

**POLICY STATEMENT TO
REGULATION 81-106 RESPECTING INVESTMENT FUND CONTINUOUS DISCLOSURE**

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**POLICY STATEMENT TO
REGULATION 81-106 RESPECTING INVESTMENT FUND CONTINUOUS DISCLOSURE**

PART 1 PURPOSE AND APPLICATION OF THE POLICY STATEMENT

1.1 Purpose

The purpose of this Policy Statement (the « Policy ») is to help you understand how the Canadian securities regulatory authorities (CSA) interpret or apply certain provisions of *Regulation 81-106 respecting Investment Fund Continuous Disclosure* (the « Regulation »).

1.2 Application

- (1) The Regulation applies to investment funds, including scholarship plans and non-redeemable investment funds. These funds have similar characteristics to mutual funds and so are subject to similar reporting requirements. In some jurisdictions, the Regulation applies to mutual funds in the jurisdiction that are non-reporting issuers.
- (2) An investment fund includes group scholarship plans.

1.3 Definitions

- (1) A term used in the Regulation and defined in the securities statute of a local jurisdiction has the meaning given to it in that statute unless:
 - (a) the definition in that statute is restricted to a specific portion of the statute that does not govern continuous disclosure, or
 - (b) the context otherwise requires.
- (2) For instance, the term “material change” is defined in local securities legislation of most jurisdictions. The CSA consider the meaning given to this term in securities legislation to be substantially similar to the definition set out in the Regulation.

1.4 Plain Language Principles

The CSA believe that plain language will help investors understand an investment funds' disclosure documents so that they can make informed investment decisions. We encourage investment funds to adopt the following plain language principles in preparing documents filed under the Regulation:

- use short sentences
- use definite, concrete, everyday language
- use the active voice and avoid multiple negatives
- avoid unnecessary words
- organize the document into clear, concise sections, paragraphs and sentences
- avoid legal or business jargon
- use strong verbs
- use personal pronouns to speak directly to the reader

- avoid reliance on glossaries and defined terms unless it helps to understand the disclosure
- avoid vague boilerplate wording
- use concrete terms or examples
- avoid excessive detail
- use charts, tables and examples where it makes disclosure easier to understand.

If technical or business terms are required, use clear and concise explanations.

1.5 Signature and Certificates

The directors of an investment fund or the manager or the trustee of an investment fund are not required to file signed or certified continuous disclosure documents. They are responsible for the information in the investment fund's disclosure documents whether or not a document is signed or certified, and it is an offence under securities legislation to make a false or misleading statement in any required document.

1.6 Filings on SEDAR

All documents required to be filed under the Regulation must be filed in accordance with regulation entitled National Instrument 13-101, *System for Electronic Document Analysis and Retrieval (SEDAR)*.

1.7 Corporate Law Requirements

Investment funds may be subject to requirements of corporate law that address matters similar to those addressed by the Regulation, and which may impose additional or more onerous requirements. For example, applicable corporate law may still require investment funds to deliver annual financial statements to securityholders.

PART 2 FINANCIAL STATEMENTS

2.1 Interrelationship of Financial Statements with Canadian GAAP

- (1) The Regulation requires investment funds to prepare their annual and interim financial statements, their annual and interim management reports of fund performance and their NAV in accordance with both Canadian GAAP and the Regulation.
- (2) Canadian GAAP provides some general requirements for the preparation of financial statements that apply to investment fund financial statements. Canadian GAAP does not contain detailed requirements for the contents of investment fund financial statements. The CSA believe that an investment fund's financial statements should include certain information, at a minimum, in order to provide full disclosure. The Regulation sets out these minimum requirements. Persons preparing these documents should include any other additional information required to ensure that all material information concerning the financial position or results of the investment fund is disclosed.
- (3) Fund managers are reminded that Handbook section 1100, GENERALLY ACCEPTED ACCOUNTING PRINCIPLES has changed the definition of what is considered to be Canadian GAAP. Prior to the introduction of section 1100, the investment funds industry has relied on paragraph 1000.60(a), which provides for accounting policies that "are generally accepted by virtue of their use in similar circumstances by a significant number of entities in Canada".

Where industry accounting practices were not in conflict with the italicized recommendations, but were in conflict with non-italicized paragraphs of the Handbook, it was argued that the practices would still be considered Canadian GAAP if they were industry standards. This is no longer the case with section 1100. Generally, an entity has to apply all relevant primary sources of Canadian GAAP under section 1100. When no relevant primary source of Canadian GAAP is available, professional judgement and the concepts described in Section 1000 are to be used to determine accounting policies that are consistent with the primary sources of Canadian GAAP.

- (4) Since the Regulation does not define market value and fair value, persons preparing an investment fund's financial statements should refer to the definitions in the Handbook.

2.2 Filing Deadline for Annual Financial Statements and Auditor's Report

Section 2.2 of the Regulation sets out the filing deadline for annual financial statements. While section 2.2 of the Regulation does not address the auditor's report date, investment funds are encouraged to file their annual financial statements as soon as practicable after the date of the auditor's report. The delivery obligations set out in Part 5 of the Regulation require that the financial statements be sent to securityholders within 10 days of being filed.

2.3 Timing and Content of Interim Financial Statements

The Regulation also requires interim financial statements to be prepared in accordance with both Canadian GAAP and the Regulation. For example, Section 1751, INTERIM FINANCIAL STATEMENTS of the Handbook requires that the interim financial statements include, at a minimum:

- (1) each of the headings and subtotals included in the most recent annual financial statements; and
- (2) the specific disclosures required by Section 1751.

2.4 Financial Statements in the First Year of Operation

For the purposes of the Regulation, unless otherwise expressly provided, references to a financial year apply regardless of the length of that year. In addition, the first financial year of a reporting issuer commences on the date of its incorporation or organization and ends at the close of that year.

2.5 Contents of Statement of Operations

The disclosure of the amount of fund expenses waived or paid by the manager or portfolio adviser of the investment fund in the statement of operations excludes those amounts waived or paid due to an expense cap that would require securityholder approval to change.

2.6 Delivery of Continuous Disclosure Documents

- (1) Before the implementation of the Regulation, securities legislation of most Canadian jurisdictions required investment funds to deliver annual and, in certain circumstances, interim financial statements to securityholders concurrent with filing. The Regulation eliminates this mandatory delivery, but enables an investor

to receive the financial statements and management reports of fund performance the investor chooses to receive by requiring an investment fund to deliver these documents, without charge, according to the investor's request.

- (2) The Regulation provides the following choices for the delivery of financial statements and management reports of fund performance:
 - (a) send these documents to all securityholders;
 - (b) obtain standing instructions from securityholders with respect to the documents they wish to receive; or
 - (c) send an annual request form to securityholders asking them to indicate which documents they wish to receive.

If an investment fund chooses option (b), it must send an annual reminder to securityholders explaining how their standing instructions can be changed. If option (c) is chosen, the documents only have to be delivered to those securityholders who return the request form.

Section 5.1 specifies that if an investment fund chooses option (b), it cannot switch to option (c) at a later date. Investment funds that choose option (c) should switch to option (b) as soon as it is practicable for them to do so.

- (3) Investment funds must also provide the quarterly portfolio disclosure required by Part 6 of the Regulation to securityholders upon request.
- (4) Eliminating the delivery requirement enables investment funds governed by either the federal or provincial corporate statutes to take advantage of provisions in these statutes that allow companies not to deliver annual financial statements to securityholders who have elected not to receive them.
- (5) In certain cases the Regulation requires the delivery of certain notices and request forms to securityholders. Investment funds are reminded of the provisions of *Notice 11-201 relating to the delivery of documents by electronic means*, in Québec, and National Policy 11-201, *Delivery of Documents by Electronic Means*, in the rest of Canada. In particular, it is noted that the annual notice required by section 5.3 and the request form required by section 5.2 of the Regulation may be given in electronic form and may be combined with other notices. Request forms and notices may alternatively be sent with account statements or other materials sent to securityholders by an investment fund.

2.7

Change in Year End

- (1) The change in year end reporting requirements are adopted from *Regulation 51-102 respecting Continuous Disclosure Obligations* (the « Regulation 51-102 »), with appropriate modifications to reflect that investment funds report on a six month interim period.
- (2) The definition of “interim period” in the Regulation differs from the definition of this term in Regulation 51-102. An investment fund cannot have more than one interim period in a transition year.
- (3) Interim financial statements for the new financial year will have comparatives from the corresponding months in the preceding year, regardless if they are from

the transition year or from the old financial year, if they were previously prepared or not, or if they straddle a year-end.

- (4) If an investment fund voluntarily reports on a quarterly basis, the investment fund must follow the requirements set out in Regulation 51-102, with appropriate modifications.
- (5) Appendix A to this Policy is a chart outlining the financial statement filing requirements under section 2.9 of the Regulation if an investment fund changes its year end.

2.8 Change in Legal Structure

Section 2.10 of the Regulation requires a reporting issuer to file a notice if the issuer has been party to certain restructuring transactions. That notice should be filed with the securities regulatory authority or regulator in the applicable jurisdictions at the addresses set out in Appendix B of this Policy.

PART 3 AUDITORS AND THEIR REPORTS

3.1 Acceptable Auditor

The securities legislation in most jurisdictions prohibits a regulator or securities regulatory authority from issuing a receipt for a prospectus if it appears that a person or company who has prepared any part of the prospectus or is named as having prepared or certified a report used in connection with a prospectus is not acceptable.

3.2 Canadian Auditors

The Regulation requires that the financial statements of an investment fund that are required to be audited must be prepared in accordance with Canadian GAAP and audited in accordance with Canadian GAAS. Section 2.8 of the Regulation requires that the auditor's report be prepared and signed by a person or company authorized to do so by the laws and professional standards of a jurisdiction.

3.3 Reservations in an Auditor's Report

- (1) The Regulation generally prohibits an auditor's report from containing a reservation, qualification, or other similar communication that would constitute a reservation under Canadian GAAS.
- (2) Part 17 of the Regulation permits the regulator or securities regulatory authority to grant exemptive relief from the Regulation, including the requirement that an auditor's report not contain a reservation, qualification or other similar communication that would constitute a reservation under Canadian GAAS. However, staff of the CSA believe that such exemptive relief will not likely be recommended where the reservation, qualification or other similar communication is:
 - (a) due to a departure from accounting principles permitted by the Regulation; or
 - (b) due to a limitation in the scope of the auditor's examination that:

- (i) results in the auditor being unable to form an opinion on the financial statements as a whole;
- (ii) is imposed or could reasonably be eliminated by management; or
- (iii) could reasonably be expected to be recurring.

3.4 Auditor's Report - Multiple Class Funds

- (1) To satisfy the requirement to produce audited annual financial statements, an investment fund that has more than one class or series outstanding must ensure that the annual financial statements for each class or series are audited. If the investment fund is preparing separate financial statements for each class or series, it should ensure that the auditor's report for each set of financial statements pertains specifically to the relevant class or series, but also indicates that the investment fund as a whole has been reported on for the same period without reservation.
- (2) It is expected that once an investment fund makes an initial decision as to whether to prepare separate or combined financial statements or management reports of fund performance for its classes or series of securities, it will continue with the same approach for subsequent financial periods in order to ensure that the financial statements and management reports of fund performance for different financial periods are easily comparable. The CSA expect investment funds to explain, in notes to financial statements or in a management report of fund performance, the reasons for any change in approach taken from one financial period to another.

3.5 Auditor's Involvement with the Annual Management Reports of Fund Performance

Investment funds' auditors are expected to comply with section 7500, THE AUDITOR'S INVOLVEMENT WITH THE ANNUAL REPORTS, of the Handbook, in connection with the preparation of the annual management reports of fund performance required by the Regulation.

3.6 Auditor Involvement with Interim Financial Statements

- (1) The board of directors of an investment fund or the manager or the trustees of an investment fund that is a trust, in discharging its responsibilities for ensuring the reliability of interim financial statements, should consider engaging an external auditor to carry out a review of such financial statements.
- (2) Section 2.12 of the Regulation requires an investment fund to disclose if an auditor has not performed a review of the interim financial statements or has performed a review and expressed a qualified or adverse communication or denied any assurance. No positive statement is required when an auditor has performed a review and provided an unqualified communication.
- (3) Where an investment fund's annual financial statements are audited in accordance with Canadian GAAS, the terms "review" and "written review report" used in section 2.12 of the Regulation refer to the auditor's review of and report on interim financial statements using standards for a review of interim financial statements by the auditor as set out in the Handbook.

PART 4 OTHER PROVISIONS

4.1 Accounting for Securities Lending Transactions

- (1) Section 3.8 of the Regulation imposes certain reporting requirements on investment funds in connection with any securities lending transactions entered into by the investment fund. These requirements were included to ensure that all securities lending transactions are accounted for on the same basis.

The general accounting principle concerning whether a given transaction is a recordable transaction is based on determining whether risk and rewards have transferred in the transaction. The substance of a securities lending transaction is that the manager treats the original securities as if they have never been lent. The investment fund must be able to call the original securities back at any time, and the securities returned must be the same or substantially the same as the original securities. These conditions reduce the risk of the investment fund not being able to transact the original securities. The original securities remain on the books of the investment fund.

- (2) The accounting treatment of the collateral in a securities lending transaction depends on the ability of the lender to control what happens with the collateral. If non-cash collateral is received by the investment fund, the collateral is not reflected on the statement of net assets of the investment fund if the non-cash collateral cannot be sold or repledged. If the investment fund lender receives cash collateral, the investment fund has the ability to either hold or reinvest the cash. The lender has effective control over the cash, even though it uses an agent to effect the reinvestment on its behalf. The cash collateral, subsequent reinvestment, and obligation to repay the collateral are recorded on the books of the investment fund.

4.2 Incentive Arrangements

- (1) Investment funds use many different incentive arrangements to compensate the manager or portfolio adviser. Generally these incentive arrangements take the form of performance fees, based on the relative performance of the investment fund as compared to a benchmark. However, incentive arrangements may take the form of a performance fee based on the absolute performance of the investment fund, options or interests in the underlying portfolio, or dividends. The CSA recognize that there are different incentive arrangements but are of the view that they should be valued at current value whenever the investment fund calculates its NAV and that any adjustments be accounted for as a liability and an expense.
- (2) The statement of operations of an investment fund will recognize changes in the amount of the liability referred to in subsection (1) as an expense. Since the calculation of the management expense ratio is based on total expenses as determined in the statement of operations, the management expense ratio will include the incentive arrangement expense.

4.3 Costs of Distribution of Securities

- (1) It is the view of the CSA that all costs and expenses associated with the issue and distribution of securities of an investment fund that distributes its securities on a continuous basis should be recognized as expenses in the statement of operations of the investment fund in the period in which they were incurred.

- (2) Section 3.3 of *Regulation 81-102 Mutual Funds* prohibits a mutual fund from paying for the costs of incorporation or organization of the mutual fund. However, where this restriction does not apply, an investment fund may pay security issue costs for prospectuses, which may include costs associated with legal fees relating to the preparation of a prospectus, costs associated with the distribution of the securities of the investment fund, including underwriting, agency or similar costs, the cost of printing a prospectus, any fees that may be paid to have the securities of an exchange traded fund listed or quoted on a marketplace, and the cost of tax opinions relating to the issue of securities.
- (3) The CSA consider it important that investors fully understand the costs associated with the ownership of securities of an investment fund. For this reason, the CSA have set out their views in subsection (1) in order to ensure that costs associated with the continuous distribution of securities are shown as expenses of the investment fund on the statement of operations for the financial period in which they are incurred, and are not deferred and amortized to retained earnings, or charged directly to capital.
- (4) Non-redeemable investment funds that offer their securities on a one time offering basis should account for the initial offering costs as a capital transaction in accordance with Capital Transactions, Section 3610 of the Handbook. The amount of the costs should be disclosed separately in the financial statements of the fund for at least the period in which the relevant costs are incurred. Initial offering costs are all costs incurred to complete an offering, including costs of preparing and printing the prospectus, legal expenses, marketing expenses and agents' fees. It is not appropriate for such costs to be deferred and recognized as an asset to be amortized to either income or retained earnings over the life of the fund.

4.4 Trailing Commissions

Trailing fees or commissions are those fees paid to dealers over time based on the client assets maintained in the fund. The manager normally pays these fees, although exemptions have been given to certain labour sponsored funds for the fund to pay these fees. In the view of the CSA, an investment fund that is permitted to pay, by way of an exemptive order, costs associated with securityholders holding securities of the investment fund, must recognize those costs as an expense in the period in which they were incurred.

PART 5 INDEPENDENT VALUATIONS

5.1 Independent Valuations

- (1) Part 8 of the Regulation is designed to address the concerns raised by labour sponsored or venture capital funds that disclosing a fair value for their venture investments may potentially disadvantage the private companies in which they invest.
- (2) Section 8.2 permits alternative disclosure by a labour sponsored or venture capital fund of its statement of investment portfolio.
- (3) Labour sponsored or venture capital funds must disclose the individual securities in which they invest, but may aggregate all changes from costs of the venture investments, thereby only showing an aggregate adjustment from cost to fair value for these securities.

- (4) This alternative disclosure is only permitted if the labour sponsored or venture capital fund has obtained an independent valuation in accordance with Part 8 of the Regulation. The CSA are of the view that a report on compliance with stated valuation policies and practices cannot take the place of an independent valuation.
- (5) The CSA expect the independent valuator's report to provide either a number or range of values which the independent valuator considers to be a fair expression of the NAV of the labour sponsored or venture capital fund.
- (6) An investment fund obtaining an independent valuation should, at the request of the valuator, promptly furnish the valuator with access to the investment fund manager and its advisers and to all material information in their possession relevant to the independent valuation. The valuator is expected to use that access to perform a comprehensive review and analysis of information upon which the independent valuation is based. The valuator should form its own independent views of the reasonableness of this information, including any forecasts or projections or other measurements of the expected future performance of the enterprise, and of any of the assumptions upon which it is based, and adjust the information accordingly.
- (7) The disclosure in the valuation of the scope of review should include a description of any limitation on the scope of the review and the implications of the limitation on the valuator's conclusion.
- (8) The person or company responsible for obtaining an independent valuation should work in co-operation with the valuator to ensure that the requirements of the Regulation are satisfied.

5.2 Independent Valuers

- (1) The Regulation provides that it is a question of fact as to whether a valuator is independent of the investment fund. In determining the independence of the valuator from the investment fund, a number of factors may be relevant, including whether
 - (a) the valuator or an affiliated entity of it has a material financial interest in future business in respect of which an agreement, commitment or understanding exists involving the investment fund or a person or company listed in paragraph (2)(a);
 - (b) the valuator or its affiliated entity is a lender of a material amount of indebtedness to any of the issuers of the investment fund's illiquid investments.
- (2) The CSA would generally consider a valuator not to be independent of an investment fund where
 - (a) the valuator or an affiliated entity of the valuator is
 - (i) the manager of the investment fund,
 - (ii) a portfolio adviser of the investment fund,
 - (iii) an insider of the investment fund,

- (iv) an associate of the investment fund,
 - (v) an affiliated entity of the investment fund, or
 - (v) an affiliated entity of any of the persons or companies named in this clause (a); or
- (b) the compensation of the valuator or an affiliated entity of the valuator depends in whole or in part upon an agreement, arrangement or understanding that gives the valuator, or an affiliated entity of the valuator, a financial incentive in respect of the conclusions reached in the formal valuation;
- (c) the valuator or an affiliated entity of the valuator has a material investment in the investment fund or a portfolio asset of the investment fund.
- (3) Investment funds are reminded that the Canadian Institute of Chartered Accountants (CICA) also sets independence standards that should be considered when determining whether the valuator could be considered to be independent.

PART 6 PROXY VOTING DISCLOSURE FOR SECURITIES HELD

6.1 Proxy Voting Disclosure

- (1) Investment funds are formed as corporations or trusts and must be operated for the benefit of their securityholders. Because an investment fund is the beneficial owner of its portfolio securities, the investment fund's manager, acting on the investment fund's behalf, has the right and the obligation to vote proxies relating to the investment fund's portfolio securities. As a practical matter, however, the manager may delegate this function to the investment fund's portfolio adviser as part of the adviser's general management of investment fund assets, subject to the continuing oversight of the manager.

The manager owes a fiduciary duty to act in the best interest of the investment fund. This fiduciary duty extends to all functions undertaken on the investment fund's behalf, including the voting of proxies relating to the investment fund's portfolio securities. A portfolio adviser voting proxies on behalf of an investment fund, therefore, must also do so in a manner consistent with the best interests of the fund and its securityholders.

- (2) Traditionally, investment funds have been viewed as largely passive investors, reluctant to challenge corporate management on issues such as corporate governance. Investment funds have often followed the so-called "Wall Street rule," according to which an investor should either vote as management recommends or, if dissatisfied with management, sell the security. In recent years, however, some investment funds, along with other institutional investors, have become more assertive in exercising their proxy voting responsibilities. The increased assertiveness by investment funds in the voting of proxies may have a number of causes. In some instances, investment funds hold such large positions in a particular issuer that they cannot easily sell their holdings if the issuer's management is performing poorly. Also, the investment policies of investment funds that track an index typically do not permit them to sell poorly performing

investments, and therefore these investment funds may become active in corporate governance in order to maximize value for their securityholders.

- (3) In some situations, the interests of an investment fund's securityholders may conflict with those of its portfolio adviser with respect to proxy voting. This may occur, for example, when an investment fund's adviser also manages or seeks to manage the pension assets of a company whose securities are held by the investment fund. In these situations, an investment fund's adviser may have an incentive to support management recommendations to further its business interests.
- (4) In spite of the substantial institutional voting power held by investment funds, the increasing importance of the exercise of that power to investment fund securityholders, and the potential for conflicts of interest with respect to the exercise of investment fund proxy voting power, limited information has been available regarding how investment funds vote their proxies. The CSA believe that investment funds should disclose their proxy voting policies and procedures, and should make their actual voting records available.
- (5) The Regulation requires that the investment fund establish policies and procedures for determining whether, and how, to vote on any matter for which the investment fund receives proxy materials for a meeting of securityholders of an issuer. The CSA consider an investment fund to "receive" a document when it is delivered to any service provider or to the investment fund in respect of securities held beneficially by the investment fund. Proxy materials may be delivered to a manager, a portfolio adviser or sub-adviser, or a custodian. All of these deliveries are considered delivered "to" the investment fund.
- (6) Section 10.2 of the Regulation sets out, in general terms, what the securities regulatory authorities consider to be minimum policies and procedures for the proxy voting process. Securityholders are entitled to receive on request the full proxy voting policies and procedures, in addition to the proxy voting record.

PART 7 MATERIAL CHANGE

7.1 Material Change

The CSA are of the view that in order for an investment fund to file a confidential material change report under Section 11.2 of the Regulation, the investment fund or its manager must advise insiders of the prohibition against trading during the filing period of a confidential material change report and must also take steps to monitor trading activity.

PART 8 INFORMATION CIRCULARS

8.1 Sending of Proxies and Information Circulars

An investment fund is required to send the proxy-related materials referred to in Part 12 of the Regulation to their securityholders in accordance with the requirements of Regulation 54-101.

PART 9 PUBLICATION OF NET ASSET VALUE PER SECURITY

9.1 Publication of Net Asset Value Per Security

Subsection 14.2(7) of the Regulation requires an investment fund that arranges for the publication of its net asset value per security in the financial press to ensure that its current net asset value per security is provided on a timely basis to the financial press. This provision ensures that an investment fund takes steps to calculate the net asset value per security as quickly as is commercially practicable following the valuation date or time, and to make the results of that calculation available to the financial press as quickly as is commercially practicable. An investment fund should, to the extent practicable, attempt to meet the deadlines of the financial press for publication in order to ensure that its net asset values per security are publicly available as quickly as possible.

PART 10 CALCULATION OF MANAGEMENT EXPENSE RATIO

10.1 Calculation of Management Expense Ratio

- (1) Part 15 of the Regulation sets out the method to be used by an investment fund in calculating its management expense ratio (MER). The requirements contained in Part 15 are applicable in all circumstances in which an investment fund calculates and discloses a management expense ratio. This includes disclosure in a sales communication, a prospectus, an annual information form, financial statements, a management report of fund performance or in a report to securityholders.
- (2) Paragraph 15.1(1)(a) requires the investment fund to use its "total expenses" before income taxes for the relevant period as the basis for the calculation of management expense ratio. Total expenses, before income taxes, will include interest charges and taxes of all types, including sales taxes, GST and capital taxes payable by the investment fund. Canadian GAAP currently would permit an investment fund to deduct withholding taxes from the income to which they apply. Accordingly, withholding taxes would not be recorded as "total expenses" on the investment fund's income statement and need not be included in its MER calculation.
- (3) The CSA recognize that an investment fund may incur fees and charges that are not included in the "total expenses" yet these fees and charges reduce the net asset value of the fund and reduce the amount of investable assets of the investment fund. Sales commissions paid by an investment fund are an example of such fees and charges. It is the view of the CSA that these fees and charges should be reflected in the MER of the investment fund.
- (4) Brokerage charges are not considered to be part of total expenses as they are included in the cost of purchasing, or netted out of the proceeds from selling, portfolio securities.
- (5) Investment funds are expected to disclose the 5 year historical MERs shown in the financial highlights to be calculated in accordance with Part 15. If the investment fund has not calculated the historical MERs in a manner similar to that required by the Regulation, the CSA are of the view that the change in the method of calculating the MER of an investment fund should be treated in a manner which is similar to a change in accounting policy under section 1506 of the Handbook. Under Canadian GAAP, a change in accounting policy requires a retroactive restatement of the financial information for all periods shown.

However, the Handbook acknowledges that there may be circumstances where the data needed to restate the financial information is not reasonably determinable.

- (a) If an investment fund retroactively restates its MER for the five years required to be shown in its management report of fund performance, the investment fund should describe this restatement in the first such documents released in which the restated amounts are reported.
- (b) If an investment fund does not restate its MER for prior periods because, based on its specific facts and circumstances, the information required to do so is not reasonably determinable, the MER for all financial periods ending after the effective date of the Regulation must be calculated in accordance with Part 15.
- (c) The investment fund must also disclose:
 - (i) that the method of calculating MER has changed, specifying for which periods the MER has been calculated in accordance with the change;
 - (ii) that the investment fund has not restated the MER for specified prior periods;
 - (iii) the impact that the change would have had if the investment fund had restated the MER for the specified prior periods. For example, would the MER have increased or decreased if the MER had been restated? If possible, provide an estimate of the increase or decrease if the MER had been restated; and
 - (iv) a description of the main differences between an MER calculated in accordance with the Regulation and the previous calculations.

The disclosure outlined above should be provided for all periods presented until such time as all MERs presented are calculated in accordance with the Regulation.

APPENDIX A

EXAMPLES OF FILING REQUIREMENTS FOR CHANGES IN YEAR END

The following examples assume the old financial year ended on December 31, 20X0

| Transition Year | Comparative Annual Financial Statements to Transition Year | New Financial Year | Comparative Annual Financial Statements to New Financial Year | Interim Periods for Transition Year | Comparative Interim Periods to Transition Year | Interim Periods for New Financial Year | Comparative Interim Periods to New Financial Year |
|--------------------------|--|--------------------|---|-------------------------------------|--|--|---|
| Up to 3 months | | | | | | | |
| 3 months ended 3/31/X1 | 12 months ended 12/31/X0 | 3/31/X2 | 3 months ended 3/31/X1 and 12 months ended 12/31/X0 | Not applicable | Not applicable | 6 months ended 9/30/X1 | 6 months ended 9/30/X0 |
| 4 to 6 months | | | | | | | |
| 6 months ended 6/30/X1 | 12 months ended 12/31/X0 | 6/30/X2 | 6 months ended 6/30/X1 and 12 months ended 12/31/X0 | Not applicable | Not applicable | 6 months ended 12/31/X1 | 6 months ended 12/31/X0 |
| 7 or 8 months | | | | | | | |
| 8 months ended 8/31/X1 | 12 months ended 12/31/X0 | 8/31/X2 | 8 months ended 8/31/X1 and 12 months ended 12/31/X0 | Not applicable | Not applicable | 6 months ended 2/28/X2 | 6 months ended 2/28/X1 |
| 9 to 11 months | | | | | | | |
| 11 months ended 11/30/X1 | 12 months ended 12/31/X0 | 11/30/X2 | 11 months ended 11/30/X1 | 6 months ended 6/30/X1 | 6 months ended 6/30/X0 | 6 months ended 5/31/X2 | 6 months ended 5/31/X1 |
| 11 to 15 months | | | | | | | |
| 15 months ended 3/31/X2 | 12 months ended 12/31/X0 | 3/31/X3 | 15 months ended 3/31/X2 | 6 months ended 6/30/X1 | 6 months ended 6/30/X0 | 6 months ended 9/30/X2 | 6 months ended 9/30/X1 |

APPENDIX B

CONTACT ADDRESSES FOR FILING OF NOTICES

Alberta Securities Commission

4th Floor
300 – 5th Avenue S.W.
Calgary, Alberta
T2P 3C4
Attention: Director, Capital Markets

British Columbia Securities Commission

P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, British Columbia
V7Y 1L2
Attention: Financial Reporting

Manitoba Securities Commission

1130 – 405 Broadway
Winnipeg, Manitoba
R3C 3L6
Attention: Corporate Finance

Office of the Administrator, New Brunswick

P.O. Box 5001
133 Prince William Street, Suite 606
Saint John, NB
E2L 4Y9
Attention: Minister of Finance

Securities Commission of Newfoundland

P.O. Box 8700
2nd Floor, West Block
Confederation Building
75 O'Leary Avenue
St. John's, NFLD
A1B 4J6
Attention: Director of Securities

Department of Justice, Northwest Territories

Legal Registries
P.O. Box 1320
1st Floor, 5009-49th Street
Yellowknife, NWT X1A 2L9
Attention: Director, Legal Registries

Nova Scotia Securities Commission

2nd Floor, Joseph Howe Building
1690 Hollis Street
Halifax, Nova Scotia B3J 3J9
Attention: Corporate Finance

Department of Justice, Nunavut

Legal Registries Division
P.O. Box 1000 – Station 570
1st Floor, Brown Building
Iqaluit, NT X0A 0H0
Attention: Director, Legal Registries Division

Ontario Securities Commission

Suite 1903, Box 55
20 Queen Street West
Toronto, ON M5H 3S8
Attention: Continuous Disclosure, Corporate Finance

Registrar of Securities, Prince Edward Island

P.O. Box 2000
95 Rochford Street, 5th Floor,
Charlottetown, PEI
C1A 7N8
Attention: Registrar of Securities

Autorité des marchés financiers

800 Square Victoria, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal, Québec
H4Z 1G3
Attention: Directrice des marchés des capitaux

Saskatchewan Financial Services Commission – Securities Division

6th Floor,
1919 Saskatchewan Drive
Regina, SK S4P 3V7
Attention: Deputy Director, Corporate Finance

Registrar of Securities, Government of Yukon

Corporate Affairs J-9
P.O. Box 2703
Whitehorse, Yukon
Y1A 5H3
Attention: Registrar of Securities