

REGULATION TO AMEND REGULATION 81-106 RESPECTING INVESTMENT FUND CONTINUOUS DISCLOSURE

Securities Act

(R.S.Q., c. V-1.1, s. 331.1, par. (1), (8), (9), (19) and (34); 2006, c. 50)

1. Section 1.1 of Regulation 81-106 respecting Investment Fund Continuous Disclosure is amended by replacing the definition of “net asset value” with the following definition:

““net asset value” means the value of the total assets of the investment fund less the value of the total liabilities of the investment fund, as at a specific date, determined in accordance with Part 14;”.

2. Section 2.9 of the Regulation is amended, in subsection (4):

(1) by replacing subparagraph (i) of paragraph (a) with the following subparagraph:

“(i) a statement of net assets as at the end of its old financial year; and”;

(2) by replacing subparagraph (i) of paragraph (b) with the following subparagraph:

“(i) a statement of net assets as at the end of the transition year; and”.

3. Section 2.10 of the Regulation is amended:

(1) by replacing paragraph (a) with the following paragraph:

“(a) the investment fund terminating or ceasing to be a reporting issuer;”;

(2) by replacing paragraph (h) with the following paragraph:

“(h) if applicable, the names of each party that terminated or ceased to be a reporting issuer following the transaction and of each continuing entity;”.

4. Section 3.1 of the Regulation is amended in paragraph 15 by replacing the words “net asset value” with the words “net assets”.

5. Section 3.2 of the Regulation is amended:

(1) by replacing paragraphs 1, 2, 3 and 4 of the French text with the following paragraphs:

- “1. les dividendes reçus;
- 2. les produits d'intérêts;
- 3. les revenus provenant des dérivés;
- 4. les produits provenant des prêts de titres;”;

(2) by adding the following paragraph after paragraph 4:

“4.1. revenue from repurchase and reverse repurchase transactions.”;

(3) by adding the following paragraph after paragraph 10:

“10.1. commissions and other portfolio transaction costs.”.

6. Section 3.5 of the Regulation is amended by adding the following subsection after subsection (8):

“(8.1) If an investment fund invests substantially all of its assets directly, or indirectly through the use of derivatives, in securities of one other investment fund, the investment fund must disclose in the statement of investment portfolio or the notes to that statement the holdings of the other investment fund.”.

7. Section 3.6 of the Regulation is amended, in subsection (1):

(1) by replacing paragraph 3 with the following paragraph:

“3. to the extent the amount is ascertainable, the soft dollar portion of the total commissions and other portfolio transaction costs paid or payable to dealers by the investment fund, where the soft dollar portion is the amount paid or payable for goods and services other than order execution.”;

(2) by adding the following paragraph after paragraph 4:

“5. a reconciliation of the net assets and net assets per security in the financial statements to the net asset value and net asset value per security, as at the date of the financial statements, and an explanation of the differences between these amounts.”.

8. Subsection (2) of section 3.11 of the Regulation is amended by replacing the words “net asset value per security” with the words “net assets per security”.

9. Paragraph (c) of section 8.2 of the Regulation is amended by replacing the words “net asset value” with the words “net assets”.

10. Section 8.4 of the Regulation is amended by replacing the words “net asset value” with the words “net assets”.

11. Section 9.2 of the Regulation is replaced by the following section:

“9.2. Requirement to File Annual Information Form

An investment fund must file an annual information form if the investment fund has not filed a prospectus during the last 12 months preceding its financial year end.”.

12. Section 10.3 of the Regulation is amended by adding the words “or the equivalent of a reporting issuer in a foreign jurisdiction” after the words “reporting issuer”.

13. Section 14.2 of the Regulation is amended:

(1) by replacing subsection (1) with the following subsections:

“(1) The net asset value of an investment fund must be calculated using the fair value of the investment fund’s assets and liabilities.

(1.1) The net asset value of an investment fund must include income and expenses of the investment fund accrued up to the date of calculation of the net asset value.

(1.2) For the purposes of subsection (1), fair value means

(a) the market value based on reported prices and quotations in an active market, or

(b) if the market value is not available, or the manager of the investment fund believes that it is unreliable, a value that is fair and reasonable in all the relevant circumstances.

(1.3) The manager of an investment fund must

(a) establish and maintain appropriate written policies and procedures for determining the fair value of the investment fund’s assets and liabilities; and

(b) consistently follow those policies and procedures.

(1.4) The manager of an investment fund must maintain a record of every determination of fair value and the reasons supporting that determination.”;

(2) in subsection (2), by deleting the words “Despite subsection (1),” and making the necessary changes;

(3) in subsection (5), by replacing the words “subsection (3)” with the words “paragraph (3)(a)”.

14. Section 15.1 of the Regulation is amended, in subparagraph (i) of paragraph (a) of subsection (1), by replacing clause (A) with the following clause:

“(A) total expenses of the investment fund, excluding commissions and other portfolio transaction costs, before income taxes, for the financial year or interim period, as shown on its statement of operations; and”.

15. Section 15.2 of the Regulation is amended, in subsection (1):

(1) by replacing subparagraph (i) of paragraph (a) with the following subparagraph:

“(i) multiplying the total expenses of each underlying investment fund, excluding commissions and other portfolio transaction costs, before income taxes, for the