



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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December 2, 2004

Mr. Aamir Mirza
Legal Counsel, Regulation
The Investment Funds Institute of Canada
151 Yonge Street 5th Floor
Toronto, Ontario M5C 2W7

Dear Aamir,

Re: Disclosure of Management Expense Ratio (“MER”) in Financial Statements

I am writing to clarify staff's position with respect to the presentation of the MER in accordance with the requirements of National Instrument 81-102, *Mutual Funds* (NI 81-102).

As you know, NI 81-102 requires the MER, calculated in accordance with the instrument, to be presented in the notes to interim and annual financial statements of mutual funds. I understand there has been some uncertainty as to whether Commission staff expect compliance with this requirement in light of proposed National Instrument 81-106 *Investment Funds Continuous Disclosure* (NI 81-106), which would require investment funds to disclose the MER in the new Management Report of Fund Performance rather than in the financial statements. I understand some have also questioned whether the MER could be considered a per share measure that is inappropriate for inclusion in financial statements prepared in accordance with generally accepted accounting principles as defined in the CICA Handbook.

After consultation with the Office of the Chief Accountant, we are satisfied that presentation of the MER in notes to financial statements does not contradict either the letter or the spirit of the Accounting Recommendations in the CICA Handbook. We would note that the MER is merely a ratio, the calculation of which is prescribed by rule, and does not in any sense purport to represent an individual unitholder's claim on an income statement amount. In our view, it would be inappropriate to interpret *Earnings Per Share*, Section 3500 of the CICA Handbook, and the related *Basis for Conclusions* issued by the Accounting Standards Board as precluding presentation of the MER in financial statements and we do not believe it was the Board's intent to preclude such a presentation. Accordingly, we see no impediment to continued compliance with the requirements of NI 81-102 until NI 81-106 comes into force.

If you have any questions or concerns, please do not hesitate to contact me at (416) 593-8223.

Yours very truly,

“Irene Tsatsos”

Irene Tsatsos
Senior Accountant, Investment Funds

cc John A. Carchrae, CA, Chief Accountant, OSC
cc Paul G. Cherry, FCA, Chair, Accounting Standards Board, CICA
cc Barry Myers, FCA, Chair, Accounting Advisory Committee, IFIC