

5.1.3 Amendments to Companion Policy 81-106CP to NI 81-106 Investment Fund Continuous Disclosure

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

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

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

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

3. ***Section 2.1 is amended by***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Section 2.3 is repealed.

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

7. Section 2.5.1 is repealed and the following substituted:

2.5.1 Disclosure of Investment Portfolio

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

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

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

8. Section 2.7 is amended by

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

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

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

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

(c) *repealing subsection (2).*

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

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

3.2 Modification of Opinion

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

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

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

12. **Section 3.4 is amended by**

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

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

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

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

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

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

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

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

13. Section 9.2 is repealed and the following substituted:

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

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

14. Section 9.3 is repealed.

15. Section 9.4 is amended by

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

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

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

16. Section 10.1 is amended by

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

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

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

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

(b) **in subsection (5),**

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

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

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

17. **Appendix B is amended by**

(a) **striking out**

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

and substituting

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

(b) **striking out**

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

and substituting

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

(c) **striking out**

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

and substituting

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

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

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

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

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

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