evidences of indebtedness of that issuer or guarantor that are rated as short term debt by a designated rating organization or its DRO affiliate have a designated rating, or

(b) commercial paper that has a term to maturity of 365 days or less and a designated rating and that was issued by a person or company other than a government or permitted supranational agency;

"redemption payment date" [Repealed]

"regulated clearing agency" has the meaning ascribed to that term in National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives*;

"report to securityholders" means a report that includes annual financial statements or interim financial reports, or an annual or interim management report of fund performance, and that is delivered to securityholders of an investment fund;

"restricted security" means a security, other than a specified derivative, the resale of which is restricted or limited by a representation, undertaking or agreement by the ~~mutual~~investment fund or by the ~~mutual~~investment fund's predecessor in title, or by law;

"sales communication" means a communication relating to, and by, an investment fund or asset allocation service, its promoter, manager, portfolio adviser, principal distributor, a participating dealer or a person or company providing services to any of them, that

(a) is made

(i) to a securityholder of the investment fund or participant in the asset allocation service, or

(ii) to a person or company that is not a securityholder of the investment fund or participant in the asset allocation service, to induce the purchase of securities of the investment fund or the use of the asset allocation service, and

(b) in the case of an investment fund, is not contained in any of the following documents of the investment fund:

1. A prospectus or preliminary or pro forma prospectus.

2. An annual information form or preliminary or pro forma annual information form.

3. A fund facts document or preliminary or pro forma fund facts document.

4. Financial statements, including the notes to the financial statements and the auditor's report on the financial statements.

5. A trade confirmation.

6. A statement of account.

7. Annual or interim management report of fund performance;

"scholarship plan" has the meaning ascribed to that term in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

"short position" means a position held by an investment fund that, for

(a) an option, obliges the investment fund, at the election of another, to purchase, sell, receive or deliver the underlying interest, or, instead, pay or receive cash,

(b) a standardized future or forward contract, obliges the investment fund, at the election of another, to deliver the underlying interest or, instead, pay or receive cash,

(c) a call option on futures, obliges the investment fund, at the election of another, to assume a short position in standardized futures, and

(d) a put option on futures, obliges the investment fund, at the election of another, to assume a long position in standardized futures;

"special warrant" means a security that, by its terms or the terms of an accompanying contractual obligation, entitles or requires the holder to acquire another security without payment of material additional consideration and obliges the issuer of the special warrant or the other security to undertake efforts to file a prospectus to qualify the distribution of the other security;

"specified asset-backed security" means a security that

(a) is primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time, and any rights or assets designed to assure the servicing or timely distribution of proceeds to securityholders, and

(b) by its terms entitles an investor in that security to a return of the investment of that investor at or by a time established by or determinable by reference to an agreement, except as a result of losses incurred on, or the non-performance of, the financial assets;

"specified dealer" means a dealer other than a dealer whose activities as a dealer are restricted by the terms of its registration to one or both of

(a) acting solely in respect of mutual fund securities;

(b) acting solely in respect of transactions in which a person or company registered in the category of exempt market dealer in a jurisdiction is permitted to engage;

"specified derivative" means an instrument, agreement or security, the market price, value or payment obligations of which are derived from, referenced to or based on an underlying interest, other than

(a) a conventional convertible security,

(b) a specified asset-backed security,

(c) an index participation unit,

(d) a government or corporate strip bond,

(e) a capital, equity dividend or income share of a subdivided equity or fixed income security,

(f) a conventional warrant or right, or

(g) a special warrant;

"standardized future" means an agreement traded on a futures exchange pursuant to standardized conditions contained in the by-laws, rules or regulations of the futures exchange, and cleared by a clearing corporation, to do one or more of the following at a price established by or determinable by reference to the agreement and at or by a time established by or determinable by reference to the agreement:

1. Make or take delivery of the underlying interest of the agreement.

2. Settle the obligation in cash instead of delivery of the underlying interest;

"sub-custodian" means, for an investment fund, an entity that has been appointed to hold portfolio assets of the investment fund in accordance with section 6.1 by either the custodian or a sub-custodian of the investment fund;

"successor credit rating organization" means, with respect to a credit rating organization, any credit rating organization that succeeded to or otherwise acquired all or substantially all of another credit rating organization's business in Canada, whether through a restructuring transactions or otherwise, if that business was, at any time, owned by the first mentioned credit rating organization;

"swap" means an agreement that provides for

(a) an exchange of principal amounts,

(b) the obligation to make, and the right to receive, cash payments based upon the value, level or price, or on relative changes or movements of the value, level or price, of one or more underlying interests, which payments may be netted against each other, or

(c) the right or obligation to make, and the right or obligation to receive, physical delivery of an underlying interest instead of the cash payments referred to in paragraph (b);

"synthetic cash" means a position that in aggregate provides the holder with the economic equivalent of the return on a banker's acceptance accepted by a bank listed in Schedule I of the *Bank Act* (Canada) and that consists of

(a) a long position in a portfolio of shares and a short position in a standardized future of which the underlying interest consists of a stock index, if

(i) there is a high degree of positive correlation between changes in the value of the portfolio of shares and changes in the value of the stock index, and

(ii) the ratio between the value of the portfolio of shares and the standardized future is such that, for any change in the value of one, a change of similar magnitude occurs in the value of the other,

(b) a long position in the evidences of indebtedness issued, or fully and unconditionally guaranteed as to principal and interest, by any of the government of Canada or the government of a jurisdiction and a short position in a standardized future of which the underlying interest consists of evidences of indebtedness of the same issuer and same term to maturity, if

(i) there is a high degree of positive correlation between changes in the value of the portfolio of evidences of indebtedness and changes in the value of the standardized future, and

(ii) the ratio between the value of the evidences of indebtedness and the standardized future is such that, for any change in the value of one, a change of similar magnitude occurs in the value of the other; or

(c) a long position in securities of an issuer and a short position in a standardized future of which the underlying interest is securities of that issuer, if the ratio between the value of the securities of that issuer and the position in the standardized future is such that, for any change in the value of one, a change of similar magnitude occurs in the value of the other;

"underlying interest" means, for a specified derivative, the security, commodity, financial instrument, currency, interest rate, foreign exchange rate, economic indicator, index, basket, agreement, benchmark or any other reference, interest or variable, and, if applicable, the relationship between any of the foregoing, from, to or on which the market price, value or payment obligation of the specified derivative is derived, referenced or based; and

"underlying market exposure" means, for a position of an investment fund in

(a) an option, the quantity of the underlying interest of the option position multiplied by the market value of one unit of the underlying interest, multiplied, in turn, by the delta of the option,

(b) a standardized future or forward contract, the quantity of the underlying interest of the position multiplied by the current market value of one unit of the underlying interest; or

(c) a swap, the underlying market exposure, as calculated under paragraph (b), for the long position of the investment fund in the swap.

1.2 Application – (1) This Instrument applies only to

(a) a mutual fund that offers or has offered securities under a prospectus for so long as the mutual fund remains a reporting issuer,

(a.1) a non-redeemable investment fund that is a reporting issuer, and

(b) a person or company in respect of activities pertaining to an investment fund referred to in paragraphs (a) and (a.1) or pertaining to the filing of a prospectus to which subsection 3.1(1) applies.

(2) Despite subsection (1), this Instrument does not apply to a scholarship plan.

(3) Despite subsection (1), in Québec, in respect of investment funds organized under an Act to establish the *Fonds de solidarité des travailleurs du Québec* (*F.T.Q.*) (chapter F-3.2.1), an Act to establish *Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (chapter F-3.1.2), or an Act constituting *Capital régional et coopératif Desjardins* (chapter C-6.1), the following requirements apply:

(a) sections ~~2.12~~2.6.1 and sections 2.7 to 2.17;

(b) Part 6;

(c) Part 15, except for paragraph 15.8(2)(b);

(d) Part 19;

(e) Part 20.

(4) For greater certainty, in British Columbia, if a provision of this Instrument conflicts or is inconsistent with a provision of the *Employee Investment Act* (British Columbia) or the *Small Business Venture Capital Act* (British Columbia), the provision of the Employee Investment Act or the Small Business Venture Capital Act, as the case may be, prevails.

(5) Despite paragraph (1)(a.1), the following provisions do not apply to a non-redeemable investment fund that was established before October 4, 2018, unless the fund has filed a prospectus for which a receipt was issued after that date:

(a) sections 2.1 and 2.4,

(b) paragraphs 2.6(1)(a), (b) and (c), and subsection 2.6(2), and

(c) sections 2.6.1, 2.6.2 and 2.9.1.

1.3 Interpretation – (1) Each section, part, class or series of a class of securities of an investment fund that is referable to a separate portfolio of assets is considered to be a separate investment fund for purposes of this Instrument.

(2) An investment fund that renews or extends a securities lending, repurchase or reverse repurchase transaction is entering into a securities lending, repurchase or reverse repurchase agreement for the purposes of section 2.12, 2.13 or 2.14.

(3) [Repealed]

PART 2 INVESTMENTS

2.1 Concentration Restriction – (1) A mutual fund, other than an alternative mutual fund, must not purchase a security of an issuer, enter into a specified derivatives transaction or purchase an index participation ~~units~~unit if, immediately after the transaction, more than 10 ~~percent~~% of its net asset value would be invested in securities of any one issuer.

(1.1) An alternative mutual fund or a non-redeemable investment fund must not purchase a security of an issuer, enter into a specified derivatives transaction or purchase an index participation unit if, immediately after the transaction, more than 20 % of its net asset value would be invested in securities of any one issuer.

(2) ~~Subsection~~Subsections (1) ~~does~~and (1.1) do not apply to the purchase of any of the following:

(a) a government security;

(b) a security issued by a clearing corporation;

(c) a security issued by ~~a mutual~~an investment fund if the purchase is made in accordance with the requirements of section 2.5;

(d) an index participation unit that is a security of ~~a mutual~~an investment fund;

(e) an equity security if the purchase is made by a fixed portfolio ~~ETF~~investment fund in accordance with its investment objectives.

(3) ~~In determining a mutual fund's compliance with the restrictions contained in~~For the purposes of this section~~, the mutual fund must~~, for each long position in a specified derivative that is held by ~~the mutual~~an investment fund for ~~purposes~~a purpose other than hedging and for each index participation unit held by the ~~mutual fund, consider that it holds~~investment fund, the investment fund is considered to hold directly the underlying interest of that specified derivative or its proportionate share of the securities held by the issuer of the index participation unit.

(4) Despite subsection (3), ~~the mutual fund must not include in the determination referred to in~~subsection (3)for the purposes of this section, the investment fund is considered to not hold a security or instrument if that security or instrument is a component of, but ~~that~~ represents less than 10 ~~percent~~% of

(a) a stock or bond index that is the underlying interest of a specified derivative; or

(b) the securities held by the issuer of an index participation unit.

(5) Despite subsection (1), an index mutual fund, the name of which includes the word "index", may, in order to satisfy its fundamental investment objectives, purchase a security, enter into a specified derivatives transaction or purchase index participation units if its prospectus contains the disclosure referred to in subsection (5) of Item 6 and subsection (5) of Item 9 of Part B of Form 81-101F1 *Contents of Simplified Prospectus*.

2.2 Control Restrictions – (1) An investment fund must not purchase a security of an issuer

(a) if, immediately after the purchase, the investment fund would hold securities representing more than 10% of

(i) the votes attaching to the outstanding voting securities of the issuer; or

(ii) the outstanding equity securities of the issuer; or

(b) for the purpose of exercising control over, or management of, the issuer.

(1.1) Subsection (1) does not apply to the purchase of any of the following:

(a) a security issued by an investment fund if the purchase is made in accordance with section 2.5;

(b) an index participation unit that is a security of an investment fund.

(2) If an investment fund acquires a security of an issuer other than as the result of a purchase, and the acquisition results in the investment fund exceeding the limits described in paragraph (1)(a), the investment fund must as quickly as is commercially reasonable, and in any event no later than 90 days after the acquisition, reduce its holdings of those securities so that it does not hold securities exceeding those limits.

(3) In determining its compliance with the restrictions contained in this section, an investment fund must

(a) assume the conversion of special warrants held by it; and

(b) consider that it holds directly the underlying securities represented by any American depositary receipts held by it.

2.3 Restrictions Concerning Types of Investments – (1) A mutual fund must not do any of the following:

(a) purchase real property;

(b) purchase a mortgage, other than a guaranteed mortgage;

(c) purchase a guaranteed mortgage if, immediately after the purchase, more than 10 percent% of its net asset value would be made up of guaranteed mortgages;

(d) purchase a goldprecious metal certificate, other than a permitted goldprecious metal certificate;

(e) purchase gold ora permitted precious metal, a permitted goldprecious metal certificate, or a specified derivative of which the underlying interest is a physical commodity, if, immediately after the purchase, more than 10 percent% of itsthe mutual fund's net asset value would be made up of gold and permitted precious metals, permitted goldprecious metal certificates or specified derivatives of which the underlying interests are physical commodities;

(f) purchase a physical commodity, except to the extent permitted by paragraphsparagraph (d) andor (e), purchase a physical commodity;

(g) purchase, sell or use a specified derivative other than in compliance with sections 2.7 to 2.11; or

(h) purchase, sell or use a specified derivative the underlying interest of which is[repealed]

(i) a physical commodity other than gold, or

(ii) a specified derivative of which the underlying interest is a physical commodity other than gold; or

(i) purchase an interest in a loan syndication or loan participation if the purchase would require the mutual fund to assume any responsibilities in administering the loan in relation to the borrower.

(1.1) Paragraphs (1)(d), (e), and (f), do not apply to an alternative mutual fund.

(1.2) Paragraph (1)(e) does not apply to a precious metals fund with respect to purchasing a permitted precious metal, a permitted precious metal certificate or a specified derivative of which the underlying interest is one or more permitted precious metals.

(2) A non-redeemable investment fund must not do any of the following:

(a) purchase real property;

(b) purchase a mortgage, other than a guaranteed mortgage;

(c) purchase an interest in a loan syndication, or loan participation, if the purchase would require the non-redeemable investment fund to assume any responsibilities in administering the loan in relation to the borrower.

(3) For the purposes of this section, for each long position in a specified derivative that is held by an investment fund for a purpose other than hedging and for each index participation unit or underlying investment fund held by the investment fund, the investment fund is considered to hold directly the underlying interest of that specified derivative or its proportionate share of the assets held by the issuer of the index participation unit or underlying investment fund.

(4) Despite subsection (3), for the purposes of this section, an investment fund is considered to not hold a security or instrument if that security or instrument is a component of, but represents less than 10% of,

(a) a stock or bond index that is the underlying interest of a specified derivative; or

(b) the securities held by the issuer of an index participation unit or underlying investment fund.

2.4 Restrictions Concerning Illiquid Assets – (1) A mutual fund must not purchase an illiquid asset if, immediately after the purchase, more than 10 ~~percent~~% of its net asset value would be made up of illiquid assets.

(2) A mutual fund must not ~~have invested~~hold, for a period of 90 days or more, more than 15 ~~percent~~% of its net asset value in illiquid assets.

(3) If more than 15 ~~percent~~% of the net asset value of a mutual fund is made up of illiquid assets, the mutual fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the percentage of its net asset value made up of illiquid assets to 15 ~~percent~~% or less.

(4) A non-redeemable investment fund must not purchase an illiquid asset if, immediately after the purchase, more than 20% of its net asset value would be made up of illiquid assets.

(5) A non-redeemable investment fund must not hold, for a period of 90 days or more, more than 25% of its net asset value in illiquid assets.

(6) If more than 25% of the net asset value of a non-redeemable investment fund is made up of illiquid assets, the non-redeemable investment fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the percentage of its net asset value made up of illiquid assets to 25% or less.

2.5 Investments in Other Investment Funds – (1) For the purposes of this section, an investment fund is considered to be holding a security of another investment fund if

(a) it holds securities issued by the other investment fund, or

(b) it is maintaining a position in a specified derivative for which the underlying interest is a security of the other investment fund.

(2) An investment fund must not purchase or hold a security of another investment fund unless:

(a) if the investment fund is a mutual fund, other than an alternative mutual fund, either of the following applies:

(i) the other investment fund is a mutual fund, other than an alternative mutual fund, that is subject to this Instrument ~~and offers or has offered securities under a simplified prospectus in accordance with National Instrument 81-101 Mutual Fund Prospectus Disclosure,~~;

(ii) the other investment fund is an alternative mutual fund or a non-redeemable investment fund that is subject to this Instrument, and at the time of the purchase of that security, the alternative mutual fund or non-redeemable investment fund holds no more than 10% of its net asset value in securities of alternative mutual funds and non-redeemable investment funds,

(a.1) if the investment fund is an alternative mutual fund or a non-redeemable investment fund, one or both of the following apply:

(i) the other investment fund is subject to this Instrument;

(ii) the other investment fund complies with the provisions of this Instrument applicable to an alternative mutual fund or a non-redeemable investment fund,

(b) at the time of the purchase of that security, the other investment fund holds no more than 10% of its net asset value in securities of other investment funds,

(c) the other investment fund is a reporting issuer in a jurisdiction,

~~(c) if the investment fund is a mutual fund, the investment fund and the other investment fund are reporting issuers in the local jurisdiction,~~.1) [repealed],,

~~(c.1) if the investment fund is a non-redeemable investment fund, the other investment fund is a reporting issuer in a jurisdiction in which the investment fund is a reporting issuer,~~

(d) no management fees or incentive fees are payable by the investment fund that, to a reasonable person, would duplicate a fee payable by the other investment fund for the same service,

(e) no sales fees or redemption fees are payable by the investment fund in relation to its purchases or redemptions of the securities of the other investment fund if the other investment fund is managed by the manager or an affiliate or associate of the manager of the investment fund, and

(f) no sales fees or redemption fees are payable by the investment fund in relation to its purchases or redemptions of securities of the other investment fund that, to a reasonable person, would duplicate a fee payable by an investor in the investment fund.

(3) Paragraphs (2)(a), (a.1)~~, (c),~~ and (c~~.1~~) do not apply if the security

(a) is an index participation unit issued by an investment fund, or

(b) is issued by another investment fund established with the approval of the government of a foreign jurisdiction and the only means by which the foreign jurisdiction permits investment in the securities of issuers of that foreign jurisdiction is through that type of investment fund.

(4) Paragraph (2)(b) does not apply if the other investment fund

(a) is a clone fund, or

(b) in accordance with this section purchases or holds securities

(i) of a money market fund, or

(ii) that are index participation units issued by an investment fund.

(5) Paragraphs (2)(e) and (f) do not apply to brokerage fees incurred for the purchase or sale of ~~an index participation unit~~securities issued by an investment fund that are listed for trading on a stock exchange.

(6) An investment fund that holds securities of another investment fund that is managed by the same manager or an affiliate or associate of the manager

(a) must not vote any of those securities, and

(b) may, if the manager so chooses, arrange for all of the securities it holds of the other investment fund to be voted by the beneficial holders of securities of the investment fund.

(7) The investment fund conflict of interest investment restrictions and the investment fund conflict of interest reporting requirements do not apply to an investment fund which purchases or holds securities of another investment fund if the purchase or holding is made in accordance with this section.

2.6 Borrowing and Other Investment Practices – (1) An investment fund must not~~,~~

(a) ~~in the case of a mutual fund,~~ borrow cash or provide a security interest over any of its portfolio assets unless

(i) the transaction is a temporary measure to accommodate requests for the redemption of securities of the ~~mutual~~investment fund while the ~~mutual~~investment fund effects an orderly liquidation of portfolio assets, or to permit the ~~mutual~~investment fund to settle portfolio transactions and, after giving effect to all transactions undertaken under this subparagraph, the outstanding amount of all borrowings of the ~~mutual~~investment fund does not exceed ~~five percent~~5% of its net asset value at the time of the borrowing,

(ii) the security interest is required to enable the ~~mutual~~investment fund to effect a specified derivative transaction or short sale of securities under this Instrument, is made in accordance with industry practice for that type of transaction and relates only to obligations arising under the particular specified derivatives transaction or short sale,

(iii) the security interest secures a claim for the fees and expenses of the custodian or a sub-custodian of the ~~mutual~~investment fund for services rendered in that capacity as permitted by subsection 6.4(3), or

(iv) in the case of an exchange-traded mutual fund that is not in continuous distribution or a non-redeemable investment fund, the transaction is to finance the acquisition of its portfolio securities and the outstanding amount of all borrowings is repaid on the closing of its initial public offering;

(b) ~~in the case of a mutual fund,~~ purchase securities on margin, unless permitted by section 2.7 or 2.8;

(c) ~~in the case of a mutual fund,~~ sell securities short other than in compliance with section 2.6.1, unless permitted by section 2.7 or 2.8;

(d) purchase a security, other than a specified derivative, that by its terms may require the investment fund to make a contribution in addition to the payment of the purchase price;

(e) engage in the business of underwriting, or marketing to the public, securities of any other issuer;

(f) lend cash or portfolio assets other than cash;

(g) guarantee securities or obligations of a person or company; or

(h) purchase securities other than through market facilities through which these securities are normally bought and sold unless the purchase price approximates the prevailing market price or the parties are at arm's length in connection with the transaction.

((2) Despite paragraphs (1)(a) and (b), an alternative mutual fund or a non-redeemable investment fund may borrow cash or provide a security interest over any of its portfolio assets if each of the following apply:

(a) any borrowing of cash is

(i) from an entity described in section 6.2 or 6.3, and

(ii) if the lender is an affiliate of the investment fund manager of the alternative mutual fund or non-redeemable investment fund, under a borrowing agreement approved by the independent review committee as required under section 5.2 of NI 81-107;

(b) the borrowing agreement is in accordance with normal industry practice and on standard commercial terms for the type of transaction;

(c) the value of cash borrowed, when aggregated with the value of all outstanding borrowing by the alternative mutual fund or non-redeemable investment fund, does not exceed 50% of the alternative mutual fund or non-redeemable investment fund's net asset value.

2.6.1 Short Sales – (1) ~~A mutual~~An investment fund may sell a security short if

(a) the security sold short is sold for cash;

(b) the security sold short is not any of the following:

(i) a security that the ~~mutual~~investment fund is otherwise not permitted by securities legislation to purchase at the time of the short sale transaction;

(ii) an illiquid asset;

(iii) a security of an investment fund other than an index participation unit; and

(c) at the time the ~~mutual~~investment fund sells the security short,

(i) the ~~mutual~~investment fund has borrowed or arranged to borrow from a borrowing agent the security that is to be sold under the short sale~~;~~,

(ii) if the investment fund is a mutual fund, other than an alternative mutual fund, the aggregate market value of ~~all~~the securities of the issuer of the securities sold short by the mutual fund does not exceed 5% of the net asset value of the mutual fund~~; and~~,

(iii) if the investment fund is a mutual fund, other than an alternative mutual fund, the aggregate market value of ~~all~~the securities sold short by the mutual fund does not exceed 20% of the net asset value of the mutual fund,

(iv) if the investment fund is an alternative mutual fund or a non-redeemable investment fund, the aggregate market value of the securities of the issuer of the securities sold short by the investment fund, other than government securities sold short by an alternative mutual fund or non-redeemable investment fund, does not exceed 10% of the net asset value of the investment fund, and

(v) if the investment fund is an alternative mutual fund or a non-redeemable investment fund, the aggregate market value of all securities sold short by the investment fund does not exceed 50% of the net asset value of the investment fund.

