

Activity Report

for the Continuous
Disclosure Review Program

October 2013

Companies

Investment funds



**AUTORITÉ
DES MARCHÉS
FINANCIERS**



Legal deposit – Library and Archives Canada, 2013
Legal deposit – *Bibliothèque et Archives nationales du Québec*, 2013

ISSN 1913-7478 (On-line)

This document is published on the website
of the *Autorité des marchés financiers* www.lautorite.qc.ca

Also published in French

Table of Contents

Message from the Senior Director, Investment Funds and Continuous Disclosure 5

Introduction 7

Continuous Disclosure Review Program Companies 8

1.1 REVIEW RESULTS 9

1.2 MAIN DEFICIENCIES IDENTIFIED 9

1.2.1 Deficiencies identified in the financial statements 9

1.2.2 Deficiencies identified in the MD&A 11

1.2.3 Deficiencies identified in the other continuous disclosure documents 12

1.3 AREAS OF FOCUS FOR 2013-2014 14

1.3.1 Regulatory overview 14

1.3.2 Current and planned reviews 14

Continuous Disclosure Review Program and Compliance Reviews Investment Funds 16

2.1 REVIEW RESULTS 17

2.2 MAIN DEFICIENCIES IDENTIFIED 17

2.2.1 Deficiencies identified in the financial statements 17

2.2.2 Deficiencies identified in the management report of fund performance 18

2.2.3 Other deficiencies identified 19

2.2.4 Deficiencies identified in issue-oriented reviews 19

2.3 AREAS OF FOCUS FOR 2013-2014 22

2.3.1 Regulatory overview 22

2.3.2 Current and planned reviews 22

Conclusion 23

Appendix 1 – Principal regulations prescribed for companies 24

Appendix 2 – Principal regulations prescribed for investment funds 25

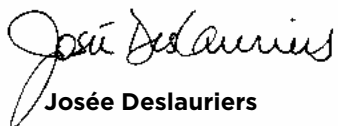


Message from the Senior Director, Investment Funds and Continuous Disclosure

We are proud to present, for an eleventh consecutive year, our Activity Report for the Continuous Disclosure Review Program (CDR Program). It sets out, in particular, the results of reviews carried out on companies and investment funds for the fiscal year ended March 31, 2013. On the regulatory front, it discusses certain areas of focus which could influence the preparation of issuer's future disclosure documents.

In our reviews, we continued to pay particular attention to the recent application by companies of International Financial Reporting Standards (IFRS). Moreover, we focussed on the compliance of management's discussion and analysis and management reports of fund performance with existing regulatory provisions. The results of our reviews indicate that our efforts to raise awareness about a better presentation of information have paid off, as regards both companies and investments funds.

Through the CDR Program, we are able to monitor the securities regulatory system and thereby participate in the constant improvement of documents that circulate in the Québec markets. Enhancing the quality of information disclosed by issuers is indisputably beneficial for all market participants. I applaud the efforts made by reporting issuers to offer investors compliant continuous disclosure documents.



Josée Deslauriers

Senior Director, Investment Funds and Continuous Disclosure



Introduction

This is the eleventh year that the *Autorité des marchés financiers* (AMF) has published the results of reviews conducted within the scope of the [Continuous Disclosure Review Program](#) (CDR Program), a program established to review the compliance and general quality of the continuous disclosure documents of reporting issuers for whom the AMF is the principal regulator.¹

Reporting issuers can be divided into two main groups: companies subject to [Regulation 51-102](#)² and investment funds subject to [Regulation 81-106](#) and [Regulation respecting Development Capital Investment Fund Continuous Disclosure](#). Under the Act and the regulations,³ reporting issuers must file a number of continuous disclosure documents. As part of the CDR Program, the AMF reviews the following, in particular:

- financial statements;
- management's discussion and analysis (MD&A) or management reports of fund performance;
- annual information forms (AIF);
- information circulars; and
- technical reports.

This Activity Report which covers the period from April 1, 2012 to March 31, 2013 is divided into two sections, "Companies" and "Investment Funds". Each part includes a summary of the reviews conducted in 2012-2013 and the common deficiencies identified, and it provides a brief overview of recent amendments to the continuous disclosure obligations as well as a glimpse at the reviews contemplated for 2013-2014.

¹ The principal regulator is the securities regulator in the jurisdiction in which the issuer's head office is located or in which the investment fund manager's head office is located.

² For the sake of conciseness, the full name of regulations and notices are listed in an appendix.

