

REGULATION TO AMEND REGULATION 81-102 RESPECTING INVESTMENT FUNDS

Securities Act

(chapter V-1.1, s. 331.1, par. (1), (2), (3), (11), (16) and (34))

1. Section 1.1 of Regulation 81-102 respecting Investment Funds (chapter V-1.1, r. 39) is amended by replacing the definition of the expression “designated rating” with the following:

““designated rating”: a credit rating from a designated rating organization listed below, from a DRO affiliate of an organization listed below, from a designated rating organization that is a successor credit rating organization of an organization listed below or from a DRO affiliate of such successor credit rating organization, that is at or above one of the following corresponding rating categories, or that is at or above a category that replaces one of the following corresponding rating categories, if

(i) there has been no announcement from the designated rating organization, from a DRO affiliate of the organization, from a designated rating organization that is a successor credit rating organization or from a DRO affiliate of such successor credit rating organization, of which the investment fund or its manager is or reasonably should be aware that the credit 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

(ii) no designated rating organization listed below, no DRO affiliate of an organization listed below, no designated rating organization that is a successor credit rating organization of an organization listed below and no DRO affiliate of such successor credit rating organization, 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 Ratings, Inc.	F1	A
Moody’s Canada Inc.	P-1	A2
S&P Global Ratings Canada	A-1 (Low)	A

2. Section 1.2 of the Regulation is amended by inserting, after paragraph (2), the following:

“(2.1) Despite subsection (1), all of the following sections apply in respect of investment funds that are not reporting issuers:

- (a) section 2.5;
- (b) section 9.4;
- (c) section 10.4.”.

3. The Regulation is amended by inserting, after section 2.5, the following:

“2.5.1. Investments in Other Investment Funds by Funds Not Reporting Issuers

(1) In subsection (2), “substantial security holder” and “significant interest” have the meanings assigned within the investment fund conflict of interest investment restrictions.

(2) 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

(a) the investment fund's securities are distributed solely pursuant to exemptions from the prospectus requirement,

(b) if the other fund is a reporting issuer, the purchase or holding is made in accordance with section 2.5,

(b.1) if the other investment fund is not a reporting issuer, the purchase or holding would be made in accordance with section 2.5 if paragraphs 2.5(2)(a), (a.1) and (c) were disregarded,

(c) the other fund complies with section 2.4,

(d) the other fund is subject to and complies with Regulation 81-106 respecting Investment Fund Continuous Disclosure (chapter V 1.1, r. 42),

(e) the other fund has the same redemption and valuation dates,

(f) the investment in the other fund is effected at an objective price, calculated in accordance with section 14.2 of Regulation 81-106 respecting Investment Fund Continuous Disclosure,

(g) a disclosure document is provided to each investor in the investment fund prior to the time of the investor's investment, which discloses

(i) that the fund may purchase securities of other related funds from time to time,

(ii) that the investment fund manager of the fund is the manager or portfolio adviser to each of the other funds,

(iii) the approximate or maximum percentage of net assets of the fund that is intended to be invested in securities of the other fund,

(iv) the fees, expenses and any performance or special incentive distributions payable by the other fund,

(v) the process or criteria used to select the other fund,

(vi) for each officer, director or substantial security holder of the fund's investment fund manager, or of the fund, that has a significant interest in the other fund, and for the officers and directors and substantial security holders who together in aggregate hold a significant interest in the other fund, the approximate amount of the significant interest they hold, on an aggregate basis, expressed as a percentage of the applicable other fund's net asset value, and the potential conflicts of interest which may arise, and

(vii) that investors are entitled to receive, on request and free of charge

(A) a copy of the offering memorandum or other similar disclosure document of each other fund, if available, and

(B) the annual audited financial statements and interim financial reports (if any) relating to each other fund, and

(h) investors are informed annually of their right to receive, on request and free of charge, a copy of the documents referred to in subparagraph (g)(vii).”.