(2) A mutual fund, other than an alternative mutual fund, that sells securities short must hold cash cover in an amount that, together with portfolio assets deposited with borrowing agents as security in connection with short sales of securities by the mutual fund, is at least 150% of the aggregate market value of ~~all~~the securities sold short by the mutual fund on a daily mark-to-market basis.

(3) A mutual fund, other than an alternative mutual fund, must not use the cash from a short sale to enter into a long position in a security, other than a security that qualifies as cash cover.

2.6.2 Total Borrowing and Short Sales – (1) Despite sections 2.6 and 2.6.1, an investment fund must not borrow cash or sell securities short, if immediately after entering into a cash borrowing or short selling transaction, the aggregate value of cash borrowed combined with the aggregate market value of the securities sold short by the investment fund would exceed 50% of the investment fund's net asset value.

(2) Despite sections 2.6 and 2.6.1, if the aggregate value of cash borrowed combined with the aggregate market value of the securities sold short by the investment fund exceeds 50% of the investment fund's net asset value, the investment fund must, as quickly as commercially reasonable take all necessary steps to reduce the aggregate value of cash borrowed combined with the aggregate market value of securities sold short to 50% or less of the investment fund's net asset value.

2.7 Transactions in Specified Derivatives for Hedging and Non-hedging Purposes – (1) ~~A mutual~~An investment fund must not purchase an option or a debt-like security or enter into a swap or a forward contract unless, at the time of the transaction, any of the following apply:

(a) in the case of an option, the option is a clearing corporation option;

(b) the option, debt-like security, swap or forward contract, has a designated rating;

(c) the equivalent debt of the counterparty, or of a person or company that has fully and unconditionally guaranteed the obligations of the counterparty in respect of the option, debt-like security, swap or forward contract, has a designated rating;

(d) the option, debt-like security, swap or forward contract is a cleared specified derivative.

(2) If the credit rating of an option ~~that is not a clearing corporation option, the credit rating of a~~, debt-like security, swap or forward contract, or the credit rating of the equivalent debt of the writer or guarantor of the option, debt-like security, swap or forward contract, falls below the level of designated rating while the option, debt-like security, swap or forward contract is held by ~~a mutual~~an investment fund , the ~~mutual~~investment fund must take the steps that are reasonably required to close out its position in the option, debt-like security, swap or forward contract in an orderly and timely fashion, unless either of the following applies:

(a) the option is a clearing corporation option;

(b) the option, debt-like security, swap or forward contract is a cleared specified derivative.

(3) Despite any other provisions contained in this Part, ~~a mutual~~an investment fund may enter into a trade to close out all or part of a position in a specified derivative, in which case the cash cover held to cover the underlying market exposure of the part of the position that is closed out may be released.

(4) The mark-to-market value of the exposure of ~~a mutual~~an investment fund under its specified derivatives positions with any one counterparty ~~other than an acceptable clearing corporation or a clearing corporation that clears and settles transactions made on a futures exchange listed in Appendix A~~, calculated in accordance with subsection (5), must not exceed, for a period of 30 days or more, 10 ~~percent~~% of the net asset value of the ~~mutual fund~~investment fund unless either of the following applies:

(a) the specified derivative is a cleared specified derivative;

(b) the equivalent debt of the counterparty, or of a person or company that has fully and unconditionally guaranteed the obligations of the counterparty in respect of the specified derivative, has a designated rating.

(5) The mark-to-market value of specified derivatives positions of ~~a mutual~~an investment fund with any one counterparty must be, for the purposes of subsection (4),

(a) if the ~~mutual~~investment fund has an agreement with the counterparty that provides for netting or the right of set-off, the net mark-to-market value of the specified derivatives positions of the ~~mutual~~investment fund; and

(b) in all other cases, the aggregated mark-to-market value of the specified derivative positions of the ~~mutual~~investment fund.

(6) Subsections (1), (2) and (3) do not apply to an alternative mutual fund or a non-redeemable investment fund.

2.8 Transactions in Specified Derivatives for Purposes Other than Hedging – (0.1) This section does not apply to an alternative mutual fund.

(1) A mutual fund must not

(a) purchase a debt-like security that has an options component or an option, unless, immediately after the purchase, not more than 10 percent of its net asset value would be made up of those instruments held for purposes other than hedging;

(b) write a call option, or have outstanding a written call option, that is not an option on futures unless, as long as the position remains open, the mutual fund holds

(i) an equivalent quantity of the underlying interest of the option,

(ii) a right or obligation, exercisable at any time that the option is exercisable, to acquire an equivalent quantity of the underlying interest of the option, and cash cover that, together with margin on account for the position, is not less than the amount, if any, by which the strike price of the right or obligation to acquire the underlying interest exceeds the strike price of the option, or

(iii) a combination of the positions referred to in subparagraphs (i) and (ii) that is sufficient, without recourse to other assets of the mutual fund, to enable the mutual fund to satisfy its obligations to deliver the underlying interest of the option;

(c) write a put option, or have outstanding a written put option, that is not an option on futures, unless, as long as the position remains open, the mutual fund holds

(i) a right or obligation, exercisable at any time that the option is exercisable, to sell an equivalent quantity of the underlying interest of the option, and cash cover in an amount that, together with margin on account for the position, is not less than the amount, if any, by which the strike price of the option exceeds the strike price of the right or obligation to sell the underlying interest,

(ii) cash cover that, together with margin on account for the option position, is not less than the strike price of the option, or

(iii) a combination of the positions referred to in subparagraphs (i) and (ii) that is sufficient, without recourse to other assets of the mutual fund, to enable the mutual fund to acquire the underlying interest of the option;

(d) open or maintain a long position in a debt-like security that has a component that is a long position in a forward contract, or in a standardized future or forward contract, unless the mutual fund holds cash cover in an amount that, together with margin on account for the specified derivative and the market value of the specified derivative, is not less than, on a daily mark-to-market basis, the underlying market exposure of the specified derivative;

(e) open or maintain a short position in a standardized future or forward contract, unless the mutual fund holds

(i) an equivalent quantity of the underlying interest of the future or contract,

(ii) a right or obligation to acquire an equivalent quantity of the underlying interest of the future or contract and cash cover that together with margin on account for the position is not less than the amount, if any, by which the strike price of the right or obligation to acquire the underlying interest exceeds the forward price of the contract, or

(iii) a combination of the positions referred to in subparagraphs (i) and (ii) that is sufficient, without recourse to other assets of the mutual fund, to enable the mutual fund to deliver the underlying interest of the future or contract; or

(f) enter into, or maintain, a swap position unless

(i) for periods when the mutual fund would be entitled to receive payments under the swap, the mutual fund holds cash cover in an amount that, together with margin on account for the swap and the market value of the swap, is not less than, on a daily mark-to-market basis, the underlying market exposure of the swap; and

(ii) for periods when the mutual fund would be required to make payments under the swap, the mutual fund holds

(A) an equivalent quantity of the underlying interest of the swap,

(B) a right or obligation to acquire an equivalent quantity of the underlying interest of the swap and cash cover that, together with margin on account for the position, is not less than the aggregate amount of the obligations of the mutual fund under the swap, or

(C) a combination of the positions referred to in clauses (A) and (B) that is sufficient, without recourse to other assets of the mutual fund, to enable the mutual fund to satisfy its obligations under the swap.

(2) A mutual fund must treat any synthetic cash position on any date as providing the cash cover equal to the notional principal value of a banker's acceptance then being accepted by a bank listed in Schedule I of the *Bank Act* (Canada) that would produce the same annualized return as the synthetic cash position is then producing.

2.9 Transactions in Specified Derivatives for Hedging Purposes – (1) Sections 2.1, 2.2, 2.4 and 2.8 do not apply to the use of specified derivatives by a mutual fund for hedging purposes.

(2) Section 2.2 does not apply to the use of specified derivatives by a non-redeemable investment fund for hedging purposes.

2.9.1 Aggregate Exposure to Borrowing, Short Selling and Specified Derivatives – (1) An alternative mutual fund or non-redeemable investment fund's aggregate exposure to cash borrowing, short selling and specified derivatives transactions must not exceed 300% of the fund's net asset value.

(2) For the purposes of subsection (1), an alternative mutual fund's or non-redeemable investment fund's aggregate gross exposure is the sum of the following, divided by the fund's net asset value:

(a) the aggregate value of the alternative mutual fund's or non-redeemable investment fund's outstanding indebtedness under any borrowing agreements to which subsection 2.6(2) applies,

(b) the aggregate market value of all securities sold short by the alternative mutual fund or non-redeemable investment fund as permitted by section 2.6.1, and

(c) the aggregate notional amount of the alternative mutual fund's or non-redeemable investment's fund's specified derivatives positions, minus the aggregate notional amount of the specified derivative positions that are hedging transactions.

(3) For the purposes of this section the alternative mutual fund or non-redeemable investment fund must include in its calculation its proportionate shares of assets of any underlying investment fund for which a similar calculation is required.

(4) An alternative mutual fund or non-redeemable investment fund must determine its aggregate exposure in accordance with subsection (2) as of the close of business of each day on which it calculates a net asset value.

(5) If the alternative mutual fund's or non-redeemable investment fund's aggregate gross exposure as determined in accordance with subsection (2) exceeds 300% of its net asset value, the alternative mutual fund or non-redeemable investment fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the aggregate gross exposure to 300% of its net asset value or less.

2.10 Adviser Requirements – (1) If a portfolio adviser of an investment fund receives advice from a non-resident sub-adviser concerning the use of options or standardized futures by the investment fund, the investment fund must not invest in or use options or standardized futures unless

(a) the obligations and duties of the non-resident sub-adviser are set out in a written agreement with the portfolio adviser; and

(b) the portfolio adviser contractually agrees with the investment fund to be responsible for any loss that arises out of the failure of the non-resident sub-adviser

(i) to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the investment fund, and

(ii) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

(2) An investment fund must not relieve a portfolio adviser of the investment fund from liability for loss for which the portfolio adviser has assumed responsibility under paragraph (1)(b) that arises out of the failure of the relevant non-resident sub-adviser

(a) to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the investment fund, or

(b) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

(3) Despite subsection 4.4(3), an investment fund may indemnify a portfolio adviser against legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by that person or company in connection with services provided by a non-resident sub-adviser for which the portfolio adviser has assumed responsibility under paragraph (1)(b), only if

(a) those fees, judgments and amounts were not incurred as a result of a breach of the standard of care described in subsection (1) or (2); and

(b) the investment fund has reasonable grounds to believe that the action or inaction that caused the payment of the fees, judgments and amounts paid in settlement was in the best interests of the investment fund.

(4) An investment fund must not incur the cost of any portion of liability insurance that insures a person or company for a liability except to the extent that the person or company may be indemnified for that liability under this section.

2.11 Commencement of Use of Specified Derivatives and Short Selling by an Investment Fund – (0.1) This section does not apply to an alternative mutual fund.

(1) An investment fund that has not used specified derivatives must not begin using specified derivatives, and an investment fund that has not sold a security short in accordance with section 2.6.1 must not sell a security short, unless,

(a) in the case of a mutual fund, other than an exchange-traded mutual fund that is not in continuous distribution, its prospectus contains the disclosure required for a mutual fund intending to engage in the activity;

(a.1) in the case of an exchange-traded mutual fund that is not in continuous distribution or of a non-redeemable investment fund, the investment fund issues a news release that contains both of the following:

(i) the disclosure required in a prospectus for an exchange-traded mutual fund that is not in continuous distribution, or a non-redeemable investment fund, intending to engage in the activity;

(ii) the date on which the activity is intended to begin; and

(b) the investment fund has provided to its securityholders, not less than 60 days before it begins the intended activity, written notice that discloses its intent to engage in the activity and the disclosure referred to in paragraph (a) or (a.1), as applicable.

(2) A mutual fund, other than an exchange-traded mutual fund that is not in continuous distribution, is not required to provide the notice referred to in paragraph (1)(b) if each prospectus of the mutual fund since its inception has contained the disclosure referred to in paragraph (1)(a).

(3) Subsection (1) does not apply to an exchange-traded mutual fund that is not in continuous distribution, or to a non-redeemable investment fund, if each prospectus of the investment fund filed since its inception has contained the disclosure referred to in paragraph (1)(a.1).

2.12 Securities Loans – (1) Despite any other provision of this Instrument, an investment fund may enter into a securities lending transaction as lender if the following conditions are satisfied for the transaction:

1. The transaction is administered and supervised in the manner required by sections 2.15 and 2.16.

2. The transaction is made under a written agreement that implements the requirements of this section.

3. Securities are loaned by the investment fund in exchange for collateral.

4. The securities transferred, either by the investment fund or to the investment fund as collateral, as part of the transaction are immediately available for good delivery under applicable legislation.

5. The collateral to be delivered to the investment fund at the beginning of the transaction

(a) is received by the investment fund either before or at the same time as it delivers the loaned securities; and

(b) has a market value equal to at least 102 percent of the market value of the loaned securities.

6. The collateral to be delivered to the investment fund is one or more of

   (a) cash;

   (b) qualified securities;

   (c) securities that are immediately convertible into, or exchangeable for, securities of the same issuer, class or type, and the same term, if applicable, as the securities that are being loaned by the investment fund, and in at least the same number as those loaned by the investment fund; or

   (d) irrevocable letters of credit issued by a Canadian financial institution that is not the counterparty, or an affiliate of the counterparty, of the investment fund in the transaction, if evidences of indebtedness of the Canadian financial institution that are rated as short term debt by a designated rating organization or its DRO affiliate have a designated rating.

7. The collateral and loaned securities are marked to market on each business day, and the amount of collateral in the possession of the investment fund is adjusted on each business day to ensure that the market value of collateral maintained by the investment fund in connection with the transaction is at least 102 percent of the market value of the loaned securities.

8. If an event of default by a borrower occurs, the investment fund, in addition to any other remedy available under the agreement or applicable law, has the right under the agreement to retain and dispose of the collateral to the extent necessary to satisfy its claims under the agreement.

9. The borrower is required to pay promptly to the investment fund amounts equal to and as compensation for all dividends and interest paid, and all distributions made, on the loaned securities during the term of the transaction.

10. The transaction is a “securities lending arrangement” under section 260 of the ITA.

11. The investment fund is entitled to terminate the transaction at any time and recall the loaned securities within the normal and customary settlement period for securities lending transactions in the market in which the securities are lent.

12. Immediately after the investment fund enters into the transaction, the aggregate market value of all securities loaned by the investment fund in securities lending transactions and not yet returned to it or sold by the investment fund in repurchase transactions under section 2.13 and not yet repurchased does not exceed 50% of the net asset value of the investment fund.

(2) An investment fund may hold all cash delivered to it as the collateral in a securities lending transaction or may use the cash to purchase

   (a) qualified securities having a remaining term to maturity no longer than 90 days;

   (b) securities under a reverse repurchase agreement permitted by section 2.14; or

   (c) a combination of the securities referred to in paragraphs (a) and (b).

(3) An investment fund, during the term of a securities lending transaction, must hold all, and must not invest or dispose of any, non-cash collateral delivered to it as collateral in the transaction.

2.13 Repurchase Transactions – (1) Despite any other provision of this Instrument, an investment fund may enter into a repurchase transaction if the following conditions are satisfied for the transaction:

1. The transaction is administered and supervised in the manner required by sections 2.15 and 2.16.

2. The transaction is made under a written agreement that implements the requirements of this section.

3. Securities are sold for cash by the investment fund, with the investment fund assuming an obligation to repurchase the securities for cash.

4. The securities transferred by the investment fund as part of the transaction are immediately available for good delivery under applicable legislation.

5. The cash to be delivered to the investment fund at the beginning of the transaction

   (a) is received by the investment fund either before or at the same time as it delivers the sold securities; and

   (b) is in an amount equal to at least 102 percent of the market value of the sold securities.

6. The sold securities are marked to market on each business day, and the amount of sale proceeds in the possession of the investment fund is adjusted on each business day to ensure that the amount of cash maintained by the investment fund in connection with the transaction is at least 102 percent of the market value of the sold securities.

7. If an event of default by a purchaser occurs, the investment fund, in addition to any other remedy available under the agreement or applicable law, has the right under the agreement to retain or dispose of the sale proceeds delivered to it by the purchaser to the extent necessary to satisfy its claims under the agreement.

8. The purchaser of the securities is required to pay promptly to the investment fund amounts equal to and as compensation for all dividends and interest paid, and all distributions made, on the sold securities during the term of the transaction.

9. The transaction is a “securities lending arrangement” under section 260 of the ITA.

10. The term of the repurchase agreement, before any extension or renewal that requires the consent of both the investment fund and the purchaser, is not more than 30 days.

11. Immediately after the investment fund enters into the transaction, the aggregate market value of all securities loaned by the investment fund in securities lending transactions under section 2.12 and not yet returned to it or sold by the investment fund in repurchase transactions and not yet repurchased does not exceed 50% of the net asset value of the investment fund.

(2) An investment fund may hold cash delivered to it as consideration for sold securities in a repurchase transaction or may use the cash to purchase

   (a) qualified securities having a remaining term to maturity no longer than 30 days;

   (b) securities under a reverse repurchase agreement permitted by section 2.14; or

   (c) a combination of the securities referred to in paragraphs (a) and (b).

2.14 Reverse Repurchase Transactions – (1) Despite any other provision of this Instrument, an investment fund may enter into a reverse repurchase transaction if the following conditions are satisfied for the transaction:

1. The transaction is administered and supervised in the manner required by sections 2.15 and 2.16.

2. The transaction is made under a written agreement that implements the requirements of this section.

3. Qualified securities are purchased for cash by the investment fund, with the investment fund assuming the obligation to resell them for cash.

4. The securities transferred as part of the transaction are immediately available for good delivery under applicable legislation.

5. The securities to be delivered to the investment fund at the beginning of the transaction

   (a) are received by the investment fund either before or at the same time as it delivers the cash used by it to purchase those securities; and

   (b) have a market value equal to at least 102 percent of the cash paid for the securities by the investment fund.

6. The purchased securities are marked to market on each business day, and either the amount of cash paid for the purchased securities or the amount of purchased securities in the possession of the seller or the investment fund is adjusted on each business day to ensure that the market value of purchased securities held by the investment fund in connection with the transaction is not less than 102 percent of the cash paid by the investment fund.

7. If an event of default by a seller occurs, the investment fund, in addition to any other remedy available in the agreement or applicable law, has the right under the agreement to retain or dispose of the purchased securities delivered to it by the seller to the extent necessary to satisfy its claims under the agreement.

8. The transaction is a "securities lending arrangement" under section 260 of the ITA.

9. The term of the reverse repurchase agreement, before any extension or renewal that requires the consent of both the seller and the investment fund, is not more than 30 days.

2.15 Agent for Securities Lending, Repurchase and Reverse Repurchase Transactions – (1) The manager of an investment fund must appoint an agent or agents to act on behalf of the investment fund to administer the securities lending and repurchase transactions entered into by the investment fund.

(2) The manager of an investment fund may appoint an agent or agents to act on behalf of the investment fund to administer the reverse repurchase transactions entered into by the investment fund.

(3) The custodian or a sub-custodian of the investment fund must be the agent appointed under subsection (1) or (2).

(4) The manager of an investment fund must not authorize an agent to enter into a securities lending, repurchase or, if applicable, reverse repurchase transactions on behalf of the investment fund until the agent enters into a written agreement with the manager and the investment fund in which

(a) the investment fund and the manager provide instructions to the agent on the parameters to be followed in entering into the type of transactions to which the agreement pertains;

(b) the agent agrees to comply with this Instrument, accepts the standard of care referred to in subsection (5) and agrees to ensure that all transactions entered into by it on behalf of the investment fund will comply with this Instrument; and

(c) the agent agrees to provide to the investment fund and the manager regular, comprehensive and timely reports summarizing the investment fund's securities lending, repurchase and reverse repurchase transactions, as applicable.

(5) An agent appointed under this section, in administering the securities lending, repurchase and, if applicable, reverse repurchase transactions of the investment fund must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

2.16 Controls and Records – (1) An investment fund must not enter into transactions under sections 2.12, 2.13 or 2.14 unless,

(a) for transactions to be entered into through an agent appointed under section 2.15, the manager has reasonable grounds to believe that the agent has established and maintains appropriate internal controls and procedures and records; and

(b) for reverse repurchase transactions directly entered into by the investment fund without an agent, the manager has established and maintains appropriate internal controls, procedures and records.

(2) The internal controls, procedures and records referred to in subsection (1) must include

(a) a list of approved borrowers, purchasers and sellers based on generally accepted creditworthiness standards;

(b) as applicable, transaction and credit limits for each counterparty; and

(c) collateral diversification standards.

(3) The manager of an investment fund must, on a periodic basis not less frequently than annually,

(a) review the agreements with any agent appointed under section 2.15 to determine if the agreements are in compliance with this Instrument;

(b) review the internal controls described in subsection (2) to ensure their continued adequacy and appropriateness;

(c) make reasonable enquiries as to whether the agent is administering the securities lending, repurchase or reverse repurchase transactions of the investment fund in a competent and responsible manner, in conformity with the requirements of this Instrument and in conformity with the agreement between the agent, the manager and the investment fund entered into under subsection 2.15(4);

(d) review the terms of any agreement between the investment fund and an agent entered into under subsection 2.15(4) in order to determine if the instructions provided to the agent in connection with the securities lending, repurchase or reverse repurchase transactions of the investment fund continue to be appropriate; and

(e) make or cause to be made any changes that may be necessary to ensure that

(i) the agreements with agents are in compliance with this Instrument,

(ii) the internal controls described in subsection (2) are adequate and appropriate,

(iii) the securities lending, repurchase or reverse repurchase transactions of the investment fund are administered in the manner described in paragraph (c), and

(iv) the terms of each agreement between the investment fund and an agent entered into under subsection 2.15(4) are appropriate.

2.17 Commencement of Securities Lending, Repurchase and Reverse Repurchase Transactions by an Investment Fund – (1) An investment fund must not enter into securities lending, repurchase or reverse repurchase transactions unless,

(a) in the case of a mutual fund, other than an exchange-traded mutual fund that is not in continuous distribution, its prospectus contains the disclosure required for mutual funds entering into those types of transactions;

(b) in the case of an exchange-traded mutual fund that is not in continuous distribution or of a non-redeemable investment fund, the investment fund issues a news release that contains both of the following:

(i) the disclosure required in a prospectus for an exchange-traded mutual fund that is not in continuous distribution, or a non-redeemable investment fund, entering into those types of transactions;

(ii) the date on which the investment fund intends to begin entering into those types of transactions; and

(c) the investment fund provides to its securityholders, at least 60 days before it begins entering into those types of transactions, written notice that discloses its intent to begin entering into those types of transactions and the disclosure referred to in paragraph (a) or (b), as applicable.