³ In this report, "the Act and the regulations" means the [Securities Act, R.S.Q., c. V-1.1, as well as the regulations and other texts setting out continuous disclosure requirements](#). A list of the principal regulations and other texts is set forth in an appendix.

Continuous Disclosure Review Program – Companies



Companies subject to [Regulation 51-102](#) (“companies”) must file various documents with the AMF in order to satisfy their continuous disclosure obligations. Through systematic summary reviews, full reviews or issue-oriented reviews, the AMF helps companies comply with their obligations.

The following are the various reviews conducted within the scope of the CDR Program:

» **Systematic summary reviews**

These reviews target all companies and, among other things, examine compliance with deadlines for the filing of financial statements and the MD&A as well as the proper filing of certification of disclosure in annual and interim filings. The reviews also check for the inclusion and presentation of the elements prescribed by regulation.

» **Full reviews**

These reviews target a sampling of companies and cover compliance with continuous disclosure obligations for the entire continuous disclosure record. This year, they focussed on the following matters, in particular:

- disclosure included in IFRS-compliant annual financial statements;
- disclosure included in the MD&A;
- disclosure relating to the audit committee and to corporate governance practices;
- disclosure included in the statement of executive compensation.

» **Issue-oriented reviews**

These reviews usually target a sampling of companies and examine a specific accounting, legal or regulatory issue. This year, they dealt with the following matters, in particular:

- disclosure for mineral projects;
- disclosure for operating segments.

Following a review in which material deficiencies are identified regarding the application of the Act, the regulations or an accounting standard, the AMF requires that the incorrect information be corrected immediately and the documents refiled. If the AMF determines that improvements are required in the presentation of continuous disclosure information, it can also request that amendments be made when the company next files documents.

The full reviews and issue-oriented reviews carried out by the AMF rely on the harmonized continuous disclosure review program established by the Canadian Securities Administrators (CSA). [CSA Staff Notice 51-312](#) (revised) provides more detailed information about how this program functions.

1.1 REVIEW RESULTS

Systematic summary reviews

After the systematic summary review of the various continuous disclosure documents, approximately 6% of the documents reviewed had to be refiled.

Full reviews and issue-oriented reviews

Of the 300 companies targeted by the CDR Program during this last fiscal year, 68 underwent a full review and 49 underwent an issue-oriented review. Following these reviews, approximately 3% of the documents reviewed had to be refiled. In addition, in order to improve the presentation of their continuous disclosure information, the majority of companies targeted by these reviews will have to make changes in their next filings.

1.2 MAIN DEFICIENCIES IDENTIFIED

The common deficiencies noted with respect to the various accounting requirements and regulatory provisions dealing with continuous disclosure are presented in tables 1 to 3. They include relevant references and reminders in order to help companies better understand and comply with their continuous disclosure obligations.

1.2.1 Deficiencies identified in the financial statements

Table 1 sets out the common deficiencies identified in the financial statements. These deficiencies were noted primarily in reviews performed on the first IFRS-compliant annual financial statements.

TABLE 1 - DEFICIENCIES IDENTIFIED IN THE FINANCIAL STATEMENTS

Presentation of financial statements

- » Failure to fully disclose certain accounting policies specific to the company
- » Failure to disclose management's judgments in the process of applying the company's accounting policies that have the most significant effect on the amounts recognized in the financial statements
- » Failure to disclose information about the major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities
- » Additional information on the nature of expenses omitted
- » Financial information for the corresponding interim period in the immediately preceding financial year omitted from the statement of changes in equity

*IAS 1, Presentation of Financial Statements
Part 4 of [Regulation 51-102](#)*

REMINDER

In presenting financial statements, companies must consider whether disclosure would assist investors in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position.

Financial instruments: Disclosures

- » Failure to disclose the fair value of certain classes of financial assets and financial liabilities for which such disclosure is required
- » Failure to disclose certain information on the nature and extent of risks arising from financial instruments to which the company is exposed

IFRS 7, Financial Instruments: Disclosures

REMINDER

Companies must provide qualitative and quantitative disclosures regarding financial instruments so that investors are able to link related disclosures and hence form an overall picture of the nature and extent of the risks arising from financial instruments.

Operating segments

- » Failure to disclose certain information about geographic areas, in particular revenues from external customers as well as certain material non-current assets located in a foreign country
- » Failure to disclose information about major customers, in particular when revenues from transactions with a single external customer amount to 10% or more of the company's revenues
- » Failure to combine and disclose separately from other reconciling items, in the "all other segments" category, information about other business activities and operating segments that are not reportable

IFRS 8, Operating Segments

REMINDER

Companies must disclose information about operating segments so that investors are able to evaluate the nature and financial effects of the business activities in which they engage and the economic environments in which they operate.

