

Administrative version
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[This document has been blacklined to show proposed amendments to the current version and is provided for illustrative purposes only]

REGULATION 81-102 RESPECTING INVESTMENT FUNDS

Decision 2001-C-0209, Title; M.O. 2004-02, s. 1; M.O. 2008-06, s. 1; M.O. 2014-04, s. 1.

Securities Act

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

PART 1 DEFINITIONS AND APPLICATION

1.1. Definitions

In this Regulation

~~“acceptable clearing corporation” means a clearing corporation that is an acceptable clearing corporation under the Joint Regulatory Financial Questionnaire and Report;~~

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

“alternative fund” means a mutual fund that has adopted fundamental investment objectives that permit it to invest in asset classes or adopt investment strategies that are otherwise prohibited but for prescribed exemptions from Part 2 of this Regulation;

“asset allocation service” means an administrative service under which the investment of a person is allocated, in whole or in part, among mutual funds to which this Regulation 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 a mutual fund borrows securities in order to sell them short;

“cash cover” means any of the following assets of a mutual fund that are held by the mutual 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 fund or from a short sale of securities made by the mutual fund:

(a) cash;

(b) cash equivalents

(c) synthetic cash;

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

(e) securities purchased by the mutual fund in a reverse repurchase transaction under section 2.14, to the extent of the cash paid for those securities by the mutual 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 specified derivative that is cleared through a clearing corporation that is any of the following:

(a) registered with the Securities and Exchange Commission;

(b) registered with the US Commodity Futures Trading Commission;

(c) authorized by the European Securities and Markets Authority; or

(d) a regulated clearing agency;

“clearing corporation” means an organization through which trades in specified derivatives~~options or standardized futures~~ 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 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% 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% 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, for a security or instrument, a rating issued by a designated rating organization, or its DRO affiliate, that is at or above one of the following rating categories, or that is at or above a category that replaces one of the

following rating categories, if

(a) there has been no announcement by the designated rating organization or its DRO affiliate 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

(b) no designated rating organization or any of its DRO affiliates 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, Inc.	F1	A
Moody's Canada Inc.	P-1	A2
Standard & Poor's Ratings Services (Canada)	A-1 (Low)	A

“designated rating organization” means

(a) each of DBRS Limited, Fitch, Inc., Moody's Canada Inc., and Standard & Poor's Ratings Services (Canada), including their DRO affiliates; or

(b) any other credit rating organization that has been designated under securities legislation;

“DRO affiliate” has the same meaning as in section 1 of Regulation 25-101 respecting Designated Rating Organizations (chapter V-1.1, r. 8.1);

“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” means an exchange-traded mutual fund not in continuous distribution that~~

~~_____ (a) has fundamental investment objectives which 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;~~

“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 which 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 an insurer authorized 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 investment fund ~~mutual fund~~, or

(b) a restricted security held by an investment fund; ~~a restricted security held by 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~~;

“independent review committee” means the independent review committee of the investment fund established under Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43);

“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 Regulation 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”;~~

“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 mutual 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”: the ratio, expressed as a percentage, of the expenses of an mutual fund to its average net asset value, calculated in accordance with Part 15 of Regulation 81-106 respecting Investment Fund Continuous Disclosure (chapter V-1.1, r. 42);

“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”: any material change within the meaning of Regulation 81-106 respecting Investment Fund Continuous Disclosure;

“member of the organization” has the meaning ascribed to that term in Regulation 81-105 respecting Mutual Fund Sales Practices (chapter V-1.1, r. 41);

“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 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 Regulation 81-106 respecting Investment Fund Continuous Disclosure;

“non-redeemable investment fund” has the same meaning ascribed to that term in Regulation 81-106 respecting Investment Fund Continuous Disclosure;

“non-resident sub-adviser” means a person 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~~

- ~~—— (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 (S.C. 1991, c. 46), 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 other than the mutual fund, or
- (b) widely recognized and used;

“permitted precious metals” means gold, silver, platinum and palladium;

“permitted precious metal certificate” means a certificate representing a permitted precious metal if the permitted precious metal 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 a permitted precious metal other than gold, of a minimum fineness of 999 parts per 1000,

(d) held in Canada,

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

(f) if not purchased from a bank listed in Schedule I, II or III of the Bank Act (R.S.C., c. 46), 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, in an original or processed state, an agricultural product, forest product, product of the sea, mineral, metal, hydrocarbon fuel product, electricity, water, precious stone or other gem;

“portfolio adviser” means a person 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, other than an alternative 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 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 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 ~~investment fund~~ ~~mutual fund~~, any quotation of a price for a fixed income security made through the inter-dealer bond 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 other than a government or permitted supranational agency;

“regulated clearing agency” has the meaning ascribed to that term in Regulation 94-101 respecting Mandatory Central Counterparty Clearing of Derivatives;

“report to securityholders” means a report that includes annual or interim financial statements, 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 ~~investment fund~~~~mutual fund~~ or by the ~~investment fund’s~~~~mutual 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 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 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 Regulation 81-106 respecting 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 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 by either the custodian or a sub-custodian of the investment fund;

“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 (L.C. 1991, ch. 46) 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.

Decision 2001-C-0209, 1.1; M.O. 2004-02, s. 2; M.O. 2005-06, ss. 1, 11 and 12; M.O. 2006-03, s. 1; M.O. 2008-06, ss. 2 and 13; M.O. 2008-13, s. 1; M.O. 2009-05, s. 1; M.O. 2010-14, s. 1; M.O. 2012-06, s. 1; M.O. 2013-09, s. 1; M.O. 2013-24, s. 1; M.O. 2014-04, s. 2.