(2) Paragraph (1)(c) does not apply to a mutual fund that has entered into reverse repurchase agreements as permitted by a decision of the securities regulatory authority or regulator.

(3) Paragraph (1)(c) does not apply to a mutual fund, other than an exchange-traded mutual fund that is not in continuous distribution, if each prospectus of the mutual fund filed since its inception contains the disclosure referred to in paragraph (1)(a).

(4) Subsection (1) does not apply to an exchange-traded mutual fund that is not in continuous distribution, or to a non-redeemable investment fund, if each prospectus of the investment fund filed since its inception contains the disclosure referred to in paragraph (1)(b).

2.18 Money Market Fund – (1) A mutual fund must not describe itself as a “money market fund” in its prospectus, a continuous disclosure document or a sales communication unless

(a) it has all of its assets invested in one or more of the following:

(i) cash,

(ii) cash equivalents,

(iii) an evidence of indebtedness that has a remaining term to maturity of 365 days or less and a designated rating,

(iv) a floating rate evidence of indebtedness if

(A) the floating interest rate of the indebtedness is reset no later than every 185 days, and

(B) the principal amount of the indebtedness will continue to have a market value of approximately par at the time of each change in the rate to be paid to the holders of the evidence of indebtedness, or

(v) securities issued by one or more money market funds,

(b) it has a portfolio of assets, excluding a security described in subparagraph (a)(v), with a dollar-weighted average term to maturity not exceeding

(i) 180 days, and

(ii) 90 days when calculated on the basis that the term of a floating rate obligation is the period remaining to the date of the next rate setting,

(c) not less than 95% of its assets invested in accordance with paragraph (a) are denominated in a currency in which the net asset value per security of the mutual fund is calculated, and

(d) it has not less than

(i) 5% of its assets invested in cash or readily convertible into cash within one day, and

(ii) 15% of its assets invested in cash or readily convertible into cash within one week.

(2) Despite any other provision of this Instrument, a mutual fund that describes itself as a “money market fund” must not use a specified derivative or sell securities short.

(3) A non-redeemable investment fund must not describe itself as a “money market fund”.

PART 3 NEW MUTUAL FUNDS

3.1 Initial Investment in a New Mutual Fund – (1) A person or company must not file a prospectus for a newly established mutual fund unless

(a) an investment of at least $150,000 in securities of the mutual fund has been made, and those securities are beneficially owned, before the time of filing by

(i) the manager, a portfolio adviser, a promoter or a sponsor of the mutual fund,

(ii) the partners, directors, officers or securityholders of any of the manager, a portfolio adviser, a promoter or a sponsor of the mutual fund, or

(iii) a combination of the persons or companies referred to subparagraphs (i) and (ii); or

(b) the prospectus of the mutual fund states that the mutual fund will not issue securities other than those referred to in paragraph (a) unless subscriptions aggregating not less than $500,000 have been received by the mutual fund from investors other than the persons and companies referred to in paragraph (a) and accepted by the mutual fund.

(2) A mutual fund must not redeem a security issued upon an investment in the mutual fund referred to in paragraph (1)(a) until $500,000 has been received from persons or companies other than the persons and companies referred to in paragraph (1)(a).

3.2 Prohibition Against Distribution – If a prospectus of a mutual fund contains the disclosure described in paragraph 3.1(1)(b), the mutual fund must not distribute any securities unless the subscriptions described in that disclosure, together with payment for the securities subscribed for, have been received.

3.3 Prohibition Against Reimbursement of Organization Costs – (1) The costs of incorporation, formation or initial organization of a mutual fund, or of the preparation and filing of any of the preliminary prospectus, preliminary annual information form, preliminary fund facts document, initial prospectus, annual information form or fund facts document of the mutual fund must not be borne by the mutual fund or its securityholders.

(2) Subsection (1) does not apply to an exchange-traded mutual fund unless the fund is in continuous distribution.

PART 4 CONFLICTS OF INTEREST

4.1 Prohibited Investments – (1) A dealer managed investment fund must not knowingly make an investment in a class of securities of an issuer during, or for 60 days after, the period in which the dealer manager of the investment fund, or an associate or affiliate of the dealer manager of the investment fund, acts as an underwriter in the distribution of securities of that class of securities, except as a member of the selling group distributing five percent or less of the securities underwritten.

(2) A dealer managed investment fund must not knowingly make an investment in a class of securities of an issuer of which a partner, director, officer or employee of the dealer manager of the investment fund, or a partner, director, officer or employee of an affiliate or associate of the dealer manager, is a partner, director or officer, unless the partner, director, officer or employee

(a) does not participate in the formulation of investment decisions made on behalf of the dealer managed investment fund;

(b) does not have access before implementation to information concerning investment decisions made on behalf of the dealer managed investment fund; and

(c) does not influence, other than through research, statistical and other reports generally available to clients, the investment decisions made on behalf of the dealer managed investment fund.

(3) Subsections (1) and (2) do not apply to an investment in a class of securities issued or fully and unconditionally guaranteed by the government of Canada or the government of a jurisdiction.

(4) Subsection (1) does not apply to an investment in a class of securities of an issuer if, at the time of each investment

(a) the independent review committee of the dealer managed investment fund has approved the transaction under subsection 5.2(2) of NI 81-107;

(b) in a class of debt securities of an issuer other than a class of securities referred to in subsection (3), the security has been given, and continues to have, a designated rating by a designated rating organization or its DRO affiliate;

(c) in any other class of securities of an issuer,

(i) the distribution of the class of equity securities is made by prospectus filed with one or more securities regulatory authorities or regulators in Canada, and

(ii) during the 60 day period referred to in subsection (1) the investment is made on an exchange on which the class of equity securities of the issuer is listed and traded; and

(d) no later than the time the dealer managed investment fund files its annual financial statements, the manager of the dealer managed investment fund files the particulars of each investment made by the dealer managed investment fund during its most recently completed financial year.

(4.1) [Repealed]

(5) The provisions of securities legislation that are referred to in Appendix C do not apply with respect to an investment in a class of securities of an issuer referred to in subsection (4) if the investment is made in accordance with that subsection.

4.2 Self-Dealing – (1) An investment fund must not purchase a security from, sell a security to, or enter into a securities lending, repurchase or reverse repurchase transaction under section 2.12, 2.13 or 2.14 with, any of the following persons or companies:

1. The manager, portfolio adviser or trustee of the investment fund.

2. A partner, director or officer of the investment fund or of the manager, portfolio adviser or trustee of the investment fund.

3. An associate or affiliate of a person or company referred to in paragraph 1 or 2.

4. A person or company, having fewer than 100 securityholders of record, of which a partner, director or officer of the investment fund or a partner, director or officer of the manager or portfolio adviser of the investment fund is a partner, director, officer or securityholder.

(2) Subsection (1) applies in the case of a sale of a security to, or a purchase of a security from, an investment fund only if the person or company that would be selling to, or purchasing from, the investment fund would be doing so as principal.

4.3 Exception – (1) Section 4.2 does not apply to a purchase or sale of a security by an investment fund if the price payable for the security is:

(a) not more than the ask price of the security as reported by any available public quotation in common use, in the case of a purchase by the investment fund; or

(b) not less than the bid price of the security as reported by any available public quotation in common use, in the case of a sale by the investment fund.

(2) Section 4.2 does not apply to a purchase or sale of a class of debt securities by an investment fund from, or to, another investment fund managed by the same manager or an affiliate of the manager, if, at the time of the transaction

(a) the investment fund is purchasing from, or selling to, another investment fund to which NI 81-107 applies;

(b) the independent review committee of the investment fund has approved the transaction under subsection 5.2(2) of NI 81-107; and

(c) the transaction complies with subsection 6.1(2) of NI 81-107.

4.4 Liability and Indemnification – (1) An agreement or declaration of trust by which a person or company acts as manager of an investment fund must provide that the manager is responsible for any loss that arises out of the failure of the manager, or of any person or company retained by the manager or the investment fund to discharge any of the manager's responsibilities to the investment fund,

(a) to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the investment fund, and

(b) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

(2) An investment fund must not relieve the manager of the investment fund from liability for loss that arises out of the failure of the manager, or of any person retained by the manager or the investment fund to discharge any of the manager's responsibilities to the investment fund,

(a) to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the investment fund, or

(b) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

(3) An investment fund may indemnify a person or company providing services to it against legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by that person or company in connection with services provided by that person or company to the investment fund, if

(a) those fees, judgments and amounts were not incurred as a result of a breach of the standard of care described in subsection (1) or (2); and

(b) the investment fund has reasonable grounds to believe that the action or inaction that caused the payment of the fees, judgments and amounts paid in settlement was in the best interests of the investment fund.

(4) An investment fund must not incur the cost of any portion of liability insurance that insures a person or company for a liability except to the extent that the person or company may be indemnified for that liability under this section.

(5) This section does not apply to any losses to an investment fund or securityholder arising out of an action or inaction by any of the following:

(a) a director of the investment fund;

(b) a custodian or sub-custodian of the investment fund, except as set out in subsection (6).

(6) This section applies to any losses to an investment fund or securityholder arising out of an action or inaction by a custodian or sub-custodian acting as agent of the investment fund in administering the securities lending, repurchase or reverse repurchase transactions of the investment fund.

PART 5 FUNDAMENTAL CHANGES

5.1 Matters Requiring Securityholder Approval – (1) The prior approval of the securityholders of an investment fund, given as provided in section 5.2, is required before the occurrence of each of the following:

(a) the basis of the calculation of a fee or expense that is charged to the investment fund or directly to its securityholders by the investment fund or its manager in connection with the holding of securities of the investment fund is changed in a way that could result in an increase in charges to the investment fund or to its securityholders;

(a.1) a fee or expense, to be charged to the investment fund or directly to its securityholders by the investment fund or its manager in connection with the holding of securities of the investment fund that could result in an increase in charges to the investment fund or to its securityholders, is introduced;

(b) the manager of the investment fund is changed, unless the new manager is an affiliate of the current manager;

(c) the fundamental investment objectives of the investment fund are changed;

(d) [Repealed]

(e) the investment fund decreases the frequency of the calculation of its net asset value per security;

(f) the investment fund undertakes a reorganization with, or transfers its assets to, another issuer, if

(i) the investment fund ceases to continue after the reorganization or transfer of assets, and

(ii) the transaction results in the securityholders of the investment fund becoming securityholders in the other issuer;

(g) the investment fund undertakes a reorganization with, or acquires assets from, another issuer, if

(i) the investment fund continues after the reorganization or acquisition of assets,

(ii) the transaction results in the securityholders of the other issuer becoming securityholders in the investment fund, and

(iii) the transaction would be a material change to the investment fund;

(h) the investment fund implements any of the following:

(i) in the case of a non-redeemable investment fund, a restructuring into a mutual fund;

(ii) in the case of a mutual fund, a restructuring into a non-redeemable investment fund;

(iii) a restructuring into an issuer that is not an investment fund.

(2) An investment fund must not bear any of the costs or expenses associated with a restructuring referred to in paragraph (1)(h).

5.2 Approval of Securityholders – (1) Unless a greater majority is required by the constating documents of the investment fund, the laws applicable to the investment fund or an applicable agreement, the approval of the securityholders of the investment fund to a matter referred to in subsection 5.1(1) must be given by a resolution passed by at least a majority of the votes cast at a meeting of the securityholders of the investment fund duly called and held to consider the matter.

(2) Despite subsection (1), the holders of securities of a class or series of a class of securities of an investment fund must vote separately as a class or series of a class on a matter referred to in subsection 5.1(1) if that class or series of a class is affected by the action referred to in subsection 5.1(1) in a manner different from holders of securities of other classes or series of a class.

(3) Despite subsection 5.1(1) and subsections (1) and (2), if the constating documents of the investment fund so provide, the holders of securities of a class or series of a class of securities of an investment fund must not be entitled to vote on a matter referred to in subsection 5.1(1) if they, as holders of the class or series of a class, are not affected by the action referred to in subsection 5.1(1).

5.3 Circumstances in Which Approval of Securityholders Not Required – (1) Despite subsection 5.1(1), the approval of securityholders of an investment fund is not required to be obtained for a change referred to in paragraphs 5.1(1)(a) and (a.1)

(a) if

(i) the investment fund is at arm's length to the person or company charging the fee or expense to the investment fund referred to in paragraphs 5.1(1)(a) and (a.1),

(ii) the prospectus of the investment fund discloses that, although the approval of securityholders will not be obtained before making the changes, securityholders will be sent a written notice at least 60 days before the effective date of the change that is to be made that could result in an increase in charges to the investment fund, and

(iii) the notice referred to in subparagraph (ii) is actually sent at least 60 days before the effective date of the change; or

(b) if, in the case of a mutual fund,

(i) the mutual fund is permitted by this Instrument to be described as a "no-load" fund,

(ii) the prospectus of the mutual fund discloses that securityholders will be sent a written notice at least 60 days before the effective date of a change that is to be made that could result in an increase in charges to the mutual fund, and

(iii) the notice referred to in subparagraph (ii) is actually sent at least 60 days before the effective date of the change.

(2) Despite subsection 5.1(1), the approval of securityholders of an investment fund is not required to be obtained for a change referred to in paragraph 5.1(1)(f) if either of the following paragraphs apply:

(a) all of the following apply:

(i) the independent review committee of the investment fund has approved the change under subsection 5.2(2) of NI 81-107;

(ii) the investment fund is being reorganized with, or its assets are being transferred to, another investment fund to which this Instrument and NI 81-107 apply and that is managed by the manager, or an affiliate of the manager, of the investment fund;

(iii) the reorganization or transfer of assets of the investment fund complies with the criteria in paragraphs 5.6(1)(a), (b), (c), (d), (g), (h), (i), (j) and (k);

(iv) the prospectus of the investment fund discloses that, although the approval of securityholders may not be obtained before making the change, securityholders will be sent a written notice at least 60 days before the effective date of the change;

(v) the notice referred to in subparagraph (iv) to securityholders is sent at least 60 days before the effective date of the change;

(b) all of the following apply:

(i) the investment fund is a non-redeemable investment fund that is being reorganized with, or its assets are being transferred to, a mutual fund that is

(A) a mutual fund to which this Instrument and NI 81-107 apply,

(B) managed by the manager, or an affiliate of the manager, of the investment fund,

(C) not in default of any requirement of securities legislation, and

(D) a reporting issuer in the local jurisdiction and the mutual fund has a current prospectus in the local jurisdiction;

(ii) the transaction is a tax-deferred transaction under subsection 85(1) of the ITA;

(iii) the securities of the investment fund do not give securityholders of the investment fund the right to request that the investment fund redeem the securities;

(iv) since its inception, there has been no market through which securityholders of the investment fund could sell securities of the investment fund;

(v) every prospectus of the investment fund discloses that

(A) securityholders of the investment fund, other than the manager, promoter or an affiliate of the manager or promoter, will cease to be securityholders of the investment fund within 30 months following the completion of the initial public offering by the investment fund, and

(B) the investment fund will, within 30 months following the completion of the initial public offering of the investment fund, undertake a reorganization with, or transfer its assets to, a mutual fund that is managed by the manager of the investment fund or by an affiliate of the manager of the investment fund;

(vi) the mutual fund bears none of the costs and expenses associated with the transaction;

(vii) the reorganization or transfer of assets of the investment fund complies with subparagraphs 5.3(2)(a)(i), (iv) and (v) and paragraphs 5.6(1)(d) and (k).

5.3.1 Change of Auditor of an Investment Fund – The auditor of an investment fund must not be changed unless

(a) the independent review committee of the investment fund has approved the change of auditor under subsection 5.2(2) of NI 81-107;

(b) the prospectus of the investment fund discloses that, although the approval of securityholders will not be obtained before making the change, securityholders will be sent a written notice at least 60 days before the effective date of the change, and

(c) the notice referred to in paragraph (b) to securityholders is sent 60 days before the effective date of the change.

5.4 Formalities Concerning Meetings of Securityholders – (1) A meeting of securityholders of an investment fund called to consider any matter referred to in subsection 5.1(1) must be called on written notice sent at least 21 days before the date of the meeting.

(2) The notice referred to in subsection (1) must contain or be accompanied by a statement that includes

(a) a description of the change or transaction proposed to be made or entered into and, if the matter is one referred to in paragraphs 5.1(1)(a) or (a.1), the effect that the change would have had on the management expense ratio of the investment fund had the change been in force throughout the investment fund's last completed financial year;

(b) the date of the proposed implementation of the change or transaction; and

(c) all other information and documents necessary to comply with the applicable proxy solicitation requirements of securities legislation for the meeting.

5.5 Approval of Securities Regulatory Authority – (1) The approval of the securities regulatory authority or regulator is required before

(a) the manager of an investment fund is changed, unless the new manager is an affiliate of the current manager;

(a.1) a change of control of the manager of an investment fund occurs;

(b) a reorganization or transfer of assets of an investment fund is implemented, if the transaction will result in the securityholders of the investment fund becoming securityholders in another issuer;

(c) a change of the custodian of an investment fund is implemented, if there has been or will be, in connection with the proposed change, a change of the type referred to in paragraph (a); or

(d) an investment fund suspends, other than under section 10.6, the rights of securityholders to request that the investment fund redeem their securities.

(2) [Repealed]

(3) Despite subsection (1), in Ontario only the regulator may grant an approval referred to in subsection (1).

5.6 Pre-Approved Reorganizations and Transfers – (1) Despite subsection 5.5(1), the approval of the securities regulatory authority or regulator is not required to implement a transaction referred to in paragraph 5.5(1)(b) if all of the following paragraphs apply:

(a) the investment fund is being reorganized with, or its assets are being transferred to, another investment fund to which this Instrument applies and that

(i) is managed by the manager, or an affiliate of the manager, of the investment fund,

(ii) a reasonable person would consider to have substantially similar fundamental investment objectives, valuation procedures and fee structure as the investment fund,

(iii) is not in default of any requirement of securities legislation, and

(iv) is a reporting issuer in the local jurisdiction and, if it is a mutual fund, also has a current prospectus in the local jurisdiction;

(b) the transaction is a “qualifying exchange” within the meaning of section 132.2 of the ITA or is a tax-deferred transaction under subsection 85(1), 85.1(1), 86(1) or 87(1) of the ITA;

(c) the transaction contemplates the wind-up of the investment fund as soon as reasonably possible following the transaction;

(d) the portfolio assets of the investment fund to be acquired by the other investment fund as part of the transaction

(i) may be acquired by the other investment fund in compliance with this Instrument, and

(ii) are acceptable to the portfolio adviser of the other investment fund and consistent with the other investment fund's fundamental investment objectives;

(e) the transaction is approved

(i) by the securityholders of the investment fund in accordance with paragraph 5.1(1)(f), unless subsection 5.3(2) applies, and

(ii) if required, by the securityholders of the other investment fund in accordance with paragraph 5.1(1)(g);

(f) the materials sent to securityholders of the investment fund in connection with the approval under paragraph 5.1(1)(f) include

(i) a circular that, in addition to other requirements prescribed by law, describes the proposed transaction, the investment fund into which the investment fund will be reorganized, the income tax considerations for the investment funds participating in the transaction and their securityholders, and, if the investment fund is a corporation and the transaction involves its shareholders becoming securityholders of an investment fund that is established as a trust, a description of the material differences between being a shareholder of a corporation and being a securityholder of a trust,

(ii) if the other investment fund is a mutual fund, the most recently filed fund facts document for the other investment fund, and

(iii) a statement that securityholders may, in respect of the reorganized investment fund,

(A) obtain all of the following documents at no cost by contacting the reorganized investment fund at an address or telephone number specified in the statement:

(I) if the reorganized investment fund is a mutual fund, the current prospectus;

(II) the most recently filed annual information form, if one has been filed;

(III) as applicable, the most recently filed fund facts document;

(IV) the most recently filed annual financial statements and interim financial reports;

(V) the most recently filed annual and interim management reports of fund performance, or

(B) access those documents at a website address specified in the statement;

(g) the investment fund has complied with Part 11 of National Instrument 81-106 Investment Fund Continuous Disclosure in connection with the making of the decision to proceed with the transaction by the board of directors of the manager of the investment fund or of the investment fund;

(h) the investment funds participating in the transaction bear none of the costs and expenses associated with the transaction;

(i) if the investment fund is a mutual fund, securityholders of the investment fund continue to have the right to redeem securities of the investment fund up to the close of business on the business day immediately before the effective date of the transaction;

(j) if the investment fund is a non-redeemable investment fund, all of the following apply:

(i) the investment fund issues and files a news release that discloses the transaction;

(ii) securityholders of the investment fund may redeem securities of the investment fund at a date that is after the date of the news release referred to in subparagraph (i) and before the effective date of the transaction;

(iii) the securities submitted for redemption in accordance with subparagraph (ii) are redeemed at a price equal to their net asset value per security on the redemption date;

(k) the consideration offered to securityholders of the investment fund for the transaction has a value that is equal to the net asset value of the investment fund calculated on the date of the transaction.

(1.1) Despite subsection 5.5(1), the approval of the securities regulatory authority or regulator is not required to implement a transaction referred to in paragraph 5.5(1)(b) if all the conditions in paragraph 5.3(2)(b) are satisfied and the independent review committee of the mutual fund involved in the transaction has approved the transaction in accordance with subsection 5.2(2) of NI 81-107.

(2) An investment fund that has continued after a transaction described in paragraph 5.5(1)(b) must, if the audit report accompanying its audited financial statements for its first completed financial year after the transaction contains a modified opinion in respect of the value of the portfolio assets acquired by the investment fund in the transaction, send a copy of those financial statements to each person or company that was a securityholder of an investment fund that was terminated as a result of the transaction and that is not a securityholder of the investment fund.

5.7 Applications – (1) An application for an approval required under section 5.5 must contain,

(a) if the application is required by paragraph 5.5(1)(a) or (a.1),

(i) details of the proposed transaction,

(ii) details of the proposed new manager or the person or company proposing to acquire control of the manager,

(iii) as applicable, the names, residence addresses and birthdates of

(A) all proposed new partners, directors or officers of the manager,

(B) all partners, directors or officers of the person or company proposing to acquire control of the manager,

(C) any proposed new individual trustee of the investment fund, and

(D) any new directors or officers of the investment fund,

(iv) all information necessary to permit the securities regulatory authority or regulator to conduct security checks on the individuals referred to in subparagraph (iii),

(v) sufficient information to establish the integrity and experience of the persons or companies referred to in subparagraphs (ii) and (iii), and

(vi) details of how the proposed transaction will affect the management and administration of the investment fund;

(b) if the application is required by paragraph 5.5(1)(b),

(i) details of the proposed transaction,

(ii) details of the total annual returns of the investment fund and, if the other issuer is an investment fund, the other issuer for each of the previous five years,

(iii) a description of the differences between, as applicable, the fundamental investment objectives, investment strategies, valuation procedures and fee structure of the investment fund and the other issuer and any other material differences between the investment fund and the other issuer, and

(iv) a description of those elements of the proposed transaction that make section 5.6 inapplicable;

(c) if the application is required by paragraph 5.5(1)(c), sufficient information to establish that the proposed custodial arrangements will be in compliance with Part 6;

(d) if the application relates to a matter that would constitute a material change for the investment fund, a draft amendment to the prospectus and, if applicable, to the fund facts document of the investment fund reflecting the change; and

(e) if the matter is one that requires the approval of securityholders, confirmation that the approval has been obtained or will be obtained before the change is implemented.