4. Section 4.1 of the Regulation is amended, in paragraph (4):

(1) by replacing, in the text preceding subparagraph (a), the words “an issuer” with the words “a reporting issuer”;

(2) by deleting subparagraph (b);

(3) by inserting, after subparagraph (b), the following:

“(b.1) the distribution of securities is made by prospectus filed with one or more securities regulatory authorities or regulators in Canada or under an exemption from the prospectus requirement;”;

(4) by deleting subparagraph (c);

(5) by inserting, after subparagraph (c), the following:

“(c.1) during the 60 days after the period referred to in subsection (1) any of the following apply:

(i) the investment is made on an exchange on which the securities of the reporting issuer are listed and traded;

(ii) if the security is a debt security that does not trade on an exchange, the ask price is readily available and the price paid is not higher than the available ask price of the debt security; and”.

5. Section 9.4 of the Regulation is amended by adding, at the end of paragraph (6), the following:

“(7) The investment fund conflict of interest investment restrictions do not apply in connection with a payment made on behalf of a mutual fund by making good delivery of securities to another mutual fund under paragraph (2)(b), if all of the following apply:

(a) where the mutual fund is a reporting issuer,

(i) the independent review committee of the investment fund has approved the payment in accordance with the terms of subsection 5.2(2) of Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43), and

(ii) the investment fund manager and the independent review committee of the mutual fund comply with section 5.4 of Regulation 81-107 respecting Independent Review Committee for Investment Funds in respect of any standing instructions the applicable independent review committee provides in connection with the payment;

(b) the mutual fund and the other mutual fund each comply with section 2.4;

(c) each illiquid asset included in the payment,

(i) is transferred on a pro-rata basis that fairly represents the portfolio of the mutual fund, and

(ii) is subject to at least one quote for the asset obtained by the portfolio manager from an independent arm's length purchaser or seller;

(d) each investment fund keeps written records of each payment in a financial year of the fund, reflecting details of the securities delivered to the fund and the value assigned to such portfolio securities, for 5 years after the end of the financial year, the most recent 2 years in a reasonably accessible place;

(e) the portfolio adviser does not receive any compensation in respect of any payment and the only charges paid by the applicable fund is the commission charged by the dealer executing the trade (if any) and/or any administrative charges levied by the custodian.

(8) The investment fund conflict of interest investment restrictions do not apply in connection with a payment made on behalf of a managed account, as defined in section 6.1 of Regulation 81-107 respecting Independent Review Committee for Investment Funds, by making good delivery of securities under subparagraph (2)(b) to a mutual fund if all of the following apply:

- (a) where the mutual fund is a reporting issuer,
 - (i) the independent review committee of the mutual fund has approved the payment in accordance with the terms of subsection 5.2(2) of Regulation 81-107 respecting Independent Review Committee for Investment Funds, and
 - (ii) the investment fund manager and the applicable independent review committee comply with section 5.4 of Regulation 81-107 respecting Independent Review Committee for Investment Funds in respect of any standing instructions the applicable independent review committee provides in connection with the payment;
- (b) the portfolio adviser obtains the prior written consent of the client of the managed account before it makes the payment;
- (c) the mutual fund complies with section 2.4;
- (d) each illiquid asset included in the payment
 - (i) is transferred on a pro-rata basis that fairly represents the portfolio of the mutual fund, and
 - (ii) is subject to at least one quote for the asset obtained by the portfolio manager from an independent arm's length purchaser or seller;
- (e) the account statement next prepared for the managed account describes the portfolio securities delivered to the mutual fund and the value assigned to the portfolio securities;
- (f) the mutual fund keeps written records of each payment in a financial year of the mutual fund, reflecting details of the portfolio securities delivered to the mutual fund and the value assigned to the portfolio securities
 - (i) in a reasonably accessible place, for 2 years after the end of the financial year, and
 - (ii) for a further 3 years after the end of financial year;
- (g) the portfolio adviser does not receive any compensation in respect of any payment and any charge paid by the fund or managed account is the commission charged by the dealer executing the trade or any administrative charges levied by the custodian.”.

