

REGULATION TO AMEND REGULATION 81-101 RESPECTING MUTUAL FUND PROSPECTUS DISCLOSURE

Securities Act

(chapter V-1.1, s. 331.1, par. (1), (3), (11), (14), (16), (17) and (34))

1. Section 1.3 of Regulation 81-101 respecting Mutual Fund Prospectus Disclosure (chapter V-1.1, r. 38) is amended by deleting paragraph (b) and making the necessary changes.

2. Section 5.1 of the Regulation is amended by adding, after paragraph (3), the following:

“(4) Despite subsection (1), a simplified prospectus for an alternative fund must not be consolidated with a simplified prospectus of another mutual fund other than an alternative fund.”.

3. Form 81-101F1 of the Regulation is amended:

(1) by inserting, in the General Instructions and after Instruction (14), the following:

“(14.1) Subsection 5.1(4) of Regulation 81-101 respecting Mutual Fund Prospectus Disclosure states that a simplified prospectus of an alternative fund must not be consolidated with a simplified prospectus of another mutual fund that is not an alternative fund.”;

(2) by inserting, in Part A and after paragraph (2) of Item 1.1, the following:

“(2.1) If the mutual fund to which the simplified prospectus pertains is an alternative fund, indicate this on the front cover.”;

(3) in Part B:

(a) by inserting, in Item 6 and after Instruction (3), the following:

“(4) If the mutual fund is an alternative fund, describe the asset classes that the mutual fund invests in or the investment strategies that the mutual fund follows that cause it to fall within the definition of “alternative fund” in Regulation 81-102 respecting Investment Funds. If those investment strategies involve the use of leverage, disclose the sources of leverage (e.g., borrowing, short selling, use of derivatives) as well as the maximum amount of leverage the alternative fund may use as a ratio calculated in accordance with section 2.9.1 of Regulation 81-102 respecting Investment Funds by dividing the sum of the following by the net asset value of the alternative fund:

(a) the aggregate value of the alternative fund’s indebtedness under any borrowing agreements entered into by the fund;

(b) the aggregate market value of securities to be sold short by the alternative fund;

(c) the aggregate notional amount of the alternative fund’s exposure under its specified derivatives positions.”;

(b) by adding, in Item 7 and after paragraph (10), the following:

“(11) For an alternative fund that borrows cash under subsection 2.6(2) of Regulation 81-102 respecting Investment Funds

(a) state that the alternative fund may borrow cash and the maximum amount the fund may borrow, and

(b) briefly describe how borrowing will be used in conjunction with other strategies of the alternative fund to achieve its investment objectives and the terms of the borrowing arrangements.”;

(c) in Item 9:

(i) by inserting, after paragraph (2), the following:

“(2.1) For an alternative fund, include disclosure to the effect that the alternative fund has the ability to invest in asset classes or use investment strategies that are not permitted for conventional mutual funds and explain how these investment strategies may affect investors’ chance of losing money on their investment in the fund.”;

(ii) by inserting, after subparagraph (c) of paragraph (7), the following, and making the necessary changes:

“(d) borrowing arrangements.”.

4. Form 81-101F2 of the Regulation is amended:

(1) by inserting, after paragraph (2) of Item 1.1, the following:

“(2.1) If the mutual fund to which the annual information form pertains is an alternative fund, indicate this on the front cover.”;

(2) by inserting, after Item 10.9.1, the following:

“10.9.2. Lender

(1) State the name of each person that has lent money to the alternative fund.

(2) State whether any person that has lent money to the alternative fund is an affiliate or associate of the manager of the alternative fund.”.

5. Form 81-101F3 of the Regulation is amended, in Item 1 of Part I:

(1) by inserting, after paragraph (f), the following:

“(g) if the fund facts document pertains to an alternative fund, textbox disclosure using wording substantially similar to the following:

This mutual fund is an alternative fund. It has the ability to invest in asset classes or use investment strategies that are not permitted for conventional mutual funds.

The specific strategies that differentiate this fund from conventional mutual funds include: [list the asset classes the alternative fund invests in and/or the investment strategies used by the alternative fund that cause it to fall within the definition of “alternative fund” in Regulation 81-102 respecting Investment Funds].

[Explain how the listed investment strategies may affect investors’ chance of losing money on their investment in the alternative fund.]”;

Note: The CSA is currently working on the development of an ETF Facts for exchange traded mutual funds. We anticipate including a similar disclosure requirement in Form 41-101F4.
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(2) by replacing, after paragraph (f), the following instructions:

“INSTRUCTIONS:

(1) The date for a fund facts document that is filed with a preliminary simplified prospectus or simplified prospectus must be the date of the certificate contained in the related annual information form. The date for a fund facts document that is filed with a pro forma simplified prospectus must be the date of the anticipated simplified prospectus. The date for an amended fund facts document must be the date of the certificate contained in the related amended annual information form.

(2) If the fund facts document pertains to an alternative fund that uses leverage, the required textbox disclosure must disclose the sources of leverage. It must also disclose the maximum amount of leverage the alternative fund may use, along with the minimum and maximum amount of leverage experienced by the alternative fund as disclosed in the most recently filed interim financial reports and audited financial statements. For a newly established alternative that has not yet filed any financial statements, state the expected range of leverage.

(3) Leverage must be disclosed as a ratio calculated by dividing the sum of the following by the net asset value of the alternative fund:

(a) the aggregate value of the alternative fund’s indebtedness under any borrowing agreements entered into by the fund;

(b) the aggregate market value of securities to be sold short by the alternative fund;

(c) the aggregate notional amount of alternative fund’s exposure under its specified derivatives transactions.”.

Note: The CSA is currently working on the development of an ETF Facts for exchange traded mutual funds. We anticipate including a similar instructions in Form 41-101F4.
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6. This Regulation comes into force on (*indicate here the date of coming into force of this Regulation*).