(2) An investment fund that applies for an approval under paragraph 5.5(1)(d) must

(a) make that application to the securities regulatory authority or regulator in the jurisdiction in which the head office or registered office of the investment fund is situated; and

(b) concurrently file a copy of the application so made with the securities regulatory authority or the regulator in the local jurisdiction if the head office or registered office of the investment fund is not situated in the local jurisdiction.

(3) An investment fund that has complied with subsection (2) in the local jurisdiction may suspend the right of securityholders to request that the investment fund redeem their securities if

(a) the securities regulatory authority or regulator in the jurisdiction in which the head office or registered office of the investment fund is situated has granted approval to the application made under paragraph (2)(a); and

(b) the securities regulatory authority or regulator in the local jurisdiction has not notified the investment fund, by the close of business on the business day immediately following the day on which the copy of the application referred to in paragraph (2)(b) was received, either that

(i) the securities regulatory authority or regulator has refused to grant approval to the application, or

(ii) this subsection may not be relied upon by the investment fund in the local jurisdiction.

5.8 Matters Requiring Notice – (1) A person or company must not continue to act as manager of an investment fund following a direct or indirect change of control of the person or company unless

(a) notice of the change of control was given to all securityholders of the investment fund at least 60 days before the change; and

(b) the notice referred to in paragraph (a) contains the information that would be required by law to be provided to securityholders if securityholder approval of the change were required to be obtained.

(2) A mutual fund must not terminate unless notice of the termination is given to all securityholders of the mutual fund at least 60 days before termination.

(3) The manager of a mutual fund that has terminated must give notice of the termination to the securities regulatory authority within 30 days of the termination.

5.8.1 Termination of a Non-Redeemable Investment Fund – (1) A non-redeemable investment fund must not terminate unless the investment fund first issues and files a news release that discloses the termination.

(2) A non-redeemable investment fund must not terminate earlier than 15 days or later than 90 days after the filing of the news release under subsection (1).

(3) Subsections (1) and (2) do not apply in respect of a transaction referred to in paragraph 5.1(1)(f).

5.9 Relief from Certain Regulatory Requirements – (1) The investment fund conflict of interest investment restrictions and the investment fund conflict of interest reporting requirements do not apply to a transaction referred to in paragraph 5.5(1)(b) if the approval of the securities regulatory authority or regulator has been given to the transaction.

(2) The investment fund conflict of interest investment restrictions and the investment fund conflict of interest reporting requirements do not apply to a transaction described in section 5.6.

5.10 [Repealed]

PART 6 CUSTODIANSHIP OF PORTFOLIO ASSETS

6.1 General – (1) Except as provided in sections 6.8, 6.8.1 and 6.9, all portfolio assets of an investment fund must be held under the custodianship of one custodian that satisfies the requirements of section 6.2.

(2) Except as provided in subsection 6.5(3) and sections 6.8, 6.8.1 and 6.9, portfolio assets of an investment fund must be held

(a) in Canada by the custodian or a sub-custodian of the investment fund; or

(b) outside Canada by the custodian or a sub-custodian of the investment fund, if appropriate to facilitate portfolio transactions of the investment fund outside Canada.

(3) The custodian or a sub-custodian of an investment fund may appoint one or more sub-custodians to hold portfolio assets of the investment fund, if

(a) in the case of an appointment by the custodian, the investment fund consents in writing to the appointment,

(a.1) in the case of an appointment by a sub-custodian, the investment fund and the custodian of the investment fund consent in writing to the appointment,

(b) the sub-custodian that is to be appointed is an entity described in section 6.2 or 6.3, as applicable,

(c) the arrangements under which a sub-custodian is appointed are such that the investment fund may enforce rights directly, or require the custodian or a sub-custodian to enforce rights on behalf of the investment fund, to the portfolio assets held by the appointed sub-custodian, and

(d) the appointment is otherwise in compliance with this Instrument.

(4) The written consent referred to in paragraphs (3)(a) and (a.1) may be in the form of a general consent, contained in the agreement governing the relationship between the investment fund and the custodian, or the custodian and the sub-custodian, to the appointment of entities that are part of an international network of sub-custodians within the organization of the appointed custodian or sub-custodian.

(5) A custodian or sub-custodian must provide to the investment fund a list of all entities that are appointed sub-custodians under a general consent referred to in subsection (4).

(6) Despite any other provisions of this Part, the manager of an investment fund must not act as custodian or sub-custodian of the investment fund.

6.2 Entities Qualified to Act as Custodian or Sub-Custodian for Assets Held in Canada – If portfolio assets are held in Canada by a custodian or sub-custodian, the custodian or sub-custodian must be one of the following:

1. a bank listed in Schedule I, II or III of the *Bank Act* (Canada);

2. a trust company that is incorporated under the laws of Canada or a jurisdiction and licensed or registered under the laws of Canada or a jurisdiction, and that has equity, as reported in its most recent audited financial statements, of not less than $10,000,000;

3. a company that is incorporated under the laws of Canada or of a jurisdiction, and that is an affiliate of a bank or trust company referred to in paragraph 1 or 2, if either of the following applies:

(a) the company has equity, as reported in its most recent audited financial statements ~~that have been made public,~~ of not less than $10,000,000;

(b) the bank or trust company has assumed responsibility for all of the custodial obligations of the company for that investment fund.

6.3 Entities Qualified to Act as Sub-Custodian for Assets Held outside Canada – If portfolio assets are held outside of Canada by a sub-custodian, the sub-custodian must be one of the following:

1. an entity referred to in section 6.2;

2. an entity that

(a) is incorporated or organized under the laws of a country, or a political subdivision of a country, other than Canada,

(b) is regulated as a banking institution or trust company by the government, or an agency of the government, of the country under the laws of which it is incorporated or organized, or a political subdivision of that country, and

(c) has equity, as reported in its most recent audited financial statements~~,~~ of not less than the equivalent of $100,000,000;

3. an affiliate of an entity referred to in paragraph 1 or 2 if either of the following applies:

(a) the affiliate has equity, as reported in its most recent audited financial statements ~~that have been made public~~, of not less than the equivalent of $100,000,000;

(b) the entity referred to in paragraph 1 or 2 has assumed responsibility for all of the custodial obligations of the affiliate for that investment fund.

6.4 Contents of Custodian and Sub-Custodian Agreements – (1) All custodian agreements and sub-custodian agreements of an investment fund must provide for

(a) the location of portfolio assets,

(b) any appointment of a sub-custodian,

(c) requirements concerning lists of sub-custodians,

(d) the method of holding portfolio assets,

(e) the standard of care and responsibility for loss, and

(f) requirements concerning review and compliance reports.

(2) A sub-custodian agreement concerning the portfolio assets of an investment fund must provide for the safekeeping of portfolio assets on terms consistent with the custodian agreement of the investment fund.

(2.1) An agreement referred to under subsections (1) and (2) must comply with the requirements of this Part.

(3) A custodian agreement or sub-custodian agreement concerning the portfolio assets of an investment fund must not

(a) provide for the creation of any security interest on the portfolio assets of the investment fund except for a good faith claim for payment of the fees and expenses of the custodian or a sub-custodian for acting in that capacity or to secure the obligations of the investment fund to repay borrowings by the investment fund from the custodian or a sub-custodian for the purpose of settling portfolio transactions; or

(b) contain a provision that would require the payment of a fee to the custodian or a sub-custodian for the transfer of the beneficial ownership of portfolio assets of the investment fund, other than for safekeeping and administrative services in connection with acting as custodian or sub-custodian.

6.5 Holding of Portfolio Assets and Payment of Fees – (1) Except as provided in subsections (2) and (3) and sections 6.8, 6.8.1 and 6.9, portfolio assets of an investment fund not registered in the name of the investment fund must be registered in the name of the custodian or a sub-custodian of the investment fund, or any of their respective nominees, with an account number or other designation in the records of the custodian sufficient to show that the beneficial ownership of the portfolio assets is vested in the investment fund.

(2) The custodian or a sub-custodian of an investment fund, or an applicable nominee, must segregate portfolio assets issued in bearer form to show that the beneficial ownership of the property is vested in the investment fund.

(3) The custodian or a sub-custodian of an investment fund may deposit portfolio assets of the investment fund with a depository, or a clearing agency, that operates a book-based system.

(4) The custodian or a sub-custodian of an investment fund arranging for the deposit of portfolio assets of the investment fund with, and their delivery to, a depository, or clearing agency, that operates a book-based system must ensure that the records of any of the applicable participants in that book-based system or of the custodian contain an account number or other designation sufficient to show that the beneficial ownership of the portfolio assets is vested in the investment fund.

(5) An investment fund must not pay a fee to the custodian or a sub-custodian of the investment fund for the transfer of beneficial ownership of portfolio assets of the investment fund other than for safekeeping and administrative services in connection with acting as custodian or sub-custodian.

6.6 Standard of Care – (1) The custodian and each sub-custodian of an investment fund, in carrying out their duties concerning the safekeeping of, and dealing with, the portfolio assets of the investment fund, must exercise

(a) the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances; or

(b) at least the same degree of care as they exercise with respect to their own property of a similar kind, if this is a higher degree of care than the degree of care referred to in paragraph (a).

(2) An investment fund must not relieve the custodian or a sub-custodian of the investment fund from liability to the investment fund or to a securityholder of the investment fund for loss that arises out of the failure of the custodian or sub-custodian to exercise the standard of care imposed by subsection (1).

(3) An investment fund may indemnify the custodian or a sub-custodian against legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by that entity in connection with custodial or sub-custodial services provided by that entity to the investment fund, if those fees, judgments and amounts were not incurred as a result of a breach of the standard of care imposed by subsection (1).

(4) An investment fund must not incur the cost of any portion of liability insurance that insures the custodian or a sub-custodian for a liability, except to the extent that the custodian or sub-custodian may be indemnified for that liability under this section.

6.7 Review and Compliance Reports – (1) The custodian of an investment fund must, on a periodic basis not less frequently than annually,

(a) review the custodian agreement and all sub-custodian agreements of the investment fund to determine if those agreements are in compliance with this Part;

(b) make reasonable enquiries as to whether each sub-custodian satisfies the applicable requirements of section 6.2 or 6.3; and

(c) make or cause to be made any changes that may be necessary to ensure that

(i) the custodian and sub-custodian agreements are in compliance with this Part; and

(ii) all sub-custodians of the investment fund satisfy the applicable requirements of section 6.2 or6.3.

(2) The custodian of an investment fund must, within 60 days after the end of each financial year of the investment fund, advise the investment fund in writing

(a) of the names and addresses of all sub-custodians of the investment fund;

(b) whether the custodian and sub-custodian agreements are in compliance with this Part; and

(c) whether, to the best of the knowledge and belief of the custodian, each sub-custodian satisfies section 6.2 or 6.3, as applicable.

(3) A copy of the report referred to in subsection (2) must be delivered by or on behalf of the investment fund to the securities regulatory authority within 30 days after the filing of the annual financial statements of the investment fund.

6.8 Custodial Provisions relating to Borrowing, Derivatives and Securities Lending, Repurchase and Reverse Repurchase Agreements – (1) An investment fund may deposit portfolio assets as margin for transactions in Canada involving clearing corporation options, options on futures ~~or~~, standardized futures or cleared specified derivatives with a member of a regulated clearing agency or with a dealer that is a member of an SRO that is a participating member of CIPF if the amount of margin deposited does not, when aggregated with the amount of margin already held by the member or dealer on behalf of the investment fund, exceed 10 ~~percent~~% of the net asset value of the investment fund as at the time of deposit.

(2) An investment fund may deposit portfolio assets with a member of a regulated clearing agency or with a dealer as margin for transactions outside Canada involving clearing corporation options, options on futures ~~or~~, standardized futures or cleared specified derivatives if

(a) ~~in the case of standardized futures and options on futures, the~~the member or dealer is a member of a regulated clearing agency, futures exchange or~~, in the case of clearing corporation options, is a member of a~~ stock exchange, and, as a result in ~~either~~any case, is subject to a regulatory audit~~;~~,

(b) the member or dealer has a net worth, determined from its most recent audited financial statements ~~that have been made public,~~ in excess of the equivalent of $50 million~~;~~, and

(c) the amount of margin deposited does not, when aggregated with the amount of margin already held by the member or dealer on behalf of the investment fund, exceed 10 ~~percent~~% of the net asset value of the investment fund as at the time of deposit.

(3) An investment fund may deposit with its counterparty portfolio assets over which it has granted a security interest in connection with a particular specified derivatives transaction.

(3.1) An investment fund may deposit with its lender portfolio assets over which it has granted a security interest in connection with a borrowing agreement to which section 2.6 applies.

(4) The agreement by which portfolio assets are deposited in accordance with subsection (1), (2) ~~or~~, (3) or (3.1) must require the person or company holding the portfolio assets to ensure that its records show that the investment fund is the beneficial owner of the portfolio assets.

(5) An investment fund may deliver portfolio assets to a person or company in satisfaction of its obligations under a borrowing, securities lending, repurchase or reverse purchase agreement that complies with this Instrument if the collateral, cash proceeds or purchased securities that are delivered to the investment fund in connection with the transaction are held under the custodianship of the custodian or a sub-custodian of the investment fund in compliance with this Part.

6.8.1 Custodial Provisions relating to Short Sales – (1) ~~Except where~~Unless the borrowing agent is the investment fund's custodian or sub-custodian, if an investment fund deposits portfolio assets with a borrowing agent as security in connection with a short sale of securities, the market value of portfolio assets deposited with the borrowing agent must not, when aggregated with the market value of portfolio assets already held by the borrowing agent as security for outstanding short sales of securities by the investment fund,

(a) in the case of a mutual fund, other than an alternative mutual fund, exceed 10% of the net asset value of the ~~investment~~ mutual fund at the time of deposit, and

(b) in the case of an alternative mutual fund or a non-redeemable investment fund, exceed 25% of the net asset value of the alternative mutual fund or non-redeemable investment fund at the time of deposit.

(2) An investment fund must not deposit portfolio assets as security in connection with a short sale of securities with a dealer in Canada unless the dealer is a registered dealer and is a member of IIROC.

(3) An investment fund must not deposit portfolio assets as security in connection with a short sale of securities with a dealer outside of Canada unless that dealer

(a) is a member of a stock exchange and is subject to a regulatory audit; and

(b) has a net worth, determined from its most recent audited financial statements ~~that have been made public~~, in excess of the equivalent of $50 million.

6.9 Separate Account for Paying Expenses – An investment fund may deposit cash in Canada with an entity referred to in paragraph 1 or 2 of section 6.2 to facilitate the payment of regular operating expenses of the investment fund.

PART 7 INCENTIVE FEES

7.1 Incentive Fees ~~–~~ (1) A mutual fund other than an alternative mutual fund, must not pay, or enter into arrangements that would require it to pay, and must not sell securities of a mutual fund ~~must not be sold~~ on the basis that an investor would be required to pay, a fee that is determined by the performance of the mutual fund~~,~~ unless

(a) the fee is calculated with reference to a benchmark or index that

(i) reflects the market sectors in which the mutual fund invests according to its fundamental investment objectives,

(ii) is available to persons or companies other than the mutual fund and persons providing services to it, and

(iii) is a total return benchmark or index;

(b) the payment of the fee is based upon a comparison of the cumulative total return of the mutual fund against the cumulative total percentage increase or decrease of the benchmark or index for the period that began immediately after the last period for which the performance fee was paid; and

(c) the method of calculation of the fee and details of the composition of the benchmark or index are described in the prospectus of the mutual fund.

(2) An alternative mutual fund must not pay, or enter into arrangements that would require it to pay, and securities of an alternative mutual fund must not be sold on the basis that an investor would be required to pay, a fee that is determined by the performance of the alternative mutual fund unless

(a) the payment of the fee is based on the cumulative total return of the alternative mutual fund for the period that began immediately after the last period for which the performance fee was paid~~;~~, and

(b) the method of calculating the fee is described in the alternative mutual fund's prospectus.

7.2 Multiple Portfolio Advisers – Section 7.1 applies to fees payable to a portfolio adviser of a mutual fund that has more than one portfolio adviser, if the fees are calculated on the basis of the performance of the portfolio assets under management by that portfolio adviser, as if those portfolio assets were a separate mutual fund.

PART 8 CONTRACTUAL PLANS

8.1 Contractual Plans – A person or company must not sell securities of a mutual fund by way of a contractual plan unless

(a) the contractual plan was established, and its terms described in a prospectus that was filed with the securities regulatory authority, before the date that this Instrument came into force;

(b) there have been no changes made to the contractual plan or the rights of securityholders under the contractual plan since the date that this Instrument came into force; and

(c) the contractual plan has continued to be operated in the same manner after the date that this Instrument came into force as it was on that date.

PART 9 SALE OF SECURITIES OF AN INVESTMENT FUND

9.0.1 Application – This Part, other than subsection 9.3(2), does not apply to an exchange-traded mutual fund that is not in continuous distribution.

9.1 Transmission and Receipt of Purchase Orders – (0.1) This section does not apply to an exchange-traded mutual fund.

(1) Each purchase order for securities of a mutual fund received by a participating dealer at a location that is not its principal office must, on the day the order is received, be sent by same day or next day courier, same day or next day priority post, telephone or electronic means, without charge to the person or company placing the order or to the mutual fund, to the principal office of the participating dealer or a person or company providing services to the participating dealer.

(2) Each purchase order for securities of a mutual fund received by a participating dealer at its principal office, a person or company providing services to the participating dealer, or by the principal distributor of the mutual fund at a location that is not an order receipt office of the mutual fund must, on the day the order is received, be sent by same day or next day courier, same day or next day priority post, telephone or electronic means, without charge to the person or company placing the order or to the mutual fund, to an order receipt office of the mutual fund.

(3) Despite subsections (1) and (2), a purchase order for securities of a mutual fund received at a location referred to in those subsections after normal business hours on a business day, or on a day that is not a business day, may be sent, in the manner and to the place required by those subsections, on the next business day.

(4) A participating dealer, a principal distributor or a person or company providing services to the participating dealer or principal distributor, that sends purchase orders electronically may

(a) specify a time on a business day by which a purchase order must be received in order that it be sent electronically on that business day; and

(b) despite subsections (1) and (2), send electronically on the next business day a purchase order received after the time specified under paragraph (a).

(5) A mutual fund is deemed to have received a purchase order for securities of the mutual fund when the order is received at an order receipt office of the mutual fund.

(6) Despite subsection (5), a mutual fund may provide that a purchase order for securities of the mutual fund received at an order receipt office of the mutual fund after a specified time on a business day, or on a day that is not a business day, will be considered to be received by the mutual fund on the next business day following the day of actual receipt.

(7) A principal distributor or participating dealer must ensure that a copy of each purchase order received in a jurisdiction is sent, by the time it is sent to the order receipt office of the mutual fund under subsection (2), to a person responsible for the supervision of trades made on behalf of clients for the principal distributor or participating dealer in the jurisdiction.

9.2 Acceptance of Purchase Orders – A mutual fund may reject a purchase order for the purchase of securities of the mutual fund if

(a) the rejection of the order is made no later than one business day after receipt by the mutual fund of the order;

(b) on rejection of the order, all cash received with the order is refunded immediately; and

(c) the prospectus of the mutual fund states that the right to reject a purchase order for securities of the mutual fund is reserved and reflects the requirements of paragraphs (a) and (b).

9.3 Issue Price of Securities – (1) The issue price of a security of a mutual fund to which a purchase order pertains must be the net asset value per security of that class, or series of a class, next determined after the receipt by the mutual fund of the order.

(2) The issue price of a security of an exchange-traded mutual fund that is not in continuous distribution, or of a non-redeemable investment fund, must not,

(a) as far as reasonably practicable, be a price that causes dilution of the net asset value of other outstanding securities of the investment fund at the time the security is issued, and

(b) be a price that is less than the most recent net asset value per security of that class, or series of a class, calculated prior to the pricing of the offering.

9.4 Delivery of Funds and Settlement – (1) A principal distributor, a participating dealer, or a person or company providing services to the principal distributor or participating dealer must forward any cash or securities received for payment of the issue price of securities of a mutual fund to an order receipt office of the mutual fund so that the cash or securities arrive at the order receipt office as soon as practicable and in any event no later than the second business day after the pricing date.

(2) Payment of the issue price of securities of a mutual fund must be made to the mutual fund on or before the second business day after the pricing date for the securities by using any or a combination of the following methods of payment:

(a) by paying cash in a currency in which the net asset value per security of the mutual fund is calculated;

(b) by making good delivery of securities if

(i) the mutual fund would at the time of payment be permitted to purchase those securities,

(ii) the securities are acceptable to the portfolio adviser of the mutual fund and consistent with the mutual fund's investment objectives, and

(iii) the value of the securities is at least equal to the issue price of the securities of the mutual fund for which they are payment, valued as if the securities were portfolio assets of the mutual fund.

(3) [Repealed]

(4) If payment of the issue price of the securities of a mutual fund to which a purchase order pertains is not made on or before the second business day after the pricing date or if the mutual fund has been paid the issue price by a cheque or method of payment that is subsequently not honoured,

(a) the mutual fund must redeem the securities to which the purchase order pertains as if it had received an order for the redemption of the securities on the third business day after the pricing date or on the day on which the mutual fund first knows that the method of payment will not be honoured; and

(b) the amount of the redemption proceeds derived from the redemption must be applied to reduce the amount owing to the mutual fund on the purchase of the securities and any banking costs incurred by the mutual fund in connection with the dishonoured cheque.

(5) If the amount of the redemption proceeds referred to in subsection (4) exceeds the aggregate of issue price of the securities and any banking costs incurred by the mutual fund in connection with the dishonoured cheque, the difference must belong to the mutual fund.

(6) If the amount of the redemption proceeds referred to in subsection (4) is less than the issue price of the securities and any banking costs incurred by the mutual fund in connection with the dishonoured cheque,

(a) if the mutual fund has a principal distributor, the principal distributor must pay, immediately upon notification by the mutual fund, to the mutual fund the amount of the deficiency; or

(b) if the mutual fund does not have a principal distributor, the participating dealer that delivered the relevant purchase order to the mutual fund must pay immediately, upon notification by the mutual fund, to the mutual fund the amount of the deficiency.

PART 9.1 WARRANTS AND SPECIFIED DERIVATIVES

9.1.1 Issuance of Warrants or Specified Derivatives – An investment fund must not

(a) issue a conventional warrant or right, or

(b) enter into a short position in a specified derivative the underlying interest of which is a security of the investment fund.