1.2. Application

(1) This Regulation 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 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 Regulation 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 Fondation, 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) [section 2.6.1 and sections 2.7 to 2.17](#)~~sections 2.12 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 Regulation conflicts or is inconsistent with a provision of the Employee Investment Act (British Columbia), (R.S.B.C. 1996 chapter 112) or the Small Business Venture Capital Act (British Columbia), (R.S.B.C. 1996, chapter 429), the provision of the Employee Investment Act or the Small Business Venture Capital Act, as the case may be, prevails.

Decision 2001-C-0209, 1.2; M.O. 2005-06, s. 11; M.O. 2008-06, s. 13; M.O. 2012-06, s. 38; M.O. 2014-04, s. 3.

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 Regulation.

(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) *(paragraph repealed)*.

Decision 2001-C-0209, 1.3; M.O. 2005-06, s. 11; M.O. 2012-06, s. 2; M.O. 2014-04, s. 80.

PART 2 INVESTMENTS

2.1. Concentration Restriction

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

(1.1) An alternative 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) Subsections (1) and (1.1) do ~~Subsection (1) does~~ 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 an investment fund ~~a mutual 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 an investment fund ~~a mutual fund~~;
- (e) an equity security if the purchase is made by a fixed portfolio investment fund ~~fixed portfolio ETF~~ in accordance with its investment objectives.

(3) In determining an investment fund's ~~a mutual fund's~~ compliance with the restrictions contained in this section, the investment fund ~~the mutual fund must~~, for each long position in a specified derivative that is held by the investment fund ~~the mutual fund~~ for purposes other than hedging and for each index participation unit held by the investment fund ~~the mutual fund~~, consider that it holds 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 investment fund ~~mutual fund~~ must not include in the determination referred to in subsection (3) a security or instrument that is a component of, but that 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) 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.

Decision 2001-C-0209, 2.1; M.O. 2004-02, s. 3; M.O. 2012-06, s. 3; M.O. 2014-04, ss. 4 and 81.

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.

Decision 2001-C-0209, 2.2; M.O. 2004-02, s. 4; M.O. 2012-06, s. 4; M.O. 2014-04, s. 6.

2.3. Restrictions Concerning Types of Investments

- (1) A mutual fund must not
- (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% of its net asset value would be made up of guaranteed mortgages;
 - (d) purchase a precious metals certificate, other than a permitted gold certificate;
 - (e) purchase permitted precious metals, a permitted precious metal certificate or a specified derivative the underlying interest of which 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

~~and specified derivatives the underlying interest of which is a physical commodity; (e)
purchase a gold certificate, other than a permitted gold certificate;~~

~~(e) purchase gold or a permitted gold certificate if, immediately after the purchase, more than 10% of its net asset value would be made up of gold and permitted gold certificates;~~

(f) except to the extent permitted by paragraphs (d) and (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) ~~(paragraph repealed) purchase, sell or use a specified derivative the underlying interest of which is~~

~~(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), (f) and (g) do not apply to an alternative fund.

(1.2) The restriction in paragraph 1(e) does not apply to a precious metals fund with respect to purchasing permitted precious metals, a permitted precious metal certificate or a specified derivative the underlying interest of which 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) In determining an investment fund's compliance with the restrictions contained in this section, for each long position in a specified derivative that is held by the investment fund for purposes other than hedging and for each index participation unit or underlying investment fund held by the investment fund, the investment fund must consider that it

holds directly the underlying interest of that specified derivative or its proportionate share of the securities held by the issuer of the index participation unit or underlying investment fund, as applicable.

(4) Despite subsection (3), in the determination referred to in subsection (3) the investment fund must not include a security or instrument that is a component of, but that 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.

Decision 2001-C-0209, 2.3; M.O. 2012-06, s. 5; M.O. 2014-04, s. 6.

2.4. Restrictions Concerning Illiquid Assets

(1) A mutual fund must not purchase an illiquid asset if, immediately after the purchase, more than 10% of its net asset value would be made up of illiquid assets.

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

(3) If more than 15% 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% 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 have invested, 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 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.

Decision 2001-C-0209, 2.4; M.O. 2012-06, s. 6; M.O. 2014-04, s. 81.

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 fund, either of the following apply:

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

(ii) the other investment fund is an alternative fund or a non-redeemable investment fund that is subject to this Regulation, provided that the mutual fund must not purchase securities of the alternative fund or non-redeemable investment fund if, immediately after the purchase, more than 10% of its net asset value would be made up of securities of alternative funds and non-redeemable investment funds;~~(a) if the investment fund is a mutual fund, the other investment fund is a mutual fund that is subject to this Regulation and offers or has offered securities under a simplified prospectus in accordance with Regulation 81-101 respecting Mutual Fund Prospectus Disclosure (chapter V-1.1, r. 38);~~

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

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

(ii) the other investment fund complies with the provisions of this Regulation applicable to an alternative 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;~~if the investment fund is a mutual fund, the investment fund and the other investment fund are reporting issuers in the local jurisdiction;~~

~~(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) ~~and~~, (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 issued by an investment fund.

(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.

Decision 2001-C-0209, 2.5; M.O. 2004-02, s. 5; M.O. 2012-06, s. 6; M.O. 2014-04, s. 7.