6. Section 10.4 of the Regulation is amended by inserting, after paragraph (5), the following:

“(6) The investment fund conflict of interest investment restrictions do not apply in connection with a payment made to a mutual fund, by making good delivery of portfolio assets to the mutual fund with prior consent in accordance with paragraph (3)(b), if all of the following apply:

- (a) where the transaction involves the redemption of securities of or by the mutual fund and the mutual fund is a reporting issuer
 - (i) the independent review committee of the mutual fund has approved the payment on behalf of the mutual fund in accordance with the terms of subsection 5.2(2) of Regulation 81-107 respecting Independent Review Committee for Investment Funds (chapter V-1.1, r. 43), and
 - (ii) the investment fund manager and the applicable independent review committee comply with section 5.4 of Regulation 81-107 respecting Independent Review Committee for Investment Funds in respect of any standing instructions the applicable independent review committee provides in connection with the payment;

(b) the portfolio securities are acceptable to the portfolio adviser for the receiving fund and are consistent with its investment objectives;

(c) the mutual fund and the other mutual fund each complies with section 2.4;

(d) each illiquid asset included in the payment

(i) is transferred on a pro-rata basis that fairly represents the portfolio of the mutual fund, and

(ii) is subject to at least one quote for the asset from an independent arm's length purchaser or seller obtained by the portfolio adviser;

(e) the mutual fund and the other mutual fund each keeps written records of each payment in a financial year of the mutual fund, reflecting details of the portfolio securities delivered by the mutual fund and the value assigned to such securities

(i) in a reasonably accessible place, for 2 years after the end of the financial year, and

(ii) for a further 3 years after the end of the financial year;

(f) the portfolio adviser does not receive any compensation in respect of any payment and any charge paid by the applicable fund is the commission charged by the dealer executing the trade or any administrative charges levied by the custodian.

“(7) The investment fund conflicts of interest investment restrictions do not apply in connection with a payment made to a managed account, as defined under section 6.1 of Regulation 81-107 respecting Independent Review Committee for Investment Funds, by making good delivery of portfolio assets to the managed account with prior consent in accordance with paragraph (3)(b) provided that all of the following apply:

(a) where the mutual fund is a reporting issuer

(i) the independent review committee of the mutual fund has approved the payment on behalf of the mutual fund in accordance with the terms of subsection 5.2(2) of Regulation 81-107 respecting Independent Review Committee for Investment Funds, and

(ii) the investment fund manager and the applicable independent review committee complies with section 5.4 of Regulation 81-107 respecting Independent Review Committee for Investment Funds in respect of any standing instructions the applicable independent review committee provides in connection with the payment;

(b) the portfolio securities meet the investment criteria of the managed account acquiring the portfolio securities and are acceptable to the portfolio adviser;

(c) the mutual fund complies with section 2.4;

(d) each illiquid asset included in the payment

(i) is transferred on a pro-rata basis that fairly represents the portfolio of the mutual fund, and

(ii) is subject to at least one quote for the asset from an independent arm's length purchaser or seller obtained by the portfolio adviser;

(e) the account statement next prepared for the managed account describes the portfolio securities received from the mutual fund and the value assigned to the portfolio securities;

(f) the mutual fund keeps written records of each payment in a financial year of the fund, reflecting details of the securities delivered by the mutual fund and the value assigned to such securities

financial year, and

- (i) in a reasonably accessible place, for 2 years after the end of the

- (ii) for a further 3 years after the end of the financial year;

- (g) the portfolio adviser does not receive any compensation in respect of any payment and any charge paid by the fund or managed account is the commission charged by the dealer executing the trade or any administrative charges levied by the custodian.”.

7. Appendix D of the Regulation is amended by replacing the second row of the table with the following:

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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) and subsection 4.1(2) of Regulation 81-102 respecting Investment Funds
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8. This Regulation comes into force on (*insert here the date of coming into force of this Regulation*).