PART 10 REDEMPTION OF SECURITIES OF AN INVESTMENT FUND

10.1 Requirements for Redemptions – (1) An investment fund must not pay redemption proceeds unless

(a) if the security of the investment fund to be redeemed is represented by a certificate, the investment fund has received the certificate or appropriate indemnities in connection with a lost certificate; and

(b) either

(a) the investment fund has received a written redemption order, duly completed and executed by or on behalf of the securityholder, or

(b) the investment fund permits the making of redemption orders by telephone or electronic means by, or on behalf of, a securityholder who has made prior arrangements with the investment fund in that regard and the relevant redemption order is made in compliance with those arrangements.

(2) An investment fund may establish reasonable requirements applicable to securityholders who wish to have the investment fund redeem securities, not contrary to this Instrument, as to procedures to be followed and documents to be delivered by the following times:

(a) in the case of a mutual fund, other than an exchange-traded mutual fund that is not in continuous distribution by the time of delivery of a redemption order to an order receipt office of the mutual fund;

(a.1) in the case of an exchange-traded mutual fund that is not in continuous distribution or of a non-redeemable investment fund, by the time of delivery of a redemption order;

(b) by the time of payment of redemption proceeds.

(2.1) If disclosed in the prospectus, an alternative mutual fund may include, as part of the requirements contemplated in subsection (2), a provision that securityholders of the alternative mutual fund may not redeem their securities for a period of up to 6 months after the date on which the receipt is issued for the initial prospectus of the alternative mutual fund.

(3) A manager of an investment fund must provide to securityholders of the investment fund at least annually a statement containing the following:

(a) a description of the requirements referred to in subsection (1);

(b) a description of the requirements established by the investment fund under subsection (2);

(c) a detailed reference to all documentation required for redemption of securities of the investment fund;

(d) detailed instructions on the manner in which documentation is to be delivered to participating dealers, the investment fund or a person or company providing services to the investment fund to which a redemption order may be made;

(e) a description of all other procedural or communication requirements;

(f) an explanation of the consequences of failing to meet timing requirements.

(4) The statement referred to in subsection (3) is not required to be separately provided, in any year, if the requirements are described in any document that is sent to all securityholders in that year.

10.2 Transmission and Receipt of Redemption Orders – (0.1) This section does not apply to an exchange-traded mutual fund.

(1) Each redemption order for securities of a mutual fund received by a participating dealer at a location that is not its principal office must, on the day the order is received, be sent by same day or next day courier, same day or next day priority post, telephone or electronic means, without charge to the relevant securityholder or to the mutual fund, to the principal office of the participating dealer or a person or company providing services to the participating dealer.

(2) Each redemption order for securities of a mutual fund received by a participating dealer at its principal office, by the principal distributor of the mutual fund at a location that is not an order receipt office of the mutual fund, or a person or company providing services to the participating dealer or principal distributor must, on the day the order is received, be sent by same day or next day courier, same day or next day priority post, telephone or electronic means, without charge to the relevant securityholder or to the mutual fund, to an order receipt office of the mutual fund.

(3) Despite subsections (1) and (2), a redemption order for securities of a mutual fund received at a location referred to in those subsections after normal business hours on a business day, or on a day that is not a business day, may be sent, in the manner and to the place required by those subsections, on the next business day.

(4) A participating dealer, a principal distributor, or a person or company providing services to the participating dealer or principal distributor, that sends redemption orders electronically may

(a) specify a time on a business day by which a redemption order must be received in order that it be sent electronically on that business day; and

(b) despite subsections (1) and (2), send electronically on the next business day a redemption order received after the time specified under paragraph (a).

(5) A mutual fund is deemed to have received a redemption order for securities of the mutual fund when the order is received at an order receipt office of the mutual fund or all requirements of the mutual fund established under paragraph 10.1(2)(a) have been satisfied, whichever is later.

(6) If a mutual fund determines that its requirements established under paragraph 10.1(2)(a) have not been satisfied, the mutual fund must notify the securityholder making the redemption order, by the close of business on the business day after the date of the delivery to the mutual fund of the incomplete redemption order, that its requirements established under paragraph 10.1(2)(a) have not been satisfied and must specify procedures still to be followed or the documents still to be delivered by that securityholder.

(7) Despite subsection (5), a mutual fund may provide that orders for the redemption of securities that are received at an order receipt office of the mutual fund after a specified time on a business day, or on a day that is not a business day, will be considered to be received by the mutual fund on the next business day following the day of actual receipt.

10.3 Redemption Price of Securities – (1) The redemption price of a security of a mutual fund to which a redemption order pertains must be the net asset value per security of that class, or series of a class, next determined after the receipt by the mutual fund of the order.

(2) Despite subsection (1), the redemption price of a security of an exchange-traded mutual fund that is not in continuous distribution may be a price that is less than the net asset value of the security and that is determined on a date specified in the exchange-traded mutual fund's prospectus or annual information form.

(3) Despite subsection (1), the redemption price of a security of an exchange-traded mutual fund that is in continuous distribution may, if a securityholder redeems fewer than the manager-prescribed number of units, be a price that is calculated by reference to the closing price of the security on the stock exchange on which the security is listed and posted for trading, next determined after the receipt by the exchange-traded mutual fund of the redemption order.

(4) The redemption price of a security of a non-redeemable investment fund must not be a price that is more than the net asset value of the security determined on a redemption date specified in the prospectus or annual information form of the investment fund.

(5) Despite subsection (1), an alternative mutual fund may redeem an order for securities of the alternative mutual fund at a price that is equal to the net asset value for those securities determined on the first or second business day after the date of receipt by the alternative mutual fund of the redemption order if

(a) the alternative mutual fund has established a policy providing for the redemption price to be calculated on such a basis, and

(b) the policy has been disclosed in the alternative mutual fund's prospectus before the policy's implementation.

10.4 Payment of Redemption Proceeds – (1) Subject to subsection 10.1(1) and to compliance with any requirements established by the mutual fund under paragraph 10.1(2)(b), a mutual fund must pay the redemption proceeds for securities that are the subject of a redemption order

(a) within two business days after the date of calculation of the net asset value per security used in establishing the redemption price; or

(b) if payment of the redemption proceeds was not made at the time referred to in paragraph (a) because a requirement established under paragraph 10.1(2)(b) or a requirement of subsection 10.1(1) had not been satisfied, within two business days of

(i) the satisfaction of the relevant requirement, or

(ii) the decision by the mutual fund to waive the requirement, if the requirement was a requirement established under paragraph 10.1(2)(b).

(1.1) Despite subsection (1), an exchange-traded mutual fund that is not in continuous distribution or an alternative mutual fund must pay the redemption proceeds for securities that are the subject of a redemption order no later than 15 business days after the valuation date on which the redemption price was established.

(1.2) A non-redeemable investment fund must pay the redemption proceeds for securities that are the subject of a redemption order no later than 15 business days after the valuation date on which the redemption price was established.

(2) The redemption proceeds for a redeemed security, less any applicable investor fees, must be paid to or to the order of the securityholder of the security.

(3) An investment fund must pay the redemption proceeds for a redeemed security by using any or a combination of the following methods of payment:

(a) by paying cash in the currency in which the net asset value per security of the redeemed security was calculated;

(b) with the prior written consent of the securityholder for a redemption other than an exchange of a manager-prescribed number of units, by making good delivery to the securityholder of portfolio assets, the value of which is equal to the amount at which those portfolio assets were valued in calculating the net asset value per security used to establish the redemption price.

(4) [Repealed]

(5) If the redemption proceeds for a redeemed security are paid in currency, an investment fund is deemed to have made payment

(a) when the investment fund, its manager or principal distributor mails a cheque or transmits funds in the required amount to or to the order of the securityholder of the securities; or

(b) if the securityholder has requested that redemption proceeds be delivered in a currency other than that permitted in subsection (3), when the investment fund delivers the redemption proceeds to the manager or principal distributor of the investment fund for conversion into that currency and delivery forthwith to the securityholder.

10.5 Failure to Complete Redemption Order – (1) If a requirement of a mutual fund referred to in subsection 10.1(1) or established under paragraph 10.1(2)(b) has not been satisfied on or before the close of business on the tenth business day after the date of the redemption of the relevant securities, and, in the case of a requirement established under paragraph 10.1(2)(b), the mutual fund does not waive satisfaction of the requirement, the mutual fund must

(a) issue, to the person or company that immediately before the redemption held the securities that were redeemed, a number of securities equal to the number of securities that were redeemed, as if the mutual fund had received from the person or company on the tenth business day after the redemption, and accepted immediately before the close of business on the tenth business day after the redemption, an order for the purchase of that number of securities; and

(b) apply the amount of the redemption proceeds to the payment of the issue price of the securities.

(2) If the amount of the issue price of the securities referred to in subsection (1) is less than the redemption proceeds, the difference must belong to the mutual fund.

(3) If the amount of the issue price of the securities referred to in subsection (1) exceeds the redemption proceeds

(a) if the mutual fund has a principal distributor, the principal distributor must pay immediately to the mutual fund the amount of the deficiency;

(b) if the mutual fund does not have a principal distributor, the participating dealer that delivered the relevant redemption order to the mutual fund must pay immediately to the mutual fund the amount of the deficiency; or

(c) if the mutual fund has no principal distributor and no dealer delivered the relevant redemption order to the mutual fund, the manager of the mutual fund must pay immediately to the mutual fund the amount of the deficiency.

10.6 Suspension of Redemptions – (1) An investment fund may suspend the right of securityholders to request that the investment fund redeem its securities for the whole or any part of a period during which either of the following occurs:

(a) normal trading is suspended on a stock exchange, options exchange or futures exchange within or outside Canada on which securities are listed and posted for trading, or on which specified derivatives are traded, if those securities or specified derivatives represent more than 50% by value, or underlying market exposure, of the total assets of the investment fund without allowance for liabilities and if those securities or specified derivatives are not traded on any other exchange that represents a reasonably practical alternative for the investment fund;

(b) in the case of a clone fund, the investment fund whose performance it tracks has suspended redemptions.

(2) An investment fund that has an obligation to pay the redemption proceeds for securities that have been redeemed in accordance with subsection 10.4(1), (1.1) or (1.2) may postpone payment during a period in which the right of securityholders to request redemption of their securities is suspended, whether that suspension was made under subsection (1) or pursuant to an approval of the securities regulatory authority or regulator.

(3) An investment fund must not accept a purchase order for securities of the investment fund during a period in which it is exercising rights under subsection (1) or at a time in which it is relying on an approval of the securities regulatory authority or regulator contemplated by paragraph 5.5(1)(d).

PART 11 COMMINGLING OF CASH

11.1 Principal Distributors and Service Providers – (1) Cash received by a principal distributor of a mutual fund, by a person or company providing services to the mutual fund or the principal distributor, or by a person or company providing services to a non-redeemable investment fund, for investment in, or on the redemption of, securities of the investment fund, or on the distribution of assets of the investment fund, until disbursed as permitted by subsection (3),

(a) must be accounted for separately and be deposited in a trust account or trust accounts established and maintained in accordance with the requirements of section 11.3, and

(b) may be commingled only with cash received by the principal distributor or service provider for the sale or on the redemption of other investment fund securities.

(2) Except as permitted by subsection (3), the principal distributor, a person or company providing services to the mutual fund or principal distributor, or a person or company providing services to the non-redeemable investment fund, must not use any of the cash referred to in subsection (1) to finance its own or any other operations in any way.

(3) The principal distributor or person or company providing services to an investment fund or principal distributor may withdraw cash from a trust account referred to in paragraph (1)(a) for any of the following purposes:

(a) remitting to the investment fund the amount or, if subsection (5) applies, the net amount, to be invested in the securities of the investment fund;

(b) remitting to the relevant persons or companies redemption or distribution proceeds being paid on behalf of the investment fund;

(c) paying fees, charges and expenses that are payable by an investor in connection with the purchase, conversion, holding, transfer or redemption of securities of the investment fund.

(4) All interest earned on cash held in a trust account referred to in paragraph (1)(a) must be paid to securityholders or to each of the investment funds to which the trust account pertains, pro rata based on cash flow,

(a) no less frequently than monthly if the amount owing to an investment fund or to a securityholder is $10 or more; and

(b) no less frequently than once a year.

(5) When making payments to an investment fund, the principal distributor or service provider may offset the proceeds of redemption of securities of the investment fund or amounts held for distributions to be paid on behalf of the investment fund held in the trust account against amounts held in the trust account for investment in the investment fund.

11.2 Participating Dealers – (1) Cash received by a participating dealer, or by a person or company providing services to a participating dealer, for investment in, or on the redemption of, securities of a mutual fund, or on the distribution of assets of a mutual fund, until disbursed as permitted by subsection (3)

(a) must be accounted for separately and must be deposited in a trust account or trust accounts established and maintained in accordance with section 11.3; and

(b) may be commingled only with cash received by the participating dealer or service provider for the sale or on the redemption of other mutual fund securities.

(2) Except as permitted by subsection (3), the participating dealer or person or company providing services to the participating dealer must not use any of the cash referred to in subsection (1) to finance its own or any other operations in any way.

(3) A participating dealer or person or company providing services to the participating dealer may withdraw cash from a trust account referred to in paragraph (1)(a) for the purpose of

(a) remitting to the mutual fund or the principal distributor of the mutual fund the amount or, if subsection (5) applies, the net amount, to be invested in the securities of the mutual fund;

(b) remitting to the relevant persons or companies redemption or distribution proceeds being paid on behalf of the mutual fund; or

(c) paying fees, charges and expenses that are payable by an investor in connection with the purchase, conversion, holding, transfer or redemption of securities of the mutual fund.

(4) All interest earned on cash held in a trust account referred to in paragraph (1)(a) must be paid to securityholders or to each of the mutual funds to which the trust account pertains, pro rata based on cash flow,

(a) no less frequently than monthly if the amount owing to a mutual fund or to a securityholder is $10 or more; and

(b) no less frequently than once a year.

(5) When making payments to a mutual fund, a participating dealer or service provider may offset the proceeds of redemption of securities of the mutual fund and amounts held for distributions to be paid on behalf of a mutual fund held in the trust account against amounts held in the trust account for investment in the mutual fund.

(6) A participating dealer or person providing services to the participating dealer must permit the mutual fund and the principal distributor, through their respective auditors or other designated representatives, to examine the books and records of the participating dealer to verify the compliance with this section of the participating dealer or person providing services.

11.3 Trust Accounts – A principal distributor or participating dealer, a person or company providing services to the principal distributor or participating dealer, or a person or company providing services to an investment fund, that deposits cash into a trust account in accordance with section 11.1 or 11.2 must

(a) advise, in writing, the financial institution with which the account is opened at the time of the opening of the account and annually thereafter, that

(i) the account is established for the purpose of holding client funds in trust,

(ii) the account is to be labelled by the financial institution as a “trust account”,

(iii) the account is not to be accessed by any person other than authorized representatives of the principal distributor or participating dealer, of a person or company providing services to the principal distributor or participating dealer, or of a person or company providing services to the investment fund, and

(iv) the cash in the trust account may not be used to cover shortfalls in any accounts of the principal distributor or participating dealer, of a person or company providing services to the principal distributor or participating dealer, or of a person or company providing services to the investment fund;

(b) ensure that the trust account bears interest at rates equivalent to comparable accounts of the financial institution; and

(c) ensure that any charges against the trust account are not paid or reimbursed out of the trust account.

11.4 Exemption – (1) Sections 11.1 and 11.2 do not apply to a member of IIROC.

(1.1) Except in Québec, sections 11.1 and 11.2 do not apply to a member of the MFDA.

(1.2) In Québec, sections 11.1 and 11.2 do not apply to a mutual fund dealer.

(1.3) Section 11.1 does not apply to CDS Clearing and Depository Services Inc.

(2) A participating dealer that is a member of an SRO referred to in subsection (1) or (1.1) or, in Québec, that is a mutual fund dealer, must permit the mutual fund and the principal distributor, through their respective auditors or other designated representatives, to examine the books and records of the participating dealer to verify the participating dealer's compliance with the requirements of its association or exchange, or the requirements applicable to the mutual fund dealer under the regulations in Québec, that relate to the commingling of cash.

11.5 Right of Inspection – The investment fund, its trustee, manager and principal distributor must ensure that all contractual arrangements made between any of them and any person or company providing services to the investment fund permit the representatives of the investment fund, its manager and trustee to examine the books and records of those persons or companies in order to monitor compliance with this Instrument.

PART 12 COMPLIANCE REPORTS

12.1 Compliance Reports – (1) A mutual fund, other than an exchange-traded mutual fund that is not in continuous distribution, that does not have a principal distributor must complete and file, within 140 days after the financial year end of the mutual fund

(a) a report in the form contained in Appendix B-1 describing compliance by the mutual fund during that financial year with the applicable requirements of Parts 9, 10 and 11; and

(b) a report by the auditor of the mutual fund, in the form contained in Appendix B-1, concerning the report referred to in paragraph (a).

(2) The principal distributor of a mutual fund must complete and file, within 90 days after the financial year end of the principal distributor

(a) a report in the form contained in Appendix B-2 describing compliance by the principal distributor during that financial year with the applicable requirements of Parts 9, 10 and 11; and

(b) a report by the auditor of the principal distributor or by the auditor of the mutual fund, in the form contained in Appendix B-2, concerning the report referred to in paragraph (a).

(3) Each participating dealer that distributes securities of a mutual fund in a financial year of the participating dealer must complete and file, within 90 days after the end of that financial year

(a) a report in the form contained in Appendix B-3 describing compliance by the participating dealer during that financial year with the applicable requirements of Parts 9, 10 and 11 in connection with its distribution of securities of all mutual funds in that financial year; and

(b) a report by the auditor of the participating dealer, in the form contained in Appendix B-3, concerning the report referred to in paragraph (a).

(4) Subsections (2) and (3) do not apply to a member of IIROC.

(4.1) Except in Québec, subsections (2) and (3) do not apply to a member of the MFDA.

(4.2) In Québec, subsections (2) and (3) do not apply to a mutual fund dealer.

PART 13 [Repealed]

PART 14 RECORD DATE

14.0.1 Application – This Part does not apply to an exchange-traded mutual fund.

14.1 Record Date – The record date for determining the right of securityholders of a mutual fund to receive a dividend or distribution by the mutual fund must be one of

(a) the day on which the net asset value per security is determined for the purpose of calculating the amount of the payment of the dividend or distribution;

(b) the last day on which the net asset value per security of the mutual fund was calculated before the day referred to in paragraph (a); or

(c) if the day referred to in paragraph (b) is not a business day, the last day on which the net asset value per security of the mutual fund was calculated before the day referred to in paragraph (b).

PART 15 SALES COMMUNICATIONS AND PROHIBITED REPRESENTATIONS

15.1 Ability to Make Sales Communications – Sales communications pertaining to an investment fund must be made by a person or company in accordance with this Part.

15.2 Sales Communications – General Requirements – (1) Despite any other provision of this Part, a sales communication must not

(a) be untrue or misleading; or

(b) include a statement that conflicts with information that is contained in the preliminary prospectus, the preliminary annual information form, the preliminary fund facts document, the prospectus, the annual information form or the fund facts document, as applicable,

(i) of an investment fund, or

(ii) in which an asset allocation service is described.

(2) All performance data or disclosure specifically required by this Instrument and contained in a written sales communication must be at least as large as 10-point type.

15.3 Prohibited Disclosure in Sales Communications – (1) A sales communication must not compare the performance of an investment fund or asset allocation service with the performance or change of any benchmark or investment unless

(a) it includes all facts that, if disclosed, would be likely to alter materially the conclusions reasonably drawn or implied by the comparison;

(b) it presents data for each subject of the comparison for the same period or periods;

(c) it explains clearly any factors necessary to make the comparison fair and not misleading; and

(d) in the case of a comparison with a benchmark

(i) the benchmark existed and was widely recognized and available during the period for which the comparison is made, or

(ii) the benchmark did not exist for all or part of the period, but a reconstruction or calculation of what the benchmark would have been during that period, calculated on a basis consistent with its current basis of calculation, is widely recognized and available.

(2) A sales communication for a mutual fund or asset allocation service that is prohibited by paragraph 15.6(1)(a) from disclosing performance data must not provide performance data for any benchmark or investment other than a mutual fund or asset allocation service under common management with the mutual fund or asset allocation service to which the sales communication pertains.

(2.1) A sales communication for a non-redeemable investment fund that is restricted by paragraph 15.6(1)(a) from disclosing performance data must not provide performance data for any benchmark or investment, other than a non-redeemable investment fund under common management with the non-redeemable investment fund to which the sales communication pertains.

(3) Despite subsection (2), a sales communication for an index mutual fund may provide performance data for the index on which the investments of the mutual fund are based if the index complies with the requirements for benchmarks contained in paragraph (1)(d).

(4) A sales communication must not refer to a performance rating or ranking of a mutual fund or asset allocation service unless

(a) the rating or ranking is prepared by a mutual fund rating entity;

(b) standard performance data is provided for any mutual fund or asset allocation service for which a performance rating or ranking is given;

(c) the rating or ranking is provided for each period for which standard performance data is required to be given, except the period since the inception of the mutual fund;

(d) the rating or ranking is based on a published category of mutual funds that

(i) provides a reasonable basis for evaluating the performance of the mutual fund or asset allocation service, and

(ii) is not established or maintained by a member of the organization of the mutual fund or asset allocation service;

(e) the sales communication contains the following disclosure:

(i) the name of the category within which the mutual fund or asset allocation service is rated or ranked, including the name of the organization that maintains the category,

(ii) the number of mutual funds in the applicable category for each period of standard performance data required under paragraph (c),

(iii) the name of the mutual fund rating entity that provided the rating or ranking,

(iv) the length of the period or the first day of the period on which the rating or ranking is based, and its ending date,

(v) a statement that the rating or ranking is subject to change every month,

(vi) the criteria on which the rating or ranking is based, and

(vii) if the rating or ranking consists of a symbol rather than a number, the meaning of the symbol, and

(f) the rating or ranking is to the same calendar month end that is

(i) not more than 45 days before the date of the appearance or use of the advertisement in which it is included, and

(ii) not more than three months before the date of first publication of any other sales communication in which it is included.

(4.1) Despite paragraph (4)(c), a sales communication may refer to an overall rating or ranking of a mutual fund or asset allocation service in addition to each rating or ranking required under paragraph (4)(c) if the sales communication otherwise complies with the requirements of subsection (4).

(5) A sales communication must not refer to a credit rating of securities of an investment fund unless

(a) the rating is current and was prepared by a designated rating organization or its DRO affiliate;

(b) there has been no announcement by the designated rating organization or any of its DRO affiliates of which the investment fund or its manager is or ought to be aware that the credit rating of the securities may be down-graded; and

(c) no designated rating organization or any of its DRO affiliates is currently rating the securities at a lower level.