2.6. Investment Practices

(1) An investment fund must not

(a) 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 investment fund while the investment fund effects an orderly liquidation of portfolio assets, or to permit the 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 investment fund does not exceed 5% of its net asset value at the time of the borrowing;

(ii) the security interest is required to enable the investment fund to effect a specified derivative transaction or short sale of securities under this Regulation, 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 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) purchase securities on margin, unless permitted by section 2.7 or 2.8;

(c) 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

(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) An alternative fund or a non-redeemable investment fund may borrow cash in excess of the limits set out in subsection (1) provided that each of the following applies:

(a) the alternative fund or non-redeemable investment fund may only borrow from an entity described in section 6.2;

(b) if the lender is an affiliate of the investment fund manager of the alternative fund or non-redeemable investment fund, the independent review committee must approve the applicable borrowing agreement under subsection 5.2(1) of Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43);

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

(d) the total value of cash borrowed must not exceed 50% of the alternative fund or non-redeemable investment fund's net asset value.~~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 fund while the mutual fund effects an orderly liquidation of portfolio assets, or to permit the mutual 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 fund does not exceed 5% of its net asset value at the time of the borrowing;~~

~~(ii) the security interest is required to enable the mutual 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 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, 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~~

~~_____ (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.~~

Decision 2001-C-0209, 2.6; M.O. 2005-06, s. 11; M.O. 2008-06, s. 13; M.O. 2012-06, s. 6; M.O. 2014-04, s. 8.

2.6.1. Short Sales

(1) An investment fund ~~A mutual 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 investment fund ~~mutual 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 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 fund, the aggregate market value of all 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 fund, the aggregate market value of all 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 fund or a non-redeemable investment fund, the aggregate market value of all securities of the issuer of the securities sold short by the investment fund does not exceed 10% of the net asset value of the investment fund; and

(v) if the investment fund is an alternative 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.~~at the time the mutual fund sells the security short~~

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

~~(ii) the aggregate market value of all 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) the aggregate market value of all securities sold short by the mutual fund does not exceed 20% of the net asset value of the mutual fund.~~

(2) A mutual fund other than an alternative 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 securities sold short by the mutual fund on a daily mark-to-market basis.

(3) A mutual fund other than an alternative 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.

M.O. 2012-06, s. 6.

2.6.2. Total Borrowing and Short Selling

(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 all 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 all 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.

2.7. Transactions in Specified Derivatives for Hedging and Non-hedging Purposes

(1) An investment fund ~~A mutual 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 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 contract, has a designated rating.

(d) the option, debt-like security, swap or 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 contract, falls below the level of a designated rating while the option, debt-like security, swap or contract is held by an investment fund ~~a mutual fund~~, the investment fund ~~the mutual fund~~ must take the steps that are reasonably required to close out its position in the option, debt-like security, swap or contract in an orderly and timely fashion.

(3) Despite any other provisions contained in this Part, an investment fund ~~a mutual 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 an investment fund under its specified derivatives positions other than for positions in cleared specified derivatives, 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.
~~(4) The mark-to-market value of the exposure of a mutual 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% of the net asset value of the mutual fund.~~

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

(a) if the investment fund ~~mutual 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 investment fund ~~mutual fund~~; and

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

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

Decision 2001-C-0209, 2.7; M.O. 2008-06, s. 13; M.O. 2012-06, s. 7; M.O. 2013-09, s. 2; M.O. 2014-04, s. 81.

2.8. Transactions in Specified Derivatives for Purposes Other than Hedging

(0.1) This section does not apply to an alternative 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% 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 (S.C. 1991, c. 46) that would produce the same annualized return as the synthetic cash position is then producing.

Decision 2001-C-0209, 2.8; M.O. 2012-06, s. 8; M.O. 2014-04, s. 81.

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.

Decision 2001-C-0209, 2.9; M.O. 2014-04, s. 9.

2.9.1. Leverage

(1) An investment fund's aggregate gross exposure must not exceed 3 times the investment fund's net asset value.

(2) For the purposes of subsection (1), an investment fund's aggregate gross exposure must be calculated as the sum of the following, divided by the investment fund's net asset value:

(a) the aggregate value of the investment fund's indebtedness under any borrowing agreements entered into pursuant to section 2.6;

(b) the aggregate market value of all securities sold short by the investment fund pursuant to section 2.6.1;

(c) the aggregate notional amount of the investment's fund's specified derivatives positions.

(3) In determining an investment fund's compliance with the restriction contained in this section, the investment fund must also include in its calculation its proportionate shares of securities of any underlying investment funds for which a similar calculation is required.

(4) An investment fund must determine its compliance with the restriction contained in this section as of the close of business of each day on which the investment fund calculates a net asset value.

(5) If the investment fund's aggregate gross exposure as determined in subsection (2) exceeds 3 times 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 gross exposure to 3 times the investment fund's 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 mutual 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 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 for a liability except to the extent that the person may be indemnified for that liability under this section.

Decision 2001-C-0209, 2.10; M.O. 2008-06, s. 13; M.O. 2014-04, ss. 10 and 81.

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 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).

Decision 2001-C-0209, 2.11; M.O. 2012-06, s. 10; M.O. 2014-04, s. 11.

2.12. Securities Loans

(1) Despite any other provision of this Regulation, 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% 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 mutual fund in connection with the transaction is at least 102% 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.

Decision 2001-C-0209, 2.12; M.O. 2005-06, s. 11; M.O. 2013-09, s. 3; M.O. 2014-04, s. 12.

2.13. Repurchase Transactions

(1) Despite any other provision of this Regulation, 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% 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% 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) A mutual 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).

Decision 2001-C-0209, 2.13; M.O. 2005-06, s. 11; M.O. 2014-04, s. 13.

2.14. Reverse Repurchase Transactions

(1) Despite any other provision of this Regulation, 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% 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% 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.