Impairment of assets

- » Failure to disclose certain information on estimates used to measure recoverable amounts of cash-generating units (groups of cash-generating units) containing goodwill or intangible assets with indefinite useful lives for purposes of annual impairment testing
- » Failure to disclose certain information on each cash-generating unit or group of cash-generating units for which the carrying amount of goodwill or intangible assets with indefinite useful lives is material

IAS 36, Impairment of Assets

REMINDER

Irrespective of whether there is any indication of impairment, companies must test goodwill and intangible assets with indefinite useful lives for impairment annually, and communicate the information required by IFRS.

1.2.2 Deficiencies identified in the MD&A

Table 2 sets out the common deficiencies identified in the MD&A. They were noted in reviews dealing, in particular, with compliance with [Form 51-102F1](#).

Management's discussion and analysis is the essential complement to the financial statements. It must provide a narrative explanation, through the eyes of management, of:

- the company's financial performance during the period covered by the financial statements;
- the company's financial condition;
- the company's future prospects.

TABLE 2 – DEFICIENCIES IDENTIFIED IN THE MD&A

Non-GAAP⁴ financial measures

- » Presentation of non-GAAP measures giving a more positive picture of financial performance without the additional disclosure indicated in [CSA Staff Notice 52-306 \(revised\)](#)
- » Presentation of earnings before interest, tax, depreciation and amortization (EBITDA) excluding other expenses

[CSA Staff Notice 52-306 \(revised\)](#)

REMINDER

In order to provide investors with a fair presentation of transactions and avoid misleading them, companies that present non-GAAP financial measures should accompany them with appropriate disclosure.

Discussion of operations

- » Incomplete discussion of revenue and significant factors that caused revenue variations
- » Incomplete discussion of the cost of sales or gross profit
- » Incomplete discussion of significant projects that have not yet generated revenue
- » Tabular comparison of the use of proceeds from any financing omitted

Item 1.4, Discussion of Operations, of [Form 51-102F1](#)
Section 5.3 of [Regulation 51-102](#)

REMINDER

In order to properly inform investors, companies must clearly explain the factors that contributed to material variations in their operations during the past financial year or during interim periods.

Liquidity and capital resources

- » Incomplete discussion of liquidity needs and available sources of financing
- » Incomplete discussion of the manner in which the company expects to discharge its obligations when it has a working capital deficiency
- » Incomplete discussion of commitments for capital expenditures, including the expected source of funds

Items 1.6, Liquidity, and 1.7, Capital Resources, of [Form 51-102F1](#)

REMINDER

Companies must discuss trends and expected fluctuations in their liquidity and capital resources so that investors can properly understand the issues at stake.

4 Generally Accepted Accounting Principles.

TABLE 2 - DEFICIENCIES IDENTIFIED IN THE MD&A (continued)

Transactions between related parties

- » Business purpose of the related party transaction omitted
- » Description of the measurement basis for the transaction omitted

Item 1.9, *Transactions Between Related Parties*, of [Form 51-102F1](#)

REMINDER

The analysis must discuss the qualitative characteristics of related party transactions and their measurement basis. These are necessary for a proper understanding of the transactions' business purpose.

1.2.3 Deficiencies identified in the other continuous disclosure documents

Table 3 sets out the common deficiencies identified in the other required continuous disclosure documents, such as information circulars, AIFs, technical reports and certificates.

Compliance reviews examined various issues, in particular:

- statement of executive compensation;
- certification of disclosure in issuers' annual and interim filings;
- disclosure relating to the audit committee and to corporate governance practices;
- disclosure for mineral projects.

TABLE 3 - DEFICIENCIES IDENTIFIED IN THE OTHER DOCUMENTS

Statement of executive compensation

- » Discussion of executive compensation inadequately describes how each element of compensation is determined
- » Failure to disclose or quantify performance goals used to determine bonuses or share-based or option-based awards
- » Failure to disclose the companies included in the benchmark group and the selection criteria

[Form 51-102F6](#)

REMINDER

Companies must clearly communicate the compensation of each executive officer. This disclosure will provide insight into executive compensation, a key aspect of the overall stewardship and governance of the company.