(6) A sales communication must not refer to a mutual fund as, or imply that it is, a money fund, cash fund or money market fund unless, at the time the sales communication is used and for each period for which money market fund standard performance data is provided, the mutual fund is and was a money market fund under this Instrument.

(7) A sales communication must not state or imply that a registered retirement savings plan, registered retirement income fund or registered education savings plan in itself, rather than the investment fund to which the sales communication relates, is an investment.

15.4 Required Disclosure and Warnings in Sales Communications – (1) A written sales communication must

(a) bear the name of the dealer that distributed the sales communication; and

(b) if the sales communication is not an advertisement, contain the date of first publication of the sales communication.

(2) A sales communication that includes a rate of return or a mathematical table illustrating the potential effect of a compound rate of return must contain a statement in substantially the following words:

> "[The rate of return or mathematical table shown] is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of [the investment fund or asset allocation service] or returns on investment [in the investment fund or from the use of the asset allocation service].".

(3) A sales communication, other than a report to securityholders, of a mutual fund that is not a money market fund and that does not contain performance data must contain a warning in substantially the following words:

> "Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.".

(3.1) A sales communication, other than a report to securityholders, of a non-redeemable investment fund that does not contain performance data must contain a warning in substantially the following words:

> [If the securities of the non-redeemable investment fund are listed or quoted on an exchange or other market, state the following:] "You will usually pay brokerage fees to your dealer if you purchase or sell [units or shares] of the investment fund on [state the exchange or other market on which the securities of the investment fund are listed or quoted]. If the [units or shares] are purchased or sold on [state the exchange or other market], investors may pay more than the current net asset value when buying [units or shares] of the investment fund and may receive less than the current net asset value when selling them."
>
> [State the following in all cases:] "There are ongoing fees and expenses associated with owning [units or shares] of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.".

(4) A sales communication, other than a report to securityholders, of a money market fund that does not contain performance data must contain a warning in substantially the following words:

> "Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated.".

(5) A sales communication for an asset allocation service that does not contain performance data must contain a warning in substantially the following words:

> "Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments and the use of an asset allocation service. Please read the prospectus of the mutual funds in which investment may be made under the asset allocation service before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.".

(6) A sales communication, other than a report to securityholders, of a mutual fund that is not a money market fund and that contains performance data must contain a warning in substantially the following words:

"Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rate[s] of return is [are] the historical annual compounded total return[s] including changes in [share or unit] value and reinvestment of all [dividends or distributions] and does [do] not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.".

(6.1) A sales communication, other than a report to securityholders, of a non-redeemable investment fund that contains performance data must contain a warning in substantially the following words:

[If the securities of the non-redeemable investment fund are listed or quoted on an exchange or other market, state the following:] "You will usually pay brokerage fees to your dealer if you purchase or sell [units or shares] of the investment fund on [state the exchange or other market on which the securities of the investment fund are listed or quoted]. If the [units or shares] are purchased or sold on [state the exchange or other market], investors may pay more than the current net asset value when buying [units or shares] of the investment fund and may receive less than the current net asset value when selling them."

[State the following in all cases:] "There are ongoing fees and expenses associated with owning [units or shares] of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. The indicated rate[s] of return is [are] the historical annual compounded total return[s] including changes in [share or unit] value and reinvestment of all [dividends or distributions] and does [do] not take into account [state the following, as applicable:] [certain fees such as redemption fees or optional charges or] income taxes payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.".

(7) A sales communication, other than a report to securityholders, of a money market fund that contains performance data must contain

(a) a warning in substantially the following words:

"Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The performance data provided assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated."; and

(b) a statement in substantially the following words, immediately following the performance data:

"This is an annualized historical yield based on the seven day period ended on [date] [annualized in the case of effective yield by compounding the seven day return] and does not represent an actual one year return.".

(8) A sales communication for an asset allocation service that contains performance data must contain a warning in substantially the following words:

"Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments and the use of an asset allocation service. Please read the prospectus of the mutual funds in which investment may be made under the asset allocation service before investing. The indicated rate[s] of return is [are] the historical annual compounded total return[s] assuming the investment strategy recommended by the asset allocation service is used and after deduction of the fees and charges in respect of the service. The return[s] is [are] based on the historical annual compounded total returns of the participating funds including changes in [share] [unit] value and reinvestment of all [dividends or distributions] and does [do] not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder in respect of a participating fund that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.".

(9) A sales communication distributed after the issue of a receipt for a preliminary prospectus of the mutual fund described in the sales communication but before the issue of a receipt for its prospectus must contain a warning in substantially the following words:

> "A preliminary prospectus relating to the fund has been filed with certain Canadian securities commissions or similar authorities. You cannot buy [units] [shares] of the fund until the relevant securities commissions or similar authorities issue receipts for the prospectus of the fund.".

(10) A sales communication for an investment fund or asset allocation service that purports to arrange a guarantee or insurance in order to protect all or some of the principal amount of an investment in the investment fund or asset allocation service must

(a) identify the person or company providing the guarantee or insurance;

(b) provide the material terms of the guarantee or insurance, including the maturity date of the guarantee or insurance;

(c) if applicable, state that the guarantee or insurance does not apply to the amount of any redemptions before the maturity date of the guarantee or before the death of the securityholder and that redemptions before that date would be based on the net asset value per security of the investment fund at the time; and

(d) modify any other disclosure required by this section appropriately.

(11) The warnings referred to in this section must be communicated in a manner that a reasonable person would consider clear and easily understood at the same time as, and through the medium by which, the related sales communication is communicated.

15.5 Disclosure Regarding Distribution Fees – (1) A person or company must not describe a mutual fund in a sales communication as a "no-load fund" or use words of like effect if on a purchase or redemption of securities of the mutual fund investor fees are payable by an investor or if any fees, charges or expenses are payable by an investor to a participating dealer of the mutual fund named in the sales communication, other than

(a) fees and charges related to specific optional services;

(b) for a mutual fund that is not a money market fund, redemption fees on the redemption of securities of the mutual fund that are redeemed within 90 days after the purchase of the securities, if the existence of the fees is disclosed in the sales communication, or in the prospectus of the mutual fund; or

(c) costs that are payable only on the set-up or closing of a securityholder's account and that reflect the administrative costs of establishing or closing the account, if the existence of the costs is disclosed in the sales communication, or in the prospectus of the mutual fund.

(2) If a sales communication describes a mutual fund as "no-load" or uses words to like effect, the sales communication must

(a) indicate the principal distributor or a participating dealer through which an investor may purchase the mutual fund on a no-load basis;

(b) disclose that management fees and operating expenses are paid by the mutual fund; and

(c) disclose the existence of any trailing commissions paid by a member of the organization of the mutual fund.

(3) A sales communication containing a reference to the existence or absence of fees or charges, other than the disclosure required by section 15.4 or a reference to the term "no-load", must disclose the types of fees and charges that exist.

(4) The rate of sales charges or commissions for the sale of securities of a mutual fund or the use of an asset allocation service must be expressed in a sales communication as a percentage of the amount paid by the purchaser and as a percentage of the net amount invested if a reference is made to sales charges or commissions.

15.6 Performance Data – General Requirements – (1) A sales communication pertaining to an investment fund or asset allocation service must not contain performance data of the investment fund or asset allocation service unless all of the following paragraphs apply:

(a) one of the following subparagraphs applies:

(i) in the case of a mutual fund, either of the following applies:

(A) the mutual fund has distributed securities under a prospectus in a jurisdiction for a period of at least 12 consecutive months;

(B) the mutual fund previously existed as a non-redeemable investment fund and has been a reporting issuer in a jurisdiction for a period of at least 12 consecutive months;

(ii) in the case of a non-redeemable investment fund, the non-redeemable investment fund has been a reporting issuer in a jurisdiction for at least 12 consecutive months;

(iii) in the case of an asset allocation service, the asset allocation service has been operated for at least 12 consecutive months and has invested only in participating funds each of which has distributed securities under a prospectus in a jurisdiction for at least 12 consecutive months;

(iv) if the sales communication pertains to an investment fund or asset allocation service that does not satisfy subparagraph (i), (ii) or (iii), the sales communication is sent only to one of the following:

(A) securityholders of the investment fund or participants in the asset allocation service;

(B) securityholders of an investment fund or participants in an asset allocation service under common management with the investment fund or asset allocation service;

(b) the sales communication includes standard performance data of the investment fund or asset allocation service and, in the case of a written sales communication, the standard performance data is presented in type size that is equal to or larger than that used to present the other performance data;

(c) the performance data reflects or includes references to all elements of return;

(d) except as permitted by subsection 15.3(3), the sales communication does not contain performance data for a period that is,

(i) in the case of a mutual fund, before the time when the mutual fund offered its securities under a prospectus;

(ii) in the case of a non-redeemable investment fund, before the non-redeemable investment fund was a reporting issuer;

(iii) in the case of an asset allocation service, before the asset allocation service commenced operation.

(2) Despite subparagraph (1)(d)(i), a sales communication pertaining to a mutual fund referred to in clause (1)(a)(i)(B) that contains performance data of the mutual fund must include performance data for the period that the fund existed as a non-redeemable investment fund and was a reporting issuer.

15.7 Advertisements – An advertisement for a mutual fund or asset allocation service must not compare the performance of the mutual fund or asset allocation service with any benchmark or investment other than

(a) one or more mutual funds or asset allocation services that are under common management or administration with the mutual fund or asset allocation service to which the advertisement pertains;

(b) one or more mutual funds or asset allocation services that have fundamental investment objectives that a reasonable person would consider similar to the mutual fund or asset allocation service to which the advertisement pertains; or

(c) an index.

15.7.1 Advertisements for Non-Redeemable Investment Funds – An advertisement for a non-redeemable investment fund must not compare the performance of the non-redeemable investment fund with any benchmark or investment other than any of the following:

(a) one or more non-redeemable investment funds that are under common management or administration with the non-redeemable investment fund to which the advertisement pertains;

(b) one or more non-redeemable investment funds that have fundamental investment objectives that a reasonable person would consider similar to the non-redeemable investment fund to which the advertisement pertains;

(c) an index.

15.8 Performance Measurement Periods Covered by Performance Data – (1) A sales communication, other than a report to securityholders, that relates to a money market fund may provide standard performance data only if

(a) the standard performance data has been calculated for the most recent seven day period for which it is practicable to calculate, taking into account publication deadlines; and

(b) the seven day period does not start more than 45 days before the date of the appearance, use or publication of the sales communication.

(2) A sales communication, other than a report to securityholders, that relates to an asset allocation service, or to an investment fund other than a money market fund, must not provide standard performance data unless,

(a) to the extent applicable, the standard performance data has been calculated for 10, 5, 3 and one year periods,

(a.1) in the case of a mutual fund that has been offering securities by way of prospectus for more than one and less than 10 years, the standard performance data has been calculated for the period since the inception of the mutual fund,

(a.2) in the case of a non-redeemable investment fund that has been a reporting issuer for more than one and less than 10 years, the standard performance data has been calculated for the period since the inception of the non-redeemable investment fund, and

(b) the periods referred to in paragraphs (a), (a.1) and (a.2) end on the same calendar month end that is

(i) not more than 45 days before the date of the appearance or use of the advertisement in which it is included, and

(ii) not more than three months before the date of first publication of any other sales communication in which it is included.

(3) A report to securityholders must not contain standard performance data unless,

(a) to the extent applicable, the standard performance data has been calculated for 10, 5, 3 and one year periods,

(a.1) in the case of a mutual fund that has been offering securities by way of prospectus for more than one and less than 10 years, the standard performance data has been calculated for the period since the inception of the mutual fund,

(a.2) in the case of a non-redeemable investment fund that has been a reporting issuer for more than one and less than 10 years, the standard performance data has been calculated for the period since the inception of the non-redeemable investment fund, and

(b) the periods referred to in paragraphs (a), (a.1) and (a.2) end on the day as of which the statement of financial position of the financial statements contained in the report to securityholders was prepared.

(4) A sales communication must clearly identify the periods for which performance data is calculated.

15.9 Changes affecting Performance Data – (1) If, during or after a performance measurement period of performance data contained in a sales communication, there have been changes in the business, operations or affairs of the investment fund or asset allocation service to which the sales communication pertains that could have materially affected the performance of the investment fund or asset allocation service, the sales communication must contain

(a) summary disclosure of the changes, and of how those changes could have affected the performance had those changes been in effect throughout the performance measurement period; and

(b) for a money market fund that during the performance measurement period did not pay or accrue the full amount of any fees and charges of the type described under paragraph 15.11(1)1, disclosure of the difference between the full amounts and the amounts actually charged, expressed as an annualized percentage on a basis comparable to current yield.

(2) If an investment fund has, in the last 10 years, undertaken a reorganization with, or acquired assets from, another investment fund in a transaction that was a material change for the investment fund or would have been a material change for the investment fund had this Instrument been in force at the time of the transaction, then, in any sales communication of the investment fund,

(a) the investment fund must provide summary disclosure of the transaction;

(b) the investment fund may include its performance data covering any part of a period before the transaction only if it also includes the performance data for the other fund for the same periods;

(c) the investment fund must not include its performance data for any part of a period after the transaction unless

(i) 12 months have passed since the transaction, or

(ii) the investment fund includes in the sales communication the performance data for itself and the other investment fund referred to in paragraph (b); and

(d) the investment fund must not include any performance data for any period that is composed of both time before and after the transaction.

15.10 Formula for Calculating Standard Performance Data – (1) The standard performance data of an investment fund must be calculated in accordance with this Part.

(2) In this Part

"current yield" means the yield of a money market fund expressed as a percentage and determined by applying the following formula:

current yield = [seven day return x 365/7] x 100;

"effective yield" means the yield of a money market fund expressed as a percentage and determined by applying the following formula:

effective yield = $[(\text{seven day return} + 1)^{365/7} - 1] \times 100$;

"seven day return" means the income yield of an account of a securityholder in a money market fund that is calculated by

(a) determining the net change, exclusive of new subscriptions other than from the reinvestment of distributions or proceeds of redemption of securities of the money market fund, in the value of the account,

(b) subtracting all fees and charges of the type referred to in paragraph 15.11(1)3 for the seven day period, and

(c) dividing the result by the value of the account at the beginning of the seven day period;

"standard performance data" means, as calculated in each case in accordance with this Part,

(a) for a money market fund, either of the following:

(i) the current yield;

(ii) the current yield and effective yield, if the effective yield is reported in a type size that is at least equal to that of the current yield, and

(b) for any investment fund other than a money market fund, the total return; and

"total return" means the annual compounded rate of return for an investment fund for a period that would equate the initial value to the redeemable value at the end of the period, expressed as a percentage, and determined by applying the following formula:

$$\text{total return} = [(\text{redeemable value}/\text{initial value})^{(1/N)}-1] \times 100$$

where N = the length of the performance measurement period in years, with a minimum value of 1.

(3) If there are fees and charges of the type described in paragraph 15.11(1)1 relevant to the calculation of redeemable value and initial value of the securities of an investment fund, the redeemable value and initial value of securities of an investment fund must be the net asset value of one unit or share of the investment fund at the beginning or at the end of the performance measurement period, minus the amount of those fees and charges calculated by applying the assumptions referred to in that paragraph to a hypothetical securityholder account.

(4) If there are no fees and charges of the type described in paragraph 15.11(1)1 relevant to a calculation of total return, the calculation of total return for an investment fund may assume a hypothetical investment of one security of the investment fund and be calculated as follows:

(a) "initial value" means the net asset value of one unit or share of an investment fund at the beginning of the performance measurement period; and

(b) "redeemable value" =

$$R \times (1 + D1/P1) \times (1 + D2/P2) \times (1 + D3/P3) \ldots \times (1 + D_n/P_n)$$

where R = the net asset value of one unit or security of the investment fund at the end of the performance measurement period,

D = the dividend or distribution amount per security of the investment fund at the time of each distribution,

P = the dividend or distribution reinvestment price per security of the investment fund at the time of each distribution, and

n = the number of dividends or distributions during the performance measurement period.

(5) Standard performance data of an asset allocation service must be based upon the standard performance data of its participating funds.

(6) Performance data

(a) for an investment fund other than a money market fund must be calculated to the nearest one-tenth of one percent; and

(b) for a money market fund must be calculated to the nearest one-hundredth of one percent.

15.11 Assumptions for Calculating Standard Performance Data – (1) The following assumptions must be made in the calculation of standard performance data of an investment fund:

1. Recurring fees and charges that are payable by all securityholders

(a) are accrued or paid in proportion to the length of the performance measurement period;

(b) if structured in a manner that would result in the performance information being dependent on the size of an investment, are calculated on the basis of an investment equal to the greater of $10,000 or the minimum amount that may be invested; and

(c) if fully negotiable, are calculated on the basis of the average fees paid by accounts of the size referred to in paragraph (b).

2. There are no fees and charges related to specific optional services.

3. All fees and charges payable by the investment fund are accrued or paid.

4. Dividends or distributions by the investment fund are reinvested in the investment fund at the net asset value per security of the investment fund on the reinvestment dates during the performance measurement period.

5. There are no non-recurring fees and charges that are payable by some or all securityholders and no recurring fees and charges that are payable by some but not all securityholders.

6. In the case of a mutual fund, a complete redemption occurs at the end of the performance measurement period so that the ending redeemable value includes elements of return that have been accrued but not yet paid to securityholders.

7. In the case of a non-redeemable investment fund, a complete redemption occurs at the net asset value of one security at the end of the performance measurement period so that the ending redeemable value includes elements of return that have been accrued but not yet paid to securityholders.

(2) The following assumptions must be made in the calculation of standard performance data of an asset allocation service:

1. Fees and charges that are payable by participants in the asset allocation service

(a) are accrued or paid in proportion to the length of the performance measurement period;

(b) if structured in a manner that would result in the performance information being dependent on the size of an investment, are calculated on the basis of an investment equal to the greater of $10,000 or the minimum amount that may be invested; and

(c) if fully negotiable, are calculated on the basis of the average fees paid by accounts of the size referred to in paragraph (b).

2. There are no fees and charges related to specific optional services.

3. The investment strategy recommended by the asset allocation service is utilized for the performance measurement period.

4. Transfer fees are

(a) accrued or paid;

(b) if structured in a manner that would result in the performance information being dependent on the size of an investment, calculated on the basis of an account equal to the greater of $10,000 or the minimum amount that may be invested; and

(c) if the fees and charges are fully negotiable, calculated on the basis of the average fees paid by an account of the size referred to in paragraph (b).

5. A complete redemption occurs at the end of the performance measurement period so that the ending redeemable value includes elements of return that have been accrued but not yet paid to securityholders.

(3) The calculation of standard performance data must be based on actual historical performance and the fees and charges payable by the investment fund and securityholders, or the asset allocation service and participants, in effect during the performance measurement period.

15.12 Sales Communications During the Waiting Period – If a sales communication is used after the issue of a receipt for a preliminary prospectus of the mutual fund described in the sales communication but before the issue of a receipt for its prospectus, the sales communication must state only

(a) whether the security represents a share in a corporation or an interest in a non-corporate entity;

(b) the name of the mutual fund and its manager;

(c) the fundamental investment objectives of the mutual fund;

(d) without giving details, whether the security is or will be a qualified investment for a registered retirement savings plan, registered retirement income fund or registered education savings plan or qualifies or will qualify the holder for special tax treatment; and

(e) any additional information permitted by securities legislation.

15.13 Prohibited Representations – (1) Securities issued by an unincorporated investment fund must be described by a term that is not and does not include the word "shares".

(2) A communication by an investment fund or asset allocation service, its promoter, manager, portfolio adviser, principal distributor, participating dealer or a person providing services to the investment fund or asset allocation service must not describe the investment fund as ~~a commodity pool~~an alternative mutual fund or as a vehicle for investors to participate in the speculative trading of, or leveraged investment in, derivatives, unless the investment fund is ~~a commodity pool as defined in National Instrument 81-104 Commodity Pools~~an alternative mutual fund.

15.14 Sales Communication – Multi-Class Investment Funds – A sales communication for an investment fund that distributes different classes or series of securities that are referable to the same portfolio must not contain performance data unless the sales communication complies with the following requirements:

1. The sales communication clearly specifies the class or series of security to which any performance data contained in the sales communication relates.

2. If the sales communication refers to more than one class or series of security and provides performance data for any one class or series, the sales communication must provide performance data for each class or series of security referred to in the sales communication and must clearly explain the reasons for different performance data among the classes or series.

3. A sales communication for a new class or series of security and an existing class or series of security must not contain performance data for the existing class or series unless the sales communication clearly explains any differences between the new class or series and the existing class or series that could affect performance.

PART 15.1 INVESTMENT RISK CLASSIFICATION METHODOLOGY

15.1.1 Use of Investment Risk Classification Methodology – A mutual fund must

(a) determine its investment risk level, at least annually, in accordance with Appendix F *Investment Risk Classification Methodology* and

(b) disclose its investment risk level in the fund facts document in accordance with Part I, Item 4 of Form 81-101F3, or the ETF facts document in accordance with Part I, Item 4 of Form 41-101F4, as applicable..

PART 16 [Repealed]

PART 17 [Repealed]

PART 18 SECURITYHOLDER RECORDS

18.1 Maintenance of Records – An investment fund that is not a corporation must maintain, or cause to be maintained, up to date records of

(a) the names and latest known addresses of each securityholder of the investment fund;

(b) the number and class or series of a class of securities held by each securityholder of the investment fund; and

(c) the date and details of each issue and redemption of securities, and each distribution, of the investment fund.

18.2 Availability of Records – (1) An investment fund that is not a corporation must make, or cause to be made, the records referred to in section 18.1 available for inspection, free of charge, during normal business hours at its principal or head office by a securityholder or a representative of a securityholder, if the securityholder has agreed in writing that the information contained in the register will not be used by the securityholder for any purpose other than either of the following:

(a) in the case of a mutual fund, attempting to influence the voting of securityholders of the mutual fund or a matter relating to the relationships among the mutual fund, the members of the organization of the mutual fund, and the securityholders, partners, directors and officers of those entities;

(b) in the case of a non-redeemable investment fund, attempting to influence the voting of securityholders of the non-redeemable investment fund or a matter relating to the relationships among the non-redeemable investment fund, the manager and portfolio adviser of the non-redeemable investment fund and any of their affiliates, and the securityholders, partners, directors and officers of those entities.

(2) An investment fund must, upon written request by a securityholder of the investment fund, provide, or cause to be provided, to the securityholder a copy of the records referred to in paragraphs 18.1(a) and (b) if the securityholder

(a) has agreed in writing that the information contained in the register will not be used by the securityholder for any purpose other than attempting to influence the voting of securityholders of the investment fund or a matter relating to the administration of the investment fund; and

(b) has paid a reasonable fee to the investment fund that does not exceed the reasonable costs to the investment fund of providing the copy of the register.

PART 19 EXEMPTIONS AND APPROVALS

19.1 Exemption – (1) The regulator or securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario only the regulator may grant such an exemption.