Decision 2001-C-0209, 2.14; M.O. 2005-06, s. 11; M.O. 2014-04, s. 14.

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 Regulation, 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 Regulation; 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.

Decision 2001-C-0209, 2.15; M.O. 2005-06, s. 11; M.O. 2014-04, s. 15.

2.16. Controls and Records

(1) An investment fund shall 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) shall 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 shall, 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 Regulation;

(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 mutual fund in a competent and responsible manner, in conformity with the requirements of this Regulation and in conformity with the agreement between the agent, the manager and the mutual 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 Regulation,
- (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.

Decision 2001-C-0209, 2.16; M.O. 2005-06, s. 11; M.O. 2014-04, s. 16.

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 regulator, except in Québec, or the securities regulatory authority.

(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).

Decision 2001-C-0209, 2.17; M.O. 2004-02, s. 6; M.O. 2012-06, s. 38; M.O. 2014-04, s. 17.

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 Regulation, 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”.

M.O. 2012-06, s. 11; M.O. 2013-09, s. 4; M.O. 2014-04, s. 18.

PART 3 NEW MUTUAL FUNDS

3.1. Initial Investment in a New Mutual Fund

(1) A person 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 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 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 other than the persons referred to in paragraph (1)(a).

Decision 2001-C-0209, 3.1; M.O. 2008-06, ss. 3 and 13; M.O. 2012-06, s. 38; M.O. 2014-04, s. 19.

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.

Decision 2001-C-0209, 3.2; M.O. 2012-06, s. 38; M.O. 2014-04, s. 81.

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.

Decision 2001-C-0209, 3.3; M.O. 2010-14, s. 2; M.O. 2012-06, s. 12; M.O. 2014-04, s. 20.

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 5% 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 Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43);

(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, an 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 regulators, except in Québec, or securities regulatory authorities 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) In paragraph (4)(b), “designated rating” has the meaning ascribed to it in Regulation 44-101 respecting Short Form Prospectus Distributions (chapter V-1.1, r. 16).

(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.

Decision 2001-C-0209, 4.1; M.O. 2006-03, s. 2; M.O. 2012-06, s. 13; M.O. 2013-09, s. 5; M.O. 2014-04, s. 21.

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:

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 referred to in paragraph 1 or 2.
4. A person, 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 that would be selling to, or purchasing from, the investment fund would be doing so as principal.

Decision 2001-C-0209, 4.2; M.O. 2008-06, s. 13; M.O. 2014-04, ss. 80 and 81.

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 Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43) applies;

(b) the independent review committee of the investment fund has approved the transaction under subsection 5.2(2) of Regulation 81-107 respecting Independent Review Committee for Investment Funds;

(c) the transaction complies with subsection 6.1(2) of Regulation 81-107 respecting Independent Review Committee for Investment Funds.

Decision 2001-C-0209, 4.3; M.O. 2006-03, s. 3; M.O. 2014-04, s. 22.

4.4. Liability and Indemnification

(1) An agreement or declaration of trust by which a person 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 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 providing services to it against legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by that person in connection with services provided by that person 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 for a liability except to the extent that the person 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.

Decision 2001-C-0209, 4.4; M.O. 2008-06, s. 13; M.O. 2014-04, s. 23.

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) *(paragraph 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).

Decision 2001-C-0209, 5.1; M.O. 2004-02, s. 7; M.O. 2005-06, s. 2; M.O. 2006-03, s. 4; M.O. 2014-04, s. 24.

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).

Decision 2001-C-0209, 5.2; M.O. 2014-04, s. 24.

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 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 Regulation 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 Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43);

(ii) the investment fund is being reorganized with, or its assets are being transferred to, another investment fund to which this Regulation and Regulation 81-107 respecting Independent Review Committee for Investment Funds 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 Regulation and Regulation 81-107 respecting Independent Review Committee for Investment Funds 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).

Decision 2001-C-0209, 5.3; M.O. 2005-06, s. 11; M.O. 2006-03, s. 5; M.O. 2008-06, s. 13; M.O. 2012-06, s. 14; M.O. 2014-04, s. 24.

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 Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43);

(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.

M.O. 2006-03, s. 6; M.O. 2012-06, s. 38; M.O. 2014-04, s. 25.

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.

Decision 2001-C-0209, 5.4; M.O. 2012-06, s. 15; M.O. 2014-04, s. 26.

5.5. Approval of Securities Regulatory Authority

(1) The approval of the regulator, except in Québec, or the securities regulatory authority 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) *(paragraph repealed)*.

(3) Despite subsection (1), in Ontario only the regulator may grant an approval referred to in subsection (1).

Decision 2001-C-0209, 5.5; M.O. 2008-06, s. 13; M.O. 2014-04, s. 27.

5.6. Pre-Approved Reorganizations and Transfers

(1) Despite subsection 5.5(1), the approval of the regulator, except in Québec, or the securities regulatory authority 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 Regulation 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 Regulation; 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 Regulation 81-106 respecting Investment Fund Continuous Disclosure (chapter V-1.1, r. 42) 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 regulator, except in Québec, or the securities regulatory authority 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 Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43).

(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 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.

Decision 2001-C-0209, 5.6; M.O. 2005-06, ss. 3 and 11; M.O. 2008-06, s. 13; M.O. 2010-14, s. 3; M.O. 2012-06, s. 16; M.O. 2013-17, s. 2; M.O. 2013-24, s. 2; M.O. 2014-04, s. 28.

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 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 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 the regulator, except in Québec, or the securities regulatory authority to conduct security checks on the individuals referred to in subparagraph (iii),
 - (v) sufficient information to establish the integrity and experience of the persons 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 5 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 regulator, except in Québec, or the securities regulatory authority 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 regulator, except in Québec, or the securities regulatory authority 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.