TABLE 3 – DEFICIENCIES IDENTIFIED IN THE OTHER DOCUMENTS (continued)**Certification of disclosure in issuers' annual and interim filings**

- » Conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures (DC&P) or the internal control over financial reporting (ICFR) in the MD&A omitted, incomplete or qualified
- » Certificate changed by omitting or adding text
- » Dates of financial periods in certificates inaccurate

[Regulation 52-109](#)
[CSA Staff Notice 52-327](#)

REMINDER

The objectives of the requirements under Regulation 52-109 include improving the quality, reliability and transparency of annual and interim filings. Companies must therefore comply with these requirements and ensure that the disclosure provided is accurate.

Audit committees

- » Audit committee's written charter incomplete
- » Audit committee information required in an AIF or circular incomplete

[Regulation 52-110](#)

REMINDER

Companies must present complete information about the responsibilities of their audit committee. Audit committees play an important role within companies and contribute to enhanced investor confidence.

Disclosure of corporate governance practices

- » Incomplete description of the way in which the board of directors ensures compliance with the code of conduct and ethics, and of the measures taken to encourage and promote a culture of ethical business conduct
- » Description of the process for identifying new board nominees omitted
- » Incomplete description of the process for assessing the effectiveness of the board and board committees

[Regulation 58-101](#)
[CSA Staff Notice 58-306](#)

REMINDER

Disclosure about corporate governance practices must include a description of the steps the board of directors takes to encourage and promote a proper culture of ethical business conduct.

Disclosure for mineral projects

- » Incomplete or inadequate disclosure about preliminary economic assessments in various continuous disclosure documents and technical reports
- » Incomplete disclosure about certain material mineral projects, including the progress of each
- » Certificates and consents of qualified persons for technical reports omitted
- » Source and date for historical estimates and comments on relevance and reliability of historical estimates omitted

[Regulation 43-101](#)
[Forms 51-102F1 and 51-102F2](#)

REMINDER

Companies with mineral projects must provide information about each material project so that investors can properly understand the issues at stake.

1.3 AREAS OF FOCUS FOR 2013-2014

1.3.1 Regulatory overview

During the past fiscal year, there were few regulatory changes affecting the continuous disclosure obligations of companies. The CSA decided not to proceed with the implementation of *Draft Regulation 51-103 respecting Ongoing Governance and Disclosure Requirements for Venture Issuers*. Thus, venture issuers must continue to comply with the provisions of the existing regulatory regime for venture issuers. The CSA is considering implementing some of the proposals made within the scope of the draft regulation by means of amendments to the existing regulatory regime for venture issuers. Any proposed draft amendments will be published for comment.

We invite you to read two recently published CSA staff notices dealing with certain aspects of continuous disclosure:

Multilateral CSA Staff Notice 51-338	Continuous Disclosure and Prospectus Requirements Relating to Documents Prepared Under the U.S. Securities and Exchange Act of 1934
CSA Staff Notice 51-339	Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2013

1.3.2 Current and planned reviews

The full reviews planned for the 2013-14 fiscal year will examine financial statement compliance with IFRS and compliance of MD&A and other documents with applicable regulatory provisions, with a particular emphasis on certain subjects, such as:

- » financial instruments and impairment of assets in the financial statements;
- » discussion of operations and liquidity in the MD&A;
- » statement of executive compensation in information circulars.

We are also planning certain issue-oriented reviews, including:

» **Issue-oriented review of non-GAAP measures and additional GAAP measures**

This review will examine company compliance with the guidance set out in [CSA Staff Notice 52-306 \(revised\)](#). In particular, we will examine whether companies are implementing recommended practices regarding additional GAAP measures.

» **Issue-oriented review of the measures implemented to allow certification of disclosure in issuers' annual and interim filings**

This review will examine company compliance with [Regulation 52-109](#). We will review the measures established by certifying officers in order to ensure that representations set forth in the certificates are adequate.

Continuous Disclosure Review Program and Compliance Reviews – Investment Funds



Investment funds that are subject to [Regulation 81-106](#)⁵ and whose manager has its head office in Québec, and investment funds that are subject to *Regulation respecting Development Capital Investment Fund Continuous Disclosure* (collectively the “funds”) must file several documents with the AMF in order to satisfy their continuous disclosure obligations. As part of the Continuous Disclosure Review Program (CDR Program) and the compliance reviews, the AMF monitors fund compliance with their obligations. In particular, it examines compliance of the continuous disclosure record with the provisions of [Regulation 81-106](#) or the [Regulation respecting Development Capital Investment Fund Continuous Disclosure](#) as well as with other provisions in force, including those in [Regulation 81-102](#) and [Regulation 81-107](#).

The following are the various compliance and other reviews conducted within the scope of the CDR Program:

» **Systematic summary reviews**

These reviews target all funds and, among other things, examine compliance with deadlines for the filing of financial statements, management reports of fund performance and compliance reports. The reviews also check for the inclusion and presentation of the elements prescribed by regulation.