19.2 Exemption or Approval under Prior Policy – (1) A mutual fund that has obtained, from the regulator or securities regulatory authority, an exemption or waiver from, or approval under, a provision of National Policy Statement No. 39 before this Instrument came into force is exempt from any substantially similar provision of this Instrument, if any, on the same conditions, if any, as are contained in the earlier exemption or approval, unless the regulator or securities regulatory authority has revoked that exemption or waiver under authority provided to it in securities legislation.

(2) Despite Part 7, a mutual fund that has obtained, from the regulator or securities regulatory authority, approval under National Policy Statement No. 39 to pay incentive fees may continue to pay incentive fees on the terms of that approval if disclosure of the method of calculation of the fees and details of the composition of the benchmark or index used in calculating the fees are described in the prospectus of the mutual fund.

(3) A mutual fund that intends to rely upon subsection (1) must, at the time of the first filing of its *pro forma* prospectus after this Instrument comes into force, send to the regulator a letter or memorandum containing

(a) a brief description of the nature of the exemption from, or approval under, National Policy Statement No. 39 previously obtained; and

(b) the provision in the Instrument that is substantially similar to the provision in National Policy Statement No. 39 from or under which the exemption or approval was previously obtained.

19.3 Revocation of Exemptions – (1) A mutual fund that has obtained an exemption or waiver from, or approval under, National Policy Statement No. 39 or this Instrument before December 31, 2003, that relates to a mutual fund investing in other mutual funds, may no longer rely on the exemption, waiver or approval as of December 31, 2004.

(2) In British Columbia, subsection (1) does not apply.

PART 20 TRANSITIONAL

20.1 Effective Date – This Instrument comes into force on February 1, 2000.

20.2 Sales Communications – Sales communications, other than advertisements, that were printed before December 31, 1999 may be used until August 1, 2000, despite any requirements in this Instrument.

20.3 Reports to Securityholders – This Instrument does not apply to reports to securityholders

(a) printed before February 1, 2000; or

(b) that include only financial statements that relate to financial periods that ended before February 1, 2000.

20.4 Mortgage Funds

(1) Paragraphs 2.3(1)(b) and (c) do not apply to a mutual fund that has adopted fundamental investment objectives to permit it to invest in mortgages in accordance with National Policy Statement No. 29 if

(a) a National Instrument replacing National Policy Statement No. 29 has not come into force;

(b) the mutual fund was established, and has a prospectus for which a receipt was issued, before the date that this Instrument came into force; and

(c) the mutual fund complies with National Policy Statement No. 29.

(2) If a non-redeemable investment fund has adopted fundamental investment objectives to permit it to invest in mortgages, paragraph 2.3(2)(b) does not apply to the non-redeemable investment fund, if the non-redeemable investment fund was established, and has a prospectus for which a receipt was issued, on or before September 22, 2014.

20.5 Delayed Coming into Force

(1) Despite section 20.1, subsection 4.4(1) does not come into force until August 1, 2000.

(2) Despite section 20.1, the following provisions of this Instrument do not come into force until February 1, 2001:

1. Subsection 2.4(2).

2. Subsection 2.7(4).

3. Subsection 6.4(1).

4. Subsection 6.8(4).

National Instrument 81-102

Appendix A

[Repealed]

~~**Futures Exchanges for the Purpose of Subsection 2.7(4) - Derivative Counterparty Exposure Limits**~~

~~**Futures Exchanges**~~

~~**Australia**~~
~~Sydney Futures Exchange~~
~~Australian Financial Futures Market~~

~~**Austria**~~
~~Osterreichische Termin-und Option Borse (OTOB - The Austrian Options and Futures Exchange)~~

~~**Belgium**~~
~~Belfox CV (Belgium Futures and Options Exchange)~~

~~**Brazil**~~
~~Bolsa Brasileira de Futuros~~
~~Bolsa de Mercadorias & Futuros Bolsa de Valores de Rio de Janeiro~~

~~**Canada**~~
~~The Winnipeg Commodity Exchange The Toronto Futures Exchange The Montreal Exchange~~

~~**Denmark**~~
~~Kobenhavus Fondsbors (Copenhagen Stock Exchange)~~
~~Garenti fonden for Dankse Optioner og Futures (Guarantee Fund for Danish Options and Futures) Futop (Copenhagen Stock Exchange)~~

~~**Finland**~~
~~Helsinki Stock Exchange~~
~~Oy Suomen Optiopörssi (Finnish Options Exchange) Suomen Optionmeklarit Oy (Finnish Options Market)~~

~~**France**~~
~~Marché à terme international de France S.A. (MATIF S.A.)~~
~~Marché des option négociables à Paris (MUNCP)~~

~~**Germany**~~
~~DTB Deutsche Terminbörse GmbH~~
~~EUREX~~

~~**Hong Kong**~~
~~Hong Kong Futures Exchange Limited~~

~~**Ireland**~~
~~Irish Futures and Options Exchange~~

~~**Italy**~~
~~Milan Italiano Futures Exchange~~
~~**Japan**~~
~~Osaka Shoken Torihikisho (Osaka Securities Exchange)~~
~~The Tokyo Commodity Exchange for Industry~~
~~The Tokyo International Financial Futures Exchange Tokyo Grain Exchange~~
~~Tokyo Stock Exchange~~

~~**Netherlands**~~
~~AEX Options & Futures Exchange~~
~~EOE Optiebeurs (European Options Exchange) Financiele Termijnmarkt Amsterdam N.V.~~

~~**New Zealand**~~
~~New Zealand Futures and Options Exchange~~

~~**Norway**~~
~~Oslo Stock Exchange~~

~~**Philippines**~~
~~Manila International Futures Exchange~~

~~**Portugal**~~
~~Bosa de Derivatives de Porto~~

~~**Singapore**~~
~~Singapore Commodity Exchange (SICOM)~~
~~Singapore International Monetary Exchange Limited (SIMEX)~~

~~**Spain**~~
~~Meff Renta Fija Meff Renta Variable~~

~~**Sweden**~~
~~OM Stockholm Fondkommission AB~~

~~**Switzerland**~~
~~EUREX~~

~~**United Kingdom**~~
~~International Petroleum Exchange (IPE)~~
~~London International Financial Futures and Options Exchange (LIFFE) London Metal Exchange (LME)~~
~~OM London~~

~~**United States**~~
~~Chicago Board of Options Exchange (CBOE)~~
~~Chicago Board of Trade (CBOT)~~
~~Chicago Mercantile Exchange (CME)~~
~~Commodity Exchange, Inc. (COMEX)~~
~~Financial Instrument Exchange (Finex) a division of the New York Cotton Exchange~~
~~Board of Trade of Kansas City, Missouri, Inc.~~
~~Mid America Commodity Exchange~~
~~Minneapolis Grain Exchange (MGE)~~
~~New York Futures Exchange, Inc. (NYFE)~~
~~New York Mercantile Exchange (NYMECX)~~
~~New York Board of Trade (NYBOT)~~
~~Pacific Stock Exchange~~
~~Philadelphia Board of Trade (PBOT)~~
~~Twin Cities Board of Trade~~

National Instrument 81-102

Appendix B-1

Compliance Report

TO: [The appropriate securities regulatory authorities]

FROM: [Name of mutual fund]

RE: Compliance Report on National Instrument 81-102 For the year ended [insert date]

We hereby confirm that we have complied with the applicable requirements of Parts 9, 10 and 11 of National Instrument 81-102 for the year ended [insert date]

[except as follows:] [list exceptions, if any].

[NAME of mutual fund]

_____
Signature

_____
Name and office of the person executing this report

_____
Date

National Instrument 81-102

Appendix B-1

Audit Report

TO: [The appropriate securities regulatory authorities]

RE: Compliance Report on National Instrument 81-102 For the year ended [insert date]

We have audited [name of mutual fund]'s report made under section 12.1 of National Instrument 81-102 regarding its compliance for the year ended [insert date] with the applicable requirements of Parts 9, 10 and 11 of that National Instrument. Compliance with these requirements is the responsibility of the management of [name of mutual fund] (the "Fund"). Our responsibility is to express an opinion on management's compliance report based on our audit.

We conducted our audit in accordance with standards for assurance engagements set out in the CICA Handbook – Assurance. Those standards require that we plan and perform an audit to obtain reasonable assurance as a basis for our opinion. Such an audit includes examining, on a test basis, evidence supporting the assertions in management's compliance report.

In our opinion, the Fund's statement of compliance for the year ended [insert date] complies, in all material respects, with the applicable requirements of Parts 9, 10 and 11 of National Instrument 81102.

This report is provided solely for the purpose of assisting the securities regulatory authority [ies] to which it is addressed in discharging its [their] responsibilities and should not be used for any other purpose.

_____
City

_____
Date

_____
Chartered Accountants

National Instrument 81-102

Appendix B-2

Compliance Report

TO: [The appropriate securities regulatory authorities]

FROM: [Name of principal distributor] (the "Distributor")

RE: Compliance Report on National Instrument 81-102 For the year ended [insert date]

FOR: [Name(s) of the mutual fund (the "Fund[s]")]

We hereby confirm that we have complied with the applicable requirements of Parts 9, 10 and 11 of National Instrument 81-102 in respect of the Fund[s] for the year ended [insert date] [except as follows:] [list exceptions, if any].

[NAME of the Distributor]

_____
Signature

_____
Name and office of the person executing this report

_____
Date

National Instrument 81-102

Appendix B-2

Audit Report

TO: [The appropriate securities regulatory authorities]

RE: Compliance Report on National Instrument 81-102

For the year ended [insert date]

We have audited [name of principal distributor]'s report made under section 12.1 of National Instrument 81-102 regarding its compliance for the year ended [insert date] with the applicable requirements of Parts 9, 10 and 11 of that National Instrument in respect of the [name of mutual funds] (the "Funds"). Compliance with these requirements is the responsibility of the management of [name of principal distributor] (the "Company"). Our responsibility is to express an opinion on management's compliance report based on our audit.

We conducted our audit in accordance with standards for assurance engagements set out in the CICA Handbook – Assurance. Those standards require that we plan and perform an audit to obtain reasonable assurance as a basis for our opinion. Such an audit includes examining, on a test basis, evidence supporting the assertions in management's compliance report.

In our opinion, the Company's statement of compliance for the year ended [insert date] complies, in all material respects, with the applicable requirements of Parts 9, 10 and 11 of National Instrument 81-102 in respect of the Funds.

This report is provided solely for the purpose of assisting the securities regulatory authority [ies] to which it is addressed in discharging its [their] responsibilities and should not be used for any other purpose.

_____
City

_____
Date

_____
Chartered Accountants

National Instrument 81-102

Appendix B-3

Compliance Report

TO: [The appropriate securities regulatory authorities]

FROM: [Name of participating dealer] (the “Distributor”)

RE: Compliance Report on National Instrument 81-102 For the year ended [insert date]

We hereby confirm that we have sold mutual fund securities to which National Instrument 81-102 is applicable. In connection with our activities in distributing these securities, we have complied with the applicable requirements of Parts 9, 10 and 11 of National Instrument 81-102 for the year ended [insert date] [except as follows:] [list exceptions, if any].

[NAME of the Distributor]

_____
Signature

_____
Name and office of the person executing this report

_____
Date

National Instrument 81-102

Appendix B-3

Audit Report

TO: [The appropriate securities regulatory authorities]

RE: Compliance Report on National Instrument 81-102

For the year ended [insert date]

We have audited [name of participating dealer]'s report made under section 12.1 of National Instrument 81-102 regarding its compliance for the year ended [insert date] with the applicable requirements of Parts 9, 10 and 11 of that National Instrument in respect of sales of mutual fund securities. Compliance with these requirements is the responsibility of the management of [name of participating dealer] (the "Company"). Our responsibility is to express an opinion on management's compliance report based on our audit.

We conducted our audit in accordance with standards for assurance engagements set out in the CICA Handbook – Assurance. Those standards require that we plan and perform an audit to obtain reasonable assurance as a basis for our opinion. Such an audit includes examining, on a test basis, evidence supporting the assertions in management's compliance report.

In our opinion, the Company's statement of compliance for the year ended [insert date] complies, in all material respects, with the applicable requirements of Parts 9, 10 and 11 of National Instrument 81-102 in respect of sales of mutual fund securities.

This report is provided solely for the purpose of assisting the securities regulatory authority [ies] to which it is addressed in discharging its [their] responsibilities and should not be used for any other purpose.

_____
City

_____
Date

_____
Chartered Accountants

National Instrument 81-102

Appendix C

Provisions Contained in Securities Legislation for the Purpose of Subsection 4.1(5) – Prohibited Investments

Jurisdiction	Securities Legislation Reference
All Jurisdictions	s. 13.6 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*
Newfoundland and Labrador	s. 191 of Reg 805/96

Appendix D

Investment Fund Conflict of Interest Investment Restrictions

Jurisdiction	Securities Legislation Reference
All Jurisdictions	ss. 13.5(2)(a) and (b) of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*
Alberta	ss. 185(2) and (3) of the *Securities Act* (Alberta)
British Columbia	s. 6(2) of BC Instrument 81-513 *Self-Dealing*
New Brunswick	s. 137(2) of the *Securities Act* (New Brunswick)
Newfoundland and Labrador	ss. 112(2), 112(3), 119(2)(a) and 119(2)(b) of the *Securities Act* (Newfoundland and Labrador)
Nova Scotia	ss. 119(2) and (3) of the *Securities Act* (Nova Scotia)
Ontario	ss. 111(2) and (3) of the *Securities Act* (Ontario)
Saskatchewan	ss. 120(2) and (3) of the *The Securities Act*, 1988 (Saskatchewan)

Appendix E

Investment Fund Conflict of Interest Reporting Requirements

Jurisdiction	Securities Legislation Reference
Alberta	s. 191(1)(a) of the *Securities Act* (Alberta)
British Columbia	s. 9(a) of BC Instrument 81-513 Self-Dealing
New Brunswick	s. 143(1)(a) of the *Securities Act* (New Brunswick)
Newfoundland and Labrador	s. 118(1)(a) of the *Securities Act* (Newfoundland and Labrador)
Nova Scotia	s. 125(1)(a) of the *Securities Act* (Nova Scotia)
Ontario	s. 117(1)(a) of the *Securities Act* (Ontario)
Saskatchewan	s. 126(1)(a) of the *The Securities Act*, 1988 (Saskatchewan)

Appendix F

Investment Risk Classification Methodology

Commentary

This Appendix contains rules and accompanying commentary on those rules. Each member jurisdiction of the CSA has made these rules under authority granted to it under the securities legislation of its jurisdiction.

The commentary explains the implications of a rule, offers examples or indicates different ways to comply with a rule. It may expand on a particular subject without being exhaustive. The commentary is not legally binding, but it does reflect the views of the CSA. Commentary always appears in italics and is titled "Commentary."

Item 1 Investment risk level

(1) Subject to subsection (2), to determine the "investment risk level" of a mutual fund,

(a) determine the mutual fund's standard deviation in accordance with Item 2 and, as applicable, Item 3, 4 or 5,

(b) in the table below, locate the range of standard deviation within which the mutual fund's standard deviation falls, and

(c) identify the investment risk level set opposite the applicable range.

Standard Deviation Range	Investment Risk Level
0 to less than 6	Low
6 to less than 11	Low to medium
11 to less than 16	Medium
16 to less than 20	Medium to High
20 or greater	High

(2) Despite subsection (1), the investment risk level of a mutual fund may be increased if doing so is reasonable in the circumstances.

(3) A mutual fund must keep and maintain records that document:

(a) how the investment risk level of a mutual fund was determined, and

(b) if the investment risk level of a mutual fund was increased, why it was reasonable to do so in the circumstances.

Commentary:

(1) The investment risk level may be determined more frequently than annually. Generally, the investment risk level must be determined again whenever it is no longer reasonable in the circumstances.

(2) Generally, a change to the mutual fund's investment risk level disclosed on the most recently filed fund facts document or ETF facts document, as applicable, would be a material change under securities legislation in accordance with Part 11 of National Instrument 81-106 Investment Fund Continuous Disclosure.

(3) In deciding whether to exercise the discretion to increase a mutual fund's investment risk level as permitted in subsection (2) above, consideration should be given as to whether the standard deviation calculation applied under the Investment Risk Classification Methodology may result in a risk level that is below the manager's own expectations for the mutual fund. This can occur for example, when a mutual fund employs investment strategies that produce an atypical or non-normal distribution of performance results. In such circumstances mutual funds are encouraged to consider supplementing the Investment Risk Classification Methodology with other factors or risk metrics in order to determine whether it would be appropriate to make an upward adjustment to the mutual fund's risk level to better reflect the features of the mutual fund.

Item 2 Standard deviation

(1) A mutual fund must calculate its standard deviation for the most recent 10 years as follows:

Standard Deviation	$\sqrt{12} \times \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(R_i - \overline{R})^2}$
where	n = 120 months R_i = return on investment in month i $\overline{R}$ = average monthly return on investment

(2) For the purposes of subsection (1), a mutual fund must make the calculation with respect to the series or class of securities of the mutual fund that first became available to the public and calculate the "return on investment" for each month using:

(a) the net asset value of the mutual fund, assuming the reinvestment of all income and capital gain distributions in additional securities of the mutual fund, and

(b) the same currency in which the series or class is offered.

Commentary:

For the purposes of Item 2, except for seed capital, the date on which the series or class of securities "first became available to the public" corresponds or approximately corresponds to the date on which the securities of the series or class were first issued to investors.

Item 3 Difference in classes or series of securities of a mutual fund

Despite Item 2(2), if a series or class of securities of the mutual fund has an attribute that results in a different investment risk level for the series or class than the investment risk level of the mutual fund, the "return on investment" for that series or class of securities must be used to calculate the standard deviation of that particular series or class of securities.

Commentary:

Generally, all series or classes of securities of a mutual fund will have the same investment risk level as determined by Items 1 and 2. However, a particular series or class of securities of a mutual fund may have a different investment risk level than the other series or classes of securities of the same mutual fund if that series or class of securities has an attribute that differs from the other. For example, a series or class of securities that employs currency hedging or that is offered in the currency of the United States of America (if the mutual fund is otherwise offered in the currency of Canada) has an attribute that could result in a different investment risk level than that of the mutual fund.

Item 4 Mutual funds with less than 10 years of history

(1) For the purposes of Item 2, if it has been less than 10 years since securities of the mutual fund were first available to the public, and if the mutual fund is a clone fund and the underlying fund has 10 years of performance history, or if there is another mutual fund with 10 years of performance history which is subject to this Instrument, and has the same fund manager, portfolio manager, investment objectives and investment strategies as the mutual fund, then in either case the mutual fund must calculate the standard deviation of the mutual fund in accordance with Item 2 by

(a) using the available return history of the mutual fund, and

(b) imputing the return history of the underlying fund or the other mutual fund, respectively, for the remainder of the 10 year period.

(2) For the purposes of Item 2, if it has been less than 10 years since securities of the mutual fund were first available to the public, and paragraph (1) above does not apply, then the mutual fund must select a reference index in accordance with Item 5, and calculate the standard deviation of the mutual fund in accordance with Item 2 by

(a) using the return history of the mutual fund, and

(b) imputing the return history of the reference index for the remainder of the 10 year period.

Commentary:

Generally, if a mutual fund that is structured as a mutual fund trust does not have 10 years of performance history, the past performance of a corporate class version of that mutual fund should be used to fill in the missing past performance information required to calculate standard deviation. Likewise, if a mutual fund that is structured as a corporate class fund does not have 10 years of performance history, the past performance of a mutual fund trust version of that mutual fund should be used to fill in the missing past performance information required to calculate standard deviation.

Item 5 Reference index

(1) For the purposes of Item 4(2), the mutual fund must select a reference index that reasonably approximates, or for a newly established mutual fund, is expected to reasonably approximate, the standard deviation of the mutual fund.

(2) When using a reference index, a mutual fund must

(a) monitor the reasonableness of the reference index on an annual basis or more frequently if necessary,

(b) disclose in the mutual fund's prospectus in Part B, Item 9.1 of Form 81-101F1 or Part B, Item 12.2 of Form 41-101F2, as applicable

(i) a brief description of the reference index, and

(ii) if the reference index has changed since the last disclosure under this section, details of when and why the change was made.

Instructions:

(1) A reference index must be made up of one permitted index or, where necessary, to more reasonably approximate the standard deviation of a mutual fund, a composite of several permitted indices.

(2) *In selecting and monitoring the reasonableness of a reference index, a mutual fund must consider a number of factors, including whether the reference index*

(a) contains a high proportion of the securities represented, or expected to be represented, in the mutual fund's portfolio,

(b) has returns, or is expected to have returns, highly correlated to the returns of the mutual fund,

(c) has risk and return characteristics that are, or expected to be, similar to the mutual fund,

(d) has its returns computed (total return, net of withholding taxes, etc.) on the same basis as the mutual fund's returns,

(e) is consistent with the investment objectives and investment strategies in which the mutual fund is investing,

(f) has investable constituents and has security allocations that represent investable position sizes, for the mutual fund, and

(g) is denominated in, or converted into, the same currency as the mutual fund's reported net asset value.

(3) *In addition to the factors listed in (2), the mutual fund may consider other factors if relevant to the specific characteristics of the mutual fund.*

Commentary:

A mutual fund must consider each of the factors in (2), and may consider other factors, as appropriate, in selecting and monitoring the reasonableness of a reference index. However, a reference index that reasonably approximates, or is expected to reasonably approximate, the standard deviation of a mutual fund may not necessarily meet all of the factors in (2).

Item 6 Fundamental changes

(1) For the purposes of Item 2, if there has been a reorganization or transfer of assets of the mutual fund pursuant to paragraphs 5.1(1)(f) or (g) or subparagraph 5.1(1)(h)(i) of the Instrument, the standard deviation must be calculated using the monthly "return on investment" of the continuing mutual fund, as the case may be.

(2) Despite subsection (1), if there has been a change to the fundamental investment objectives of the mutual fund pursuant to paragraph 5.1(1)(c) of the Instrument, for the purposes of Item 2, the standard deviation must be calculated using the monthly "return on investment" of the mutual fund starting from the date of that change..

4. Any exemption from or waiver of a provision of Form 81-101F3 Contents of Fund Facts Document in relation to the disclosure under the heading "How risky is it?" expires on September 1, 2017.

5. Subject to section 6, this Instrument comes into force on March 8, 2017.

6. The provision of this Instrument listed in column 1 of the following table comes into force on the date set out in column 2 of the table:

Column 1: Provision of this Instrument	**Column 2: Date**
Section 3	September 1, 2017

ANNEX C-4

CHANGES TO
COMPANION POLICY 81-102CP TO
NATIONAL INSTRUMENT 81-102 *INVESTMENT FUNDS*

1. Companion Policy 81-102CP to National Instrument 81-102 Investment Funds is changed by this Document.

2. Part 2 is changed by adding the following sections:

2.01 "alternative mutual fund" – (1) This term replaced the term "commodity pool" that was previously defined under the National Instrument 81-104 *Commodity Pools* (NI 81-104). Mutual funds that were commodity pools under NI 81-104 are deemed to be alternative mutual funds under this Instrument.