Decision 2001-C-0209, 5.7; M.O. 2005-06, s. 4; M.O. 2008-06, s. 13; M.O. 2010-14, s. 4; M.O. 2012-06, s. 38; M.O. 2014-04, s. 29.

5.8. Matters Requiring Notice

(1) A person must not continue to act as manager of an investment fund following a direct or indirect change of control of the person 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.

Decision 2001-C-0209, 5.8; M.O. 2008-06, s. 13; M.O. 2014-04, s. 30.

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).

M.O. 2014-04, s. 31.

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 regulator, except in Québec, or the securities regulatory authority 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.

Decision 2001-C-0209, 5.9; M.O. 2014-04, s. 32.

5.10. (Revoked)

Decision 2001-C-0209, 5.10; M.O. 2005-06, s. 5.

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 Regulation.

(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.”

Decision 2001-C-0209, 6.1; M.O. 2005-06, s. 11; M.O. 2008-06, s. 13; M.O. 2012-06, s. 17; M.O. 2014-04, s. 33.

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 (S.C. 1991, chapter 46);

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.

Decision 2001-C-0209, 6.2; M.O. 2004-02, s. 8; M.O. 2013-24, s. 3; M.O. 2014-04, s. 34.

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.

Decision 2001-C-0209, 6.3; M.O. 2013-24, s. 3; M.O. 2014-04, s. 34.

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.

Decision 2001-C-0209, 6.4; M.O. 2014-04, s. 34.

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.

Decision 2001-C-0209, 6.5; M.O. 2012-06, s. 18; M.O. 2014-04, s. 34.

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.

Decision 2001-C-0209, 6.6; M.O. 2014-04, s. 35.

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 or 6.3.

(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.

Decision 2001-C-0209, 6.7; M.O. 2014-04, s. 36.

6.8. Custodial Provisions relating to Borrowing, Derivatives and Securities Lending, Repurchase and Reverse Repurchase Agreements ~~Custodial Provisions relating to Derivatives and Securities Lending, Repurchase and Reverse Repurchase Agreements~~

(1) An investment fund may deposit portfolio assets as margin for transactions in Canada involving cleared specified derivatives ~~clearing corporation options, options on futures or standardized futures~~ 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 dealer on behalf of the investment fund, exceed 10% of the net asset value of the investment funds as at the time of deposit.

(2) An investment fund may deposit portfolio assets with a dealer as margin for transactions outside Canada involving cleared specified derivatives~~clearing corporation options, options on futures or standardized futures~~ if

(a) the dealer is a member of a futures exchange or is a member of a stock exchange, and, as a result in either case, is subject to a regulatory audit;~~(a) — in the case of standardized futures and options on futures, the dealer is a member of a futures exchange or, in the case of clearing corporation options, is a member of a stock exchange, and, as a result in either case, is subject to a regulatory audit;~~

(b) the dealer has a net worth, determined from its most recent audited financial statements that have been made public, in excess of the equivalent of \$50,000,000; and

(c) the amount of margin deposited does not, when aggregated with the amount of margin already held by the dealer on behalf of the investment fund, exceed 10% of the net asset value of the investment funds 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 entered into pursuant to section 2.6.

(4) The agreement by which portfolio assets are deposited in accordance with subsection (1), (2) (3) or (3.1) must require the person 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 in satisfaction of its obligations under a borrowing, securities lending, repurchase or reverse purchase agreement that complies with this Regulation 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.

Decision 2001-C-0209, 6.8; M.O. 2005-06, s. 11; M.O. 2008-06, s. 7 and 13; M.O. 2012-06, s. 20; M.O. 2014-04, s. 37.

6.8.1. Custodial Provisions relating to Short Sales

(1) Except where 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, exceed 10% of the net asset value of the 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.

M.O. 2012-06, s. 21; M.O. 2014-04, s. 80.

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.

Decision 2001-C-0209, 6.9; M.O. 2014-04, s. 38.

PART 7 INCENTIVE FEES

7.1. Incentive Fees

(1) A mutual fund other than an alternative fund must not pay, or enter into arrangements that would require it to pay, and 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 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 fund must not pay, or enter into arrangements that would require it to pay, and securities of an alternative 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 fund unless

(a) the payment of the fee is based on the cumulative total return of the alternative 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 fund's prospectus. ~~A mutual fund must not pay, or enter into arrangements that would require it to pay, and 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 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.~~

Decision 2001-C-0209, 7.1; M.O. 2008-06, s. 13; M.O. 2012-06, s. 38; M.O. 2014-04, s. 39.

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.

Decision 2001-C-0209, 7.2.

PART 8 CONTRACTUAL PLANS

8.1. Contractual Plans

A person 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 Regulation 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 Regulation came into force; and

(c) the contractual plan has continued to be operated in the same manner after the date that this Regulation came into force as it was on that date.

Decision 2001-C-0209, 8.1; M.O. 2005-06, s. 11; M.O. 2012-06, s. 38; M.O. 2014-04, s. 40.

PART 9 SALE OF SECURITIES OF AN INVESTMENT FUND

Decision 2001-C-0209, Part 9; M.O. 2014-04, s. 41.

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.

M.O. 2012-06, s. 22; M.O. 2014-04, s. 42.

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 placing the order or to the mutual fund, to the principal office of the participating dealer or to a person 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 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 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 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.

Decision 2001-C-0209, 9.1; M.O. 2004-02, s. 9; M.O. 2008-06, s. 13; M.O. 2012-06, s. 23; M.O. 2014-04, s. 43.