» **Full reviews**

These reviews target a particular fund or family of funds, and cover compliance with continuous disclosure obligations for the entire continuous disclosure record.

» **Issue-oriented reviews**

These reviews target a sampling of funds and examine a specific accounting, legal or regulatory issue. This year, one of the issue-oriented reviews examined the investment risk classification of funds set out in the Fund Facts document.

5 For the sake of conciseness, the full name of regulations and notices are listed in an appendix.

Following a review in which material deficiencies are identified regarding the application of the Act, the regulations or an accounting standard, the AMF requires that the incorrect information be corrected immediately and the documents refiled, where applicable. If the AMF determines that improvements are required in the presentation of continuous disclosure information, it can also request that amendments be made when the fund next files documents.

2.1 REVIEW RESULTS

Systematic summary reviews

After the systematic summary review of the various continuous disclosure documents targeting all funds, less than 1% of the documents had to be refiled.

Full reviews and issue-oriented reviews

During this fiscal year, 312 of the 387 funds targeted by the CDR Program were the subject of one or more full or issue-oriented reviews. Funds were selected for full reviews based on criteria pertaining to financial and non-financial information published by the funds and their manager.

Following these reviews, few funds were required to file a missing document or restate a document. However, the AMF issued numerous observations requiring improvements in funds' next filings of continuous disclosure documents. Improvements were also required with respect to certain policies and procedures as well as information posted on websites.

2.2 MAIN DEFICIENCIES IDENTIFIED

The common deficiencies noted with respect to the various applicable accounting requirements and regulatory provisions are presented in tables 1 to 5. They include relevant references and reminders in order to help funds better understand and comply with their continuous disclosure obligations.

2.2.1 Deficiencies identified in the financial statements

Table 1 sets out the common deficiencies identified in the financial statements. They were noted in reviews focused, in particular, on annual and interim financial statement compliance with Canadian generally accepted accounting principles (GAAP) applicable to funds, namely Part V of the *CICA Handbook* and Parts 2 and 3 of [Regulation 81-106](#).

TABLE 1 - DEFICIENCIES IDENTIFIED IN THE FINANCIAL STATEMENTS

Sensitivity analysis related to financial instrument risk

- » Index used for the price market risk sensitivity analysis different from the index presented in the management report of fund performance
- » Presentation of incorrect ratings in connection with the credit risk analysis

CICA Handbook Section 3862, Financial instruments - Disclosures

REMINDER

Accurate and consistent disclosure between the various continuous disclosure documents allows investors to better assess fund performance.

Statement of investment portfolio

- » Inconsistencies between the sector allocation presented in the management report of fund performance and the classification of securities in the statement of investment portfolio, and according to the investment objectives of the fund
- » Classification of securities inconsistent with the fund's investment objectives
- » Inaccurate classification or naming of securities

[Section 3.5 of Regulation 81-106](#)
[Item 5 of Part B of Form 81-106F1](#)

REMINDER

Disclosure in the various continuous disclosure documents must be consistent so that investors can establish links and assess whether the fund's portfolio complies with its investment objectives.

2.2.2 Deficiencies identified in the management report of fund performance

Table 2 sets out the common deficiencies identified in the management reports of fund performance. They were noted in reviews dealing with compliance with [Form 81-106F1](#).

The management report of fund performance is an important disclosure document. It helps investors understand a fund's financial results and performance.

TABLE 2 - DEFICIENCIES IDENTIFIED IN THE MANAGEMENT REPORTS OF FUND PERFORMANCE

Results of operations

- » Failure to explain significant redemptions of securities
- » Inaccurate or incomplete discussion of the fund's performance
- » Failure to discuss the fund's distributions as compared with its performance and the target level of distributions set out in the prospectus
- » Failure to explain certain material transactions

Item 2 of Part B of [Form 81-106F1](#)

REMINDER

Funds must provide complete disclosure to investors in order to allow them to assess a fund's performance. The discussion of the results of operations must help investors to understand the significant factors that had an impact on the fund's performance.

TABLE 2 – DEFICIENCIES IDENTIFIED IN THE MANAGEMENT REPORTS OF FUND PERFORMANCE (continued)

Related party transactions

- » Failure to disclose the measurement basis used to determine the recorded amount of related party transactions
- » Failure to state whether the fund relied on the positive recommendation or approval of the independent review committee to proceed with the transaction

Item 2.5 of Part B of [Form 81-106F1](#)

REMINDER

Disclosure about related party transactions must be complete and transparent so that investors can have an overview of this type of transaction. Obtaining the positive recommendation of the independent review committee or its approval is important for sound fund governance.