(2) The definition of "alternative mutual fund" contemplates that the fund's fundamental investment objectives will reflect those features that distinguish the alternative mutual fund from more conventional mutual funds. Therefore if an existing mutual were to convert to an alternative mutual fund, we would expect such a change to necessitate changes to the mutual fund's investment objectives that would require securityholder approval under Part 5 of the Instrument.

(3) The Instrument does not mandate a naming convention for mutual funds. However, it is our view that a mutual fund with the word "alternative" in its name could be misleading or cause confusion in the marketplace if that mutual fund is not an alternative mutual fund. We would generally expect that the only mutual funds that would use that term in their name would be alternative mutual funds.

2.3.1 "cleared specified derivative" – the definition of "cleared specified derivative" is intended to apply to derivatives transactions that take place through the facilities of a "regulated clearing agency" as defined in National Instrument 94-101 *Mandatory Central Clearing of Derivatives*. The Instrument provides exemptions from certain of the provisions governing the use of cleared specified derivatives by investment funds. These exemptions are intended to facilitate the use of the clearing infrastructure in compliance with international requirements for mandatory clearing of derivatives, although the exemptions also apply in respect of cleared specified derivatives that are not subject to mandatory clearing obligations.**.**

3. Subsection (1) of Section 3.3.1 is changed by deleting "Although section 2.4 of the Instrument does not apply to non-redeemable investment funds,***" and by replacing "***the Canadian securities regulatory authorities***" with "***The Canadian securities regulatory authorities***".***

4. Part 3 is changed by adding the following section:

3.6.1 Cash Borrowing – Subsection 2.6(2) of the Instrument permits an alternative mutual fund or non-redeemable investment fund to borrow cash for investment purposes (including investing on margin) from an entity that meets the criteria of a fund custodian or subcustodian under section 6.2 or 6.3, and can include the fund's own custodian or subcustodian. This provision also permits a fund to borrow cash from a lender that is an affiliate or associate of the fund's investment fund manager provided independent review committee approval is granted.**.**

5. Section 4.3 is changed by replacing it with the following:

4.3 Leveraging – (1) The investment restrictions in the Instrument are in part intended to prevent the use of specified derivatives for the purpose of leveraging the assets of a mutual fund. The definition of "hedging" prohibits leveraging with respect to specified derivatives used for hedging purposes. The provisions of subsection 2.8(1) of the Instrument restrict leveraging with respect specified derivatives used for non-hedging purposes.

(2) Alternative mutual funds however, are exempted from section 2.8 and are instead subject to the restrictions on the use of leverage set out in section 2.9.1 of the Instrument, which limit exposure to certain sources of leverage to no more than 300% of an alternative mutual fund's net asset value. The calculation in section 2.9.1 requires an investment fund to determine the notional amount of its specified derivatives positions. While the Instrument does not define notional amount, in this context we would expect it to be determined in regard to the value of the underlying reference asset, as if the specified derivative position were converted into the equivalent position in the underlying reference asset at the time of the calculation.**.**

6. The changes become effective on January 3, 2019.

ANNEX D-1

AMENDMENTS TO NATIONAL INSTRUMENT 81-104 *COMMODITY POOLS*

1. National Instrument 81-104 Commodity Pools is amended by this Instrument.

2. The title is amended by replacing "NATIONAL INSTRUMENT 81-104 *COMMODITY POOLS"* ***with "***NATIONAL INSTRUMENT 81-104 *ALTERNATIVE MUTUAL FUNDS".*

3. Subsection 1.1(1) is amended

(a) by repealing the definitions of "commodity pool***", "***independent review committee***", and "***precious metals fund***",***

(b) by adding "and***" at the end of the definition of "***Derivatives Fundamentals Course***",***

(c) by deleting "and***" at the end of the definition of "***mutual fund restricted individual***", and***

(d) by adding the following definition:

"alternative mutual fund" has the same meaning as in section 1.1 of NI 81-102;.

4. Section 1.2 is amended

(a) in paragraph (a) by replacing "a commodity pool***" with "***an alternative mutual fund"***, and in subparagraph (i) by replacing "***commodity pool***" with "***alternative mutual fund***", and***

(b) in paragraph (b) by replacing "a commodity pool***" with "***an alternative mutual fund***", and by deleting "***or pertaining to the filing of a prospectus to which subsection 3.2(1) applies***".***

5. Section 1.3 is amended

(a) in subsection (1) by replacing "a commodity pool***" with "***an alternative mutual fund***", and by replacing "***commodity pool***" with "***alternative mutual fund***", and***

(b) by repealing subsection (2).

6. Part 2 is repealed.

7. Part 3 is repealed.

8. Section 4.1 is amended by replacing "a commodity pool***" with "***an alternative mutual fund***" wherever it occurs, and by replacing "***commodity pools***" with "***alternative mutual funds***" wherever it occurs.***

9. Part 5 is repealed.

10. Part 6 is repealed.

11. Part 8 is repealed.

12. Section 11.2 is repealed.

13. This Instrument comes into force on January 3, 2019.

ANNEX D-2

WITHDRAWAL OF COMPANION POLICY 81-104CP TO NATIONAL INSTRUMENT 81-104 *COMMODITY POOLS*

1. Companion Policy 81-104CP to National Instrument 81-104 Commodity Pools is withdrawn.

2. This document becomes effective on January 3, 2019.

ANNEX E

AMENDMENTS TO NATIONAL INSTRUMENT 41-101 *GENERAL PROSPECTUS REQUIREMENTS*

1. National Instrument 41-101 General Prospectus Requirements is amended by this Instrument.

2. Section 1.1 is amended by adding the following definition:

"alternative mutual fund" has the same meaning as in section 1.1 of NI 81-102;**.**

3. Form 41-101F2 Information Required in an Investment Fund Prospectus is amended

(a) by replacing "commodity pool***" in Item 1.3(1) with "***alternative mutual fund***",***

(b) by adding the following after Item 1.3(3):

(4) If the mutual fund to which the prospectus pertains is an alternative mutual fund, include a statement explaining that the fund is permitted to invest in asset classes or use investment strategies that are not permitted for other types of mutual funds and explain how exposure to the asset classes or the adoption of the investment strategies may affect investors' risk of losing money on their investment in the fund.**,**

(c) by replacing "commodity pool***" in Item 1.11(3) with "***alternative mutual fund***",***

(d) by repealing Item 1.12,

(e) by replacing paragraph (e) of Item 3.3(1) with the following:

(e) the use of leverage, including all of the following:

(i) the maximum aggregate exposure to borrowing, short selling and specified derivatives the investment fund is permitted to have, expressed as a percentage calculated in accordance with section 2.9.1 of NI 81-102,

(ii) a brief description of any other restrictions on the investment fund's use of leverage, and

(iii) a brief description of any limits that apply to each source of leverage.**,**

(f) by adding the following after instruction (3) to Item 5:

(4) If the mutual fund is an alternative mutual fund, describe the features of the mutual fund that cause it to fall within the definition of "alternative mutual fund" in NI 81-102. If those features involve the use of leverage, disclose the sources of leverage (i.e., borrowing, short selling, use of derivatives) the alternative mutual fund is permitted to use and the maximum aggregate exposure to those sources of leverage the alternative mutual fund is permitted to have, as a percentage calculated in accordance with section 2.9.1 of NI 81-102 .,

(g) by replacing paragraph (b) of Item 6.1(1) with the following:

(b) the use of leverage, including both of the following:

(i) a brief description of any restrictions on the investment fund's use of leverage;

(ii) a brief description of any limits that apply to each source of leverage.**,**

(h) by adding the following after Item 6.1(6):

(7) In the case of an investment fund that borrows cash in accordance with subsection 2.6 (2) of NI 81-102,

(a) state that the investment fund is permitted to borrow cash and the maximum amount the fund is permitted to borrow, and

(b) briefly describe how borrowing will be used in conjunction with other strategies of the investment fund to achieve its investment objectives and the material terms of the borrowing arrangements.***,***

(i) by adding the following after Item 19.11

19.12 Lender

(1) State the name of each person or company that has entered into an agreement to lend money to the investment fund or provides a line of credit or similar lending arrangement to the investment fund.

(2) State whether the person or company named in subsection (1) is an affiliate or associate of the manager of the investment fund.***, and***

(j) by replacing "a commodity pool***" in Item 23.1(f) with "***an alternative mutual fund***".***

4. Form 41-101F4 Information Required in an ETF Facts Document is amended

(a) by replacing the instructions to Item 1 of Part 1 with the following:

INSTRUCTIONS:

(1) The date for an ETF facts document that is filed with a preliminary prospectus or final prospectus must be the date of the preliminary prospectus or final prospectus, respectively. The date for an ETF facts document that is filed with a pro forma prospectus must be the date of the anticipated final prospectus. The date for an amended ETF facts document must be the date on which it is filed.

(2) If the investment objectives of the ETF are to track a multiple (positive or negative) of the daily performance of a specified underlying index or benchmark, provide textbox disclosure in bold type using wording substantially similar to the following:

This ETF is an alternative mutual fund. It is permitted to invest in asset classes or use investment strategies that are not permitted for other types of mutual funds.

This ETF is highly speculative. It uses leverage which magnifies gains and losses. It is intended for use in daily or short-term trading strategies by sophisticated investors. If you hold this ETF for more than one day, your return could vary considerably from the ETF's daily target return. Any losses may be compounded. Don't buy this ETF if you are looking for a longer-term investment.

(3) If the investment objectives of the ETF are to track the inverse performance of a specified underlying index or benchmark, provide textbox disclosure in bold type using wording substantially similar to the following:

This ETF is an alternative mutual fund. It is permitted to invest in asset classes or use investment strategies that are not permitted for other types of mutual funds.

This ETF is highly speculative. It is intended for use in daily or short-term trading strategies by sophisticated investors. If you hold this ETF for more than one day, your return could vary considerably from the ETF's daily target return. Any losses may be compounded. Don't buy this ETF if you are looking for a longer-term investment.

(4) If the ETF is an alternative mutual fund and Instruction (2) or (3) does not apply, provide textbox disclosure in bold type using wording substantially similar to the following:

This ETF is an alternative mutual fund. It has the ability to invest in asset classes or use investment strategies that are not permitted for other types of mutual funds.

The specific features that differentiate this fund from other types of mutual funds include: [*list the asset classes the alternative mutual fund invests in and the investment strategies used by the alternative mutual fund that cause it to fall within the definition of "alternative mutual fund"*]

[*Explain how the listed features may affect investors' risk of losing money on their investment in the alternative mutual fund*]***,***

(b) by adding the following after Item 3(1) of Part 1:

(1.1) For an alternative mutual fund that uses leverage

(a) disclose the sources of leverage, and

(b) disclose the maximum aggregate exposure to those sources of leverage the alternative mutual fund is permitted to have.***, and***

(c) by adding the following after subsection (3) of the instructions to Item 3 of Part 1:

*(3.1) The alternative mutual fund's aggregate exposure to sources of leverage must be expressed as a percentage calculated in accordance with section 2.9.1 of NI 81-102.***.**

Transition

5. If a commodity pool, as that term was defined in National Instrument 81-104 *Commodity Pools* on January 2, 2019, has filed a prospectus for which a receipt was granted on or before that date, this Instrument does not apply to the commodity pool until July 4, 2019.

Effective Date

6. This Instrument comes into force on January 3, 2019.

ANNEX 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 is amended by repealing the definitions of "commodity pool***" and "***precious metals fund***".***

3. Section 1.3 is amended by adding "or***" at the end of paragraph (a) and by repealing paragraph (b).***

4. Section 5.1 is amended by adding the following subsection:

(4) Despite subsection (1), a simplified prospectus for an alternative mutual fund must not be consolidated with a simplified prospectus of another mutual fund if the other mutual fund is not an alternative mutual fund**.**.

5. Subsection 6.1(3) is amended by adding "Alberta and***" before "***Ontario***".***

6. Form 81-101F1 Contents of Simplified Prospectus is amended

(a) by adding the following under the general instructions:

*(14.1) Subsection 5.1(4) of National Instrument 81-101 states that a simplified prospectus of an alternative mutual fund must not be consolidated with a simplified prospectus of another mutual fund that is not an alternative mutual fund***.,**

(b) by adding the following after Item 1.1(2) of Part A:

(2.1) If the mutual fund to which the simplified prospectus pertains is an alternative mutual fund, indicate that fact on the front cover*.,*

(c) by adding the following after Item 1.2(2) of Part A:

(2.1) If the mutual funds to which the document pertains are alternative mutual funds, indicate that fact on the front cover*.,*

(d) by adding the following after instruction (3) to Item 6 of Part B:

(4) If the mutual fund is an alternative mutual fund, describe the features of the mutual fund that cause it to fall within the definition of "alternative mutual fund" in National Instrument 81-102 Investment Funds. If those features include the use of leverage, disclose the sources of leverage (e.g., cash borrowing, short selling, use of derivatives) that the fund is permitted to use as well as the maximum aggregate exposure to those sources of leverage the alternative mutual fund is permitted to have, as a percentage calculated in accordance with section 2.9.1 of National Instrument 81-102 Investment Funds.,

(e) by adding the following after Item 7(10) of Part B:

(11) In the case of an alternative mutual fund that borrows cash pursuant to subsection 2.6 (2) of National Instrument 81-102 *Investment Funds*

(a) state that the alternative mutual fund is permitted to borrow cash and the maximum amount the fund is permitted to borrow, and

(b) briefly describe how borrowing will be used in conjunction with other strategies of the alternative mutual fund to achieve its investment objectives*.,*

(f) by adding the following after Item 9(2) of Part B:

(2.1) In the case of an alternative mutual fund, include disclosure explaining that the alternative mutual fund is permitted to invest in asset classes and use investment strategies that are not permitted for other types of mutual funds and explain how these investment strategies could affect investors' risk of losing money on their investment in the fund*.,*

(g) by deleting "and***" at the end of paragraph (b) of Item 9(7) of Part B,***

(h) by replacing ".***" at the end of paragraph (c) of Item 9(7) of Part B with "***; and***", and***

(i) by adding the following after paragraph (c) of Item 9(7) of Part B:

(d) borrowing arrangements.*.*

7. Form 81-101F2 Contents of Annual Information Form is amended

(a) by adding the following after Item 1.1(2):

(2.1) If the mutual fund to which the annual information form pertains is an alternative mutual fund, indicate that fact on the front cover.***, and***

(b) by adding the following after Item 10.9.1:

10.9.2 Cash Lender

(1) In the case of an alternative mutual fund, state the name of each person or company that has entered into an agreement to lend money to the alternative mutual fund or provides a line of credit or similar lending arrangement to the alternative mutual fund.

(2) State whether any person or company named in subsection (1) is an affiliate or associate of the manager of the alternative mutual fund.*.*

8. Form 81-101F3 Contents of Fund Facts Document is amended

(a) by deleting "and***" at the end of paragraph (e) of Item 1 of Part I,***

(b) by replacing "risk.***" with "***risk; and***" at the end of paragraph (f) of Item 1 of Part I,***

(c) by adding the following after paragraph (f) of Item 1 of Part I:

(g) if the fund facts document pertains to an alternative mutual fund, textbox disclosure using wording substantially similar to the following:

This mutual fund is an alternative mutual fund. It is permitted to invest in asset classes or use investment strategies that are not permitted for other types of mutual funds.

The specific strategies that differentiate this fund from other types of mutual funds include: [*list the features of the alternative mutual fund that cause it to fall within the definition of "alternative mutual fund" in National Instrument 81-102 Investment Funds*].

[*Explain how the listed investment strategies could affect investors' risk of losing money on their investment in the alternative mutual fund.*]***,***

(d) by adding the following after Item 3(1) of Part I:

(1.1) In the case of an alternative mutual fund that uses leverage,

(a) disclose the sources of leverage, and

(b) disclose the maximum aggregate exposure to those sources of leverage the alternative mutual fund is permitted to have.***, and***

(e) by adding the following after subsection (3) of the instructions to Item 3 of Part I:

(3.1) The alternative mutual fund's aggregate exposure to the sources of leverage must be expressed as a percentage calculated in accordance with section 2.9.1 of National Instrument 81-102 Investment Funds.*.*

Transition

8. If a commodity pool, as that term was defined in National Instrument 81-104 *Commodity Pools* on January 2, 2019, has filed a prospectus for which a receipt was granted on or before that date, this Instrument does not apply to that commodity pool until July 4, 2019.

Effective Date

9. This Instrument comes into force on January 3, 2019.

ANNEX G

AMENDMENTS TO NATIONAL INSTRUMENT 81-106 *INVESTMENT FUND CONTINUOUS DISCLOSURE*

1. National Instrument 81-106 Investment Fund Continuous Disclosure is amended by this Instrument.

2. Subsection 1.3(3) is amended by deleting "National Instrument 81-104 *Commodity Pools* or***" and by replacing "***those Instruments***" with "***that Instrument***".***

3. The Instrument is amended by adding the following section:

3.12 Disclosure of Use of Leverage – (1) An investment fund that uses leverage must disclose the following information in its financial statements:

(a) a brief explanation of the sources of leverage including cash borrowing, short selling or use of specified derivatives, used during the reporting period covered by the financial statements,

(b) the lowest and highest level of the aggregate exposure to those sources of leverage in the period, and

(c) a brief explanation of the significance to the investment fund of the lowest and highest levels of the aggregate exposure to those sources of leverage.

(2) For the purposes of subsection (1), an investment fund must calculate its aggregate exposure to those sources of leverage in accordance with section 2.9.1 of National Instrument 81-102 *Investment Funds*.***.***

4. Form 81-106F1 Contents of Annual and Interim Management Report of Fund Performance is amended

(a) in Item 2.3 of Part B by adding the following subsection:

(3) An investment fund that uses leverage must disclose,

(a) a brief explanation on the sources of leverage including cash borrowing, short selling or use of specified derivatives, used during the reporting period,

(b) the lowest and highest level of aggregate exposure to those sources of leverage in the period, and

(c) a brief explanation of the significance of the lowest and highest levels of aggregate exposure to those sources of leverage to the investment fund including the impact of the use of specified derivatives for hedging purposes.***, and***

(b) by replacing the Instruction to Item 2.3 of Part B with the following:

INSTRUCTIONS:

(1) Explain the nature of and reasons for changes in the investment fund's performance. Do not only disclose the amount of change in a financial statement item from period to period. Avoid the use of boilerplate wording. Your discussion must be prepared in a manner that will assist a reasonable reader to understand the significant factors that have affected the investment fund's performance.

(2) For the purposes of the disclosure required in Item 2.3(3)(b), an investment fund must calculate its aggregate exposure to sources of leverage in accordance with section 2.9.1 of National Instrument 81-102 Investment Funds.

*(3) In discussing the impact of the use of specified derivatives for hedging purposes on the investment fund's calculation of its aggregate exposure to sources of leverage, the fund must discuss by how much the aggregate exposure was reduced by subtracting the notional value of the fund's specified derivatives positions that are hedging transactions as is contemplated in paragraph 2.9.1(2)(c) of National Instrument 81-102 Investment Funds.***.***

5. This Instrument comes into force on January 3, 2019.

ANNEX H-1

AMENDMENTS TO
NATIONAL INSTRUMENT 81-107
INDEPENDENT REVIEW COMMITTEE FOR INVESTMENT FUNDS

1. National Instrument 81-107 Independent Review Committee for Investment Funds is amended by this Instrument.

2. Subsection 5.2(1) is amended

(a) in paragraph (b) by deleting "or***",***

(b) in paragraph (c) replacing "."* with *"; or***", and***

(c) by adding the following paragraph:

(d) a transaction in which an investment fund intends to borrow cash from a person or company that is an associate or affiliate of the investment fund manager.**.**

3. This Instrument comes into force on January 3, 2019.

ANNEX H-2

CHANGES TO COMMENTARY TO NATIONAL INSTRUMENT 81-107 *INDEPENDENT REVIEW COMMITTEE FOR INVESTMENT FUNDS*

1. ***The Commentary to National Instrument 81-107 Independent Review Committee for Investment Funds is changed by this Document.***

2. ***Section 1 of the Commentary to Section 5.2 of the Instrument is changed by adding*** *"Part 2 and"* ***after*** *"Part 6 of this Instrument or"****.***

3. This change becomes effective on January 3, 2019.

ANNEX I

ONTARIO RULE-MAKING AUTHORITY
AUTHORITY FOR THE AMENDMENTS

The following provisions of the *Securities Act* (Ontario) (the Act) provide the Commission with authority to adopt the Amendments:

Subparagraph 143(1)2(i) of the Act authorizes the Commission to make rules prescribing the standards of practice and business conduct of registrants in dealing with their customers and clients and prospective customers and clients.

Paragraph 143(1)7 of the Act authorizes the Commission to make rules prescribing requirements in respect of the disclosure or furnishing of information to the public or the Commission by registrants or providing for exemptions from or varying the requirements under this Act in respect of the disclosure or furnishing of information to the public or the Commission by registrants.

Paragraph 143(1)31 of the Act authorizes the Commission to make rules regulating investment funds and the distribution and trading of the securities of investment funds, including

* making rules varying Part XV (Prospectuses – Distribution) or Part XVIII (Continuous Disclosure) by prescribing additional disclosure requirements in respect of investment funds and requiring or permitting the use of particular forms or types of additional offering or other documents in connection with the funds (subparagraph (i));

- making rules prescribing permitted investment policy and investment practices for investment funds and prohibiting or restricting certain investments or investment practices for investment funds (subparagraph (ii));
- making rules prescribing requirements for investment funds in respect of derivatives (subparagraph (ii.1));
- making rules prescribing requirements governing the custodianship of assets of investment funds (subparagraph (iii));
- making rules prescribing minimum initial capital requirements for investment funds making a distribution (subparagraph (iv)); and
- making rules prescribing procedures applicable to investment funds, registrants and any other person or company in respect of sales and redemptions of investment fund securities (subparagraph (xi)).

Paragraph 143(1)34 of the Act authorizes the Commission to make rules regulating commodity pools.

Paragraph 143(1)49 of the Act authorizes the Commission to make rules permitting or requiring, or varying the Act to permit or require, methods of filing or delivery, to or by the Commission, issuers, registrants, security holders or others, of documents, information, notices, books, records, things, reports, orders, authorizations or other communications required under or governed by Ontario securities law.

Paragraph 143(1)53 of the Act authorizes the Commission to make rules providing for exemptions from or varying the requirements of section 71.

Paragraph 143(1)54.1 of the Act authorizes the Commission to prescribe investment fund securities that are trading on an exchange or an alternative trading system for the purpose of subsection 71(1.2), prescribing the disclosure document that is required in respect of prescribed investment fund securities under subsection 71(1.3), prescribing the time and manner for sending or delivering the disclosure document, and prescribing the circumstances in which a purchase is not binding on a purchaser for the purpose of subsection 71(2.1).

Paragraph 143(1)62 of the Act authorizes the Commission to make rules prescribing the matter affecting an investment fund that require review by the independent review committee.

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