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).

Decision 2001-C-0209, 9.2; M.O. 2012-06, s. 38.

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.

Decision 2001-C-0209, 9.3; M.O. 2014-04, s. 44.

9.4. Delivery of Funds and Settlement

(1) A principal distributor, a participating dealer or a person 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 third 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 third 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) *(paragraph 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 third 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 fourth 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.

Decision 2001-C-0209, 9.4; M.O. 2004-02, s. 10; M.O. 2008-06, s. 13; M.O. 2008-13, s. 7; M.O. 2012-06, s. 24; M.O. 2014-04, s. 81.

PART 9.1 WARRANTS AND SPECIFIED DERIVATIVES

M.O. 2014-04, s. 45.

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.

M.O. 2014-04, s. 45.

PART 10 REDEMPTION OF SECURITIES OF AN INVESTMENT FUND

Decision 2001-C-0209, Part 10; M.O. 2014-04, s. 46.

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

(i) the investment fund has received a written redemption order, duly completed and executed by or on behalf of the securityholder, or

(ii) 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 Regulation, 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 its prospectus, an alternative fund may include, as part of the requirements established in subsection (2), a provision that securityholders of the alternative fund will not have the right to 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 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 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.

Decision 2001-C-0209, 10.1; M.O. 2005-06, ss. 6 and 11; M.O. 2014-04, s. 47.

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 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 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 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.

Decision 2001-C-0209, 10.2; M.O. 2004-02, s. 11; M.O. 2008-06, s. 13; M.O. 2012-06, s. 25; M.O. 2014-04, s. 48.

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 fund may implement a policy providing that a person making a redemption order for securities of the alternative fund will receive the net asset value for those securities determined, as provided in the policy, on the first or 2nd business day after the date of receipt by the alternative fund of the redemption order.

Decision 2001-C-0209, 10.3; M.O. 2012-06, s. 26; M.O. 2014-04, s. 49.

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 3 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 3 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 alternative fund or an exchange-traded mutual fund that is not in continuous distribution 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) *(paragraph 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.

Decision 2001-C-0209, 10.4; M.O. 2008-13, s. 8; M.O. 2012-06, s. 27; M.O. 2014-04, s. 50.

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 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 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.

Decision 2001-C-0209, 10.5; M.O. 2008-06, s. 13; M.O. 2014-04, s. 81.

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 regulator, except in Québec, or the securities regulatory authority.

(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).

Decision 2001-C-0209, 10.6; M.O. 2012-06, s. 28; M.O. 2014-04, s. 51.

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 providing services to the mutual fund or the principal distributor, or by a person 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 providing services to the mutual fund or principal distributor, or a person 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 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 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.

Decision 2001-C-0209, 11.1; M.O. 2008-06, s. 13; M.O. 2014-04, s. 52.

11.2. Participating Dealers

(1) Cash received by a participating dealer, or by a person 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) shall 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 providing services to the participating dealer shall 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 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 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) shall 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 shall 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.

Decision 2001-C-0209, 11.2; M.O. 2008-06, s. 13; M.O. 2012-06, s. 29; M.O. 2014-04, s. 53.

11.3. Trust Accounts

A principal distributor or participating dealer, a person providing services to the principal distributor or participating dealer, or a person 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 providing services to the principal distributor or participating dealer, or of a person 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 providing

services to the principal distributor or participating dealer, or of a person 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.

Decision 2001-C-0209, 11.3; M.O. 2004-02, s. 12; M.O. 2008-06, s. 13; M.O. 2014-04, s. 54.

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.

Decision 2001-C-0209, 11.4; M.O. 2004-02, s. 13; M.O. 2012-06, s. 30; M.O. 2014-04, s. 55.

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 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 in order to monitor compliance with this Regulation.

Decision 2001-C-0209, 11.5; M.O. 2005-06, s. 11; M.O. 2008-06, s. 13; M.O. 2014-04, ss. 80 and 81.

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 shall 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.

Decision 2001-C-0209, 12.1; M.O. 2004-02, s. 14; M.O. 2012-06, s. 31; M.O. 2014-04, s. 56.

PART 13 (Revoked)

Decision 2001-C-0209, Part 13; M.O. 2005-06, s. 7.

13.1. (Revoked).

Decision 2001-C-0209, 13.1; M.O. 2004-02, s. 15; M.O. 2005-06, s. 7.

13.2. (Revoked).

Decision 2001-C-0209, 13.2; M.O. 2005-06, s. 7.

13.3. (Revoked).

Decision 2001-C-0209, 13.3; M.O. 2005-06, s. 7.

13.4. (Revoked).

Decision 2001-C-0209, 13.4; M.O. 2005-06, s. 7.

13.5. (Revoked).

Decision 2001-C-0209, 13.5; M.O. 2005-06, s. 7.

PART 14 RECORD DATE

14.0.1. Application

This Part does not apply to an exchange-traded mutual fund.

M.O. 2012-06, s. 32.

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).

Decision 2001-C-0209, 14.1; M.O. 2014-04, s. 59.

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 in accordance with this Part.

Decision 2001-C-0209, 15.1; M.O. 2008-06, s. 13.

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 simplified 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 Regulation and contained in a written sales communication must be at least as large as 10-point type.

Decision 2001-C-0209, 15.2; M.O. 2005-06, s. 11; M.O. 2010-14, s. 6; M.O. 2012-06, s. 38; M.O. 2014-04, s. 61.

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 Regulation.

(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.