2.2.3 Other deficiencies identified

Table 3 sets out certain material deficiencies identified during the various reviews.

TABLE 3 – OTHER DEFICIENCIES IDENTIFIED

Quarterly portfolio disclosure

- » Quarterly portfolio disclosure not posted to the fund's website within 60 days of the end of the period for which the quarterly portfolio disclosure was prepared

Section 6.2 of [Regulation 81-106](#)

REMINDER

Funds must post quarterly portfolio disclosure to their website within the prescribed time limit so that investors are provided with useful information that is more recent than the information presented in the most recent financial statements filed.

Plain language

- » Use of different terms to designate the same concept in one or more disclosure documents of a fund or group of funds

Section 1.4 of the [Policy Statement to Regulation 81-106](#)

Section 15.5 of [Regulation 81-102](#)

REMINDER

The terms used must be standardized in order to help investors better understand a fund's continuous disclosure documents.

2.2.4 Deficiencies identified in issue-oriented reviews

The deficiencies identified during the issue-oriented reviews are presented in tables 4 and 5. They include relevant references and reminders in order to help funds have a better understanding and comply with their continuous disclosure obligations.

Issue-oriented review of the reconciliation between fund portfolio assets and the assets held by the custodian, as well as compliance with investment objectives, strategies and restrictions

Table 4 sets out the main deficiencies identified during the issue-oriented review of the reconciliation between fund portfolio assets and the assets held by the custodian, as well as compliance with investment objectives and strategies stated in the prospectus and the investment restrictions set forth in Part 2 of [Regulation 81-102](#), where applicable.

In particular, the AMF examined whether, on a given date, the portfolio assets matched the information set out in the custodian's statement. To this end, the AMF obtained the statements directly from the custodians. This review was carried out periodically during the fiscal year on a sampling of 20 funds. The AMF then analyzed compliance by the funds with the investment objectives and strategies presented in their prospectus as well as the investment restrictions set forth in Part 2 of Regulation 81-102, where applicable.

TABLE 4 - DEFICIENCIES IDENTIFIED WITH RESPECT TO THE RECONCILIATION BETWEEN FUND PORTFOLIO ASSETS AND THE ASSETS HELD BY THE CUSTODIAN, AS WELL AS COMPLIANCE WITH INVESTMENT OBJECTIVES, STRATEGIES AND RESTRICTIONS

Reconciliation with the custodian

- » Securities of bankrupt companies not presented in the statement of investment portfolio despite the fact that these securities are still held by the custodian
- » Share certificates not held by the fund's custodian, but by a legal adviser or financial institution instead
- » Securities lost by the custodian
- » Reimbursed loans and debts still presented in the custodian's statement
- » Deficient policies and procedures for reconciliation with the custodian

Part 6 of [Regulation 81-102](#)

Part 14 of [Regulation 41-101](#)

Part 11 of [Regulation 31-103](#)

REMINDER

The custodian plays an essential role in the governance of a fund. All of a fund's portfolio assets must be held by a single custodian so that the custodian can properly fulfill its responsibility to protect the portfolio assets. In addition, the manager must establish, maintain and apply appropriate policies and procedures in order to diligently carry out its functions.

Investment strategies

- » Differences between the strategies described in the detailed investment policies and the investment strategies set out in the prospectus

Item 7 of Part B of [Form 81-101F1](#)

REMINDER

In order to comply with the terms of the prospectus, the detailed investment strategies used by the portfolio manager must at all times reflect the investment strategies presented in the prospectus.

Issue-oriented review of the investment risk classification of funds set out in the Fund Facts document

Table 5 sets out the common deficiencies identified during the issue-oriented review of the investment risk classification of funds set out in the Fund Facts document. This review was carried out on all mutual funds for which the AMF is the principal regulator.

The AMF examined whether the investment risk level set out in the Fund Facts document was appropriate. Funds were classified based on the type of mutual fund presented in the "Fund Details" section of the prospectus. Then, the fund's investment risk level was compared with funds in the same category and with the target investment risk level attributed to that category. Funds with an investment risk level above or below the target risk level attributed to the category were analyzed in greater detail. In particular, we examined whether the investment risk level of these funds was consistent with their investment objectives and strategies.