Decision 2001-C-0209, 15.3; M.O. 2005-06, s. 11; M.O. 2012-06, s. 33; M.O. 2013-09, s. 3; M.O. 2014-04, s. 62.

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 7 day period ended on [date] [annualized in the case of effective yield by compounding the 7 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 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.

Decision 2001-C-0209, 15.4; M.O. 2008-06, s. 13; M.O. 2012-06, s. 34; M.O. 2014-04, s. 63.

15.5. Disclosure Regarding Distribution Fees

A person 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.

Decision 2001-C-0209, 15.5; M.O. 2012-06, s. 38; M.O. 2014-04, s. 64.

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.

Decision 2001-C-0209, 15.6; M.O. 2012-06, s. 38; M.O. 2014-04, s. 65.

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.

Decision 2001-C-0209, 15.7; M.O. 2014-04, s. 81.

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.

M.O. 2014-04, s. 66.

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 7 day period for which it is practicable to calculate, taking into account publication deadlines; and

(b) the 7 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 1 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 3 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 1 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 balance sheet 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.

Decision 2001-C-0209, 15.8; M.O. 2012-06, s. 38; M.O. 2013-24, s. 5; M.O. 2014-04, s. 67.

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 mutual 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 Regulation 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.

Decision 2001-C-0209, 15.9; M.O. 2005-06, ss. 8 and 11; M.O. 2014-04, s. 68.

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:

$$\text{current yield} = [7 \text{ day return} \times 365/7] \times 100;$$

“effective yield” means the yield of a money market fund expressed as a percentage and determined by applying the following formula:

$$\text{effective yield} = [(7 \text{ day return} + 1)^{365/7} - 1] \times 100;$$

“7 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 7 day period, and

(c) dividing the result by the value of the account at the beginning of the 7 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” =

$$R \times (1 + D1/P1) \times (1 + D2/P2) \times (1 + D3/P3) \dots \times (1 + Dn/Pn)$$

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 1%; and

(b) for a money market fund must be calculated to the nearest one-hundredth of 1%.

Decision 2001-C-0209, 15.10; M.O. 2014-04, s. 69.

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.

Decision 2001-C-0209, 15.11; M.O. 2014-05, s. 70.

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.

Decision 2001-C-0209, 15.12; M.O. 2012-06, s. 38; M.O. 2014-04, s. 81.

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-an alternative fund~~~~commodity pool~~ or as a vehicle for investors to participate in the speculative trading of, or leveraged investment in, derivatives, unless the investment fund is ~~an alternative fund~~~~commodity pool~~ as defined in ~~this Regulation~~~~Regulation 81-104 respecting Commodity Pools (chapter V-1.1, r. 40)~~.

Decision 2001-C-0209, 15.13; M.O. 2005-06, s. 12; M.O. 2014-04, s. 71.

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.

Decision 2001-C-0209, 15.14; M.O. 2014-04, ss. 80 and 81.

PART 16 (Revoked)

Decision 2001-C-0209, Part 16; M.O. 2005-06, s. 9.

16.1. (Revoked).

Decision 2001-C-0209, 16.1; M.O. 2005-06, s. 9.

16.2. (Revoked).

Decision 2001-C-0209, 16.2; M.O. 2005-06, s. 9.

16.3. (Revoked).

Decision 2001-C-0209, 16.3; M.O. 2005-06, s. 9.

PART 17 (Revoked)

Decision 2001-C-0209, Part 17; M.O. 2005-06, s. 9.

17.1. (Revoked).

Decision 2001-C-0209, 17.1; M.O. 2005-06, s. 9.

17.2. (Revoked).

Decision 2001-C-0209, 17.2; M.O. 2005-06, s. 9.

17.3. (Revoked).

Decision 2001-C-0209, 17.3; M.O. 2005-06, s. 9.

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.

Decision 2001-C-0209, 18.1; M.O. 2014-04, s. 72.

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.

Decision 2001-C-0209, 18.2; M.O. 2014-04, s. 73.

PART 19 EXEMPTIONS AND APPROVALS

19.1. Exemption

(1) The regulator, except in Québec, or the securities regulatory authority may grant an exemption from this Regulation, 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.

Decision 2001-C-0209, 19.1; M.O. 2005-06, s. 11; M.O. 2014-04, s. 74.

19.2. Exemption or Approval under Prior Policy

(1) A mutual fund that has obtained, from the regulator, except in Québec, or the securities regulatory authority, an exemption or waiver from, or approval under, a provision of National Policy Statement No. 39 before this Regulation came into force is exempt from any substantially similar provision of this Regulation, 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, except in Québec, or the 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 Regulation 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.

Decision 2001-C-0209, 19.2; M.O. 2005-06, s. 11; M.O. 2012-06, s. 38; M.O. 2014-04, ss. 75 and 81.

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 Regulation 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.

M.O. 2004-02, s. 16; M.O. 2014-04, s. 76.

PART 20 TRANSITIONAL

20.1. (Revoked).

Decision 2001-C-0209, 20.1; M.O. 2005-06, s. 10.

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 Regulation.

Decision 2001-C-0209, 20.2; M.O. 2005-06, s. 11.

20.3. Reports to Securityholders

This Regulation 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.

Decision 2001-C-0209, 20.3; M.O. 2005-06, s. 11.

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 Regulation No. 29 respecting Mutual Funds Investing in Mortgages (chapter V 1.1, r. 45) if

(a) a Regulation replacing Regulation No. 29 respecting Mutual Funds Investing in Mortgages 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 Regulation came into force; and

(c) the mutual fund complies with Regulation No. 29 respecting Mutual Funds Investing in Mortgages.