TABLE 5 – DEFICIENCIES IDENTIFIED WITH RESPECT TO INVESTMENT RISK CLASSIFICATION OF FUNDS

Investment risk classification

- » Inadequate investment risk classification

Item 5 of Part I of [Form 81-101F3](#)

REMINDER

Appropriate investment risk classification allows investors to make valid comparisons between funds. Investment risk classification in the Fund Facts document is an important element used by investors when making investment decisions based on their investor profile. Fund managers must therefore be careful when determining the investment risk.

Investment risk classification methodology

- » Inaccurate disclosure in the prospectus

Item 9.1 of Part B of [Form 81-101F1](#)

REMINDER

A complete and accurate description of the investment risk classification methodology allows investors to better compare funds.

Issue-oriented review of structured funds

In the federal budget presented on March 21, 2013, the government of Canada proposed amendments to the *Income Tax Act* (Canada) (the “ITA”) whereby the tax benefits associated with character conversion transactions using forward agreements would be eliminated upon settlement, no later than the maturity date of the relevant forward agreement. Forward agreements generally allow a fund to convert the return generated by a reference fund, which would normally be treated as ordinary income to investors, into a capital gain.

Following this announcement, the AMF drew up a list of funds for which it is the principal regulator and which use character conversion transactions to achieve their investment objectives, and it analyzed those funds. The AMF then contacted the fund managers of each of these funds in order to discuss the issues arising from the proposed amendments to the ITA. Most of these funds have, permanently or temporarily, ceased distributing their securities and will take the necessary measures (merger with another fund, change of objective, etc.) by the maturity date of their forward agreements in order to provide investors with an alternative.

2.3 AREAS OF FOCUS FOR 2013-2014

2.3.1 Regulatory overview

During the year, regulatory amendments pertaining to the changeover to IFRS will come into force.

Table 6 sets out the status of the changeover to IFRS for funds.

TABLE 6 – STATUS OF THE CHANGEOVER TO IFRS

Table 6 – Status of the changeover to IFRS

The Canadian Accounting Standards Board (AcSB) has confirmed the changeover to IFRS for investment companies for fiscal periods beginning as of January 1, 2014. Until then, funds will apply Part V of the *CICA Handbook*.

Amendments to [Regulation 81-106](#) relating to the changeover to IFRS were recently published. Amendments to Regulation respecting Development Capital Investment Fund Continuous Disclosure will be published before January 1, 2014.

Readers may recall that the purpose of the proposed amendments published for comment included:

- » requiring funds to prepare their financial statements in accordance with Canadian GAAP applicable to publicly accountable enterprises;
- » updating the terms and phrases used in order to harmonize them with those in IFRS.

Given that certain IFRS standards applicable to funds are in the process of being amended, the AMF is closely monitoring the work of the IASB and the AcSB and participates therein, as necessary.

[CSA Staff Notice 81-320 \(revised\)](#)

[Request for comments, Regulation to amend the Regulation respecting Development Capital Investment Fund Continuous Disclosure](#)

[Notice of publication: Regulation 81-106](#)

Date on which the amendments to Regulation 81-106 and the Regulation respecting Development Capital Investment Fund Continuous Disclosure are expected to come into force: January 1, 2014.

2.3.2 Current and planned reviews

During the 2013-2014 fiscal year, the AMF expects to conduct issue-oriented reviews, including:

» **Issue-oriented review of the calculation of the net asset value of money market mutual funds**

This review will primarily assess how policies and procedures for valuing the portfolio securities held by money market funds are established, maintained and applied.

» **Issue-oriented review of the reconciliation between fund portfolio assets and the assets held by the custodian, as well as compliance with investment objectives, strategies and restrictions**

We will continue this review, which has been carried out periodically over the most recently completed fiscal years (see details in section 2.2.4).

CONCLUSION

Within the scope of the CDR Program, the AMF ensures that companies and funds satisfy their continuous disclosure obligations by properly complying with requirements under the Act and the regulations. By preparing a summary of the common deficiencies identified during the past fiscal year, the AMF seeks to raise awareness among officers, directors, managers and other stakeholders so they can remedy these deficiencies and thereby enhance the quality of documents that circulate in the Québec markets.

The requests for improvements made to companies pertained to the first IFRS-compliant annual financial statements, the MD&A and other documents. Numerous requests involved the presentation of the financial statements, particularly disclosures about accounting policies and management's judgments in the process of applying those policies. Several requests dealt with the MD&A, more specifically the discussion of operations and the factors that contributed to material variations during the fiscal year.

The requests for improvements made to funds pertained mainly to the management report of fund performance, particularly the section dealing with results of operations. Several changes were also requested in order to harmonize the information presented in the various continuous disclosure documents.

All in all, although we noted a number of deficiencies, the results of our reviews are mostly satisfactory. However, it is our wish that reporting issuers will continue to strive for excellence in their continuous disclosure documents. We invite them to visit the AMF's website (www.lautorite.qc.ca) on a regular basis so as to consult publications dealing with continuous disclosure requirements, particularly CSA staff notices and new regulations.

APPENDIX 1 – PRINCIPAL REGULATIONS PRESCRIBED FOR COMPANIES

The following regulations and other texts contain the principal provisions of the continuous disclosure system applicable to companies. Other obligations may apply. All these regulations and other texts are published under the heading *Securities and Derivatives - Laws and Regulations* on the website of the AMF (www.lautorite.qc.ca).

- » [*Regulation 43-101 respecting Standards of Disclosure for Mineral Projects*](#)
- » [*Regulation 51-102 respecting Continuous Disclosure Obligations*](#)
- » [*Form 51-102F1, Management's Discussion and Analysis*](#)
- » [*Form 51-102F2, Annual Information Form*](#)
- » [*Form 51-102F6, Statement of Executive Compensation \(in respect of financial years ending on or after December 31, 2008\)*](#)
- » [*Regulation 51-105 respecting Issuers Quoted in the U.S. Over-the-Counter Markets*](#)
- » [*Regulation 52-107 respecting Acceptable Accounting Principles and Auditing Standards*](#)
- » [*Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*](#)
- » [*Regulation 52-110 respecting Audit Committees*](#)
- » [*Regulation 58-101 respecting Disclosure of Corporate Governance Practices*](#)
- » [*CSA Staff Notice 51-312 \(revised\), Harmonized Continuous Disclosure Review Program*](#)
- » [*CSA Staff Notice 51-333, Environmental Reporting Guidance*](#)
- » [*CSA Staff Notice 51-339, Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2013*](#)
- » [*CSA Staff Notice 52-306 \(revised\), Non-GAAP Financial Measures and Additional GAAP Measures*](#)
- » [*CSA Staff Notice 52-327, Certification Compliance Update*](#)
- » [*CSA Staff Notice 58-306, 2010 Corporate Governance Disclosure Compliance Review*](#)

APPENDIX 2 – PRINCIPAL REGULATIONS PRESCRIBED FOR INVESTMENT FUNDS

The following regulations and other texts contain the principal provisions of the continuous disclosure system applicable to funds as well as the provisions pertaining to distributions referred to in the text of this report. Other obligations may apply. All these regulations and other texts are published under the heading [Securities and Derivatives – Laws and Regulations](#) on the website of the AMF (www.lautorite.qc.ca).

- » [Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations](#)
- » [Regulation 41-101 respecting General Prospectus Requirements](#)
- » [Form 41-101F2, Information Required in an Investment Fund Prospectus](#)
- » [Form 81-101F1, Contents of Simplified Prospectus](#)
- » [Form 81-101F3, Contents of Fund Facts Document](#)
- » [Regulation 81-102 respecting Mutual Funds](#)
- » [Regulation 81-106 respecting Investment Fund Continuous Disclosure](#)
- » [Form 81-106F1, Contents of Annual and Interim Management Report of Fund Performance](#)
- » [Regulation 81-107 respecting Independent Review Committee for Investment Funds](#)
- » [Regulation respecting Development Capital Investment Fund Continuous Disclosure](#)
- » [CSA Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards](#)
- » [CSA Staff Notice 81-320 \(revised\), Update on International Financial Reporting Standards for Investment Funds](#)

Your comments on this report or the CDR Program contribute to the ongoing improvement of our review process. For more information or to provide us with your comments, please contact any of the following persons:

Josée Deslauriers

Senior Director, Investment Funds and Continuous Disclosure

Telephone: 514-395-0337, ext. 4371

Toll-free: 1-877-525-0337, ext. 4371

E-mail: josee.deslauriers@lautorite.qc.ca

Mathieu Simard

Director, Investment Funds

Telephone: 514-395-0337, ext. 4471

Toll-free: 1-877-525-0337, ext. 4471

E-mail: mathieu.simard@lautorite.qc.ca

Suzanne Boucher

Senior Analyst, Investment Funds

Telephone: 514-395-0337, ext. 4477

Toll-free: 1-877-525-0337, ext. 4477

E-mail: suzanne.boucher@lautorite.qc.ca

Nadine Gamelin

Analyst, Continuous Disclosure

Telephone: 514-395-0337, ext. 4417

Toll-free: 1-877-525-0337, ext. 4417

E-mail: nadine.gamelin@lautorite.qc.ca