(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.

Decision 2001-C-0209, 20.4; M.O. 2005-06, ss. 11 and 12; M.O. 2012-06, s. 36; M.O. 2014-04, s. 77.

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 Regulation 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).

Decision 2001-C-0209, 20.5; M.O. 2005-06, s. 11.

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~~

~~Oesterreichische 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 Danskse 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

~~Besa 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 (NYMEX)~~
~~New York Board of Trade (NYBOT)~~
~~Pacific Stock Exchange~~
~~Philadelphia Board of Trade (PBOT)~~

| [Twin Cities Board of Trade](#)

Decision 2001-C-0209, Appendix A; M.O. 2014-04, s. 78.

**APPENDIX B-1
COMPLIANCE REPORT**

TO: [The appropriate securities regulatory authorities]

FROM: [Name of mutual fund]

RE: Compliance Report on Regulation 81-102 respecting Mutual Funds
(chapter V-1.1, r. 39)
For the year ended [insert date]

We hereby confirm that we have complied with the applicable requirements of Parts 9, 10 and 11 of Regulation 81-102 respecting Mutual Funds 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

Audit Report

TO: [The appropriate securities regulatory authorities]

RE: Compliance Report on Regulation 81-102 respecting Mutual Funds For the year ended [insert date]

We have audited [name of mutual fund]'s report made under section 12.1 of Regulation 81-102 respecting Mutual Funds regarding its compliance for the year ended [insert date] with the applicable requirements of Parts 9, 10 and 11 of that Regulation. 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 Regulation 81-102 respecting Mutual 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

Decision 2001-C-0209, Appendix B-1; M.O. 2005-06, s. 12; M.O. 2013-24, s. 6.

**APPENDIX B-2
COMPLIANCE REPORT**

TO: [The appropriate securities regulatory authorities]

FROM: [Name of principal distributor] (the “Distributor”)

RE: Compliance Report on Regulation 81-102 respecting Mutual Funds
(chapter V-1.1, r. 39)
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 Regulation 81-102 respecting Mutual Funds 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

Audit Report

TO: [The appropriate securities regulatory authorities]

RE: Compliance Report on Regulation 81-102 respecting Mutual Funds For the year ended [insert date]

We have audited [name of principal distributor]'s report made under section 12.1 of Regulation 81-102 respecting Mutual Funds regarding its compliance for the year ended [insert date] with the applicable requirements of Parts 9, 10 and 11 of that Regulation 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 Regulation 81-102 respecting Mutual Funds 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

Decision 2001-C-0209, Appendix B-2; M.O. 2005-06, s. 12; M.O. 2013-24, s. 7.

**APPENDIX B-3
COMPLIANCE REPORT**

TO: [The appropriate securities regulatory authorities]

FROM: [Name of participating dealer] (the “Distributor”)

RE: Compliance Report on Regulation 81-102 respecting Mutual Funds
(chapter V-1.1, r. 39)
For the year ended [insert date]

We hereby confirm that we have sold mutual fund securities to which Regulation 81-102 respecting Mutual Funds 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 Regulation 81-102 respecting Mutual Funds 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

Audit Report

TO: [The appropriate securities regulatory authorities]

RE: Compliance Report on Regulation 81-102 respecting Mutual Funds For the year ended [insert date]

We have audited [name of participating dealer]'s report made under section 12.1 of Regulation 81-102 respecting Mutual Funds regarding its compliance for the year ended [insert date] with the applicable requirements of Parts 9, 10 and 11 of that Regulation 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 Regulation 81-102 respecting Mutual Funds 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

Decision 2001-C-0209, Appendix B-3; M.O. 2005-06, s. 12; M.O. 2013-24, s. 7.

APPENDIX D
INVESTMENT FUND CONFLICT OF INTEREST INVESTMENT RESTRICTIONS

Jurisdiction	Securities Legislation Reference
All Jurisdictions	ss. 13.5(2)(a) and (b) of Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations (chapter V-1.1, r. 10)
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 Securities Act, 1988 (Saskatchewan)

M.O. 2014-04, s. 79.

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 Securities Act, 1988 (Saskatchewan)

M.O. 2014-04, s. 79.

Transitional Provisions

M.O. 2014-04, 2014 G.O. 2, 1967

82. (1) If a non-redeemable investment fund filed a prospectus on or before September 22, 2014,

(a) until September 21, 2015, sections 2.12 to 2.17 of Regulation 81-102 respecting Mutual Funds (chapter V-1.1, r. 39) do not apply to the non-redeemable investment fund; and

(b) until March 21, 2016, sections 2.2, 2.3 and 2.5 of Regulation 81-102 respecting Mutual Funds do not apply to the non-redeemable investment fund.

(2) If a mutual fund filed a prospectus on or before September 22, 2014, until March 21, 2016, subsection 2.5(2) of Regulation 81-102 respecting Mutual Funds, as amended by subsection 11(2) of this Regulation, does not apply to the mutual fund if the mutual fund complies with subsection 2.5(2) of Regulation 81-102 respecting Mutual Funds as that provision was in force on September 21, 2014.

(3) Despite any amendments to the contrary in this Regulation, if a sales communication, other than an advertisement, was printed before September 22, 2014, the sales communication may be used until March 23, 2015.

Decision 2001-C-0209, 2001-05-22
Bulletin hebdomadaire: 2001-06-01, Vol. XXXII n°22

Amendments

Decision 2004-C-0020, 2004-01-23
Bulletin hebdomadaire: 2004-03-05, Vol. XXXV n° 09
M.O. 2004-01, 2004 G.O. 2, 1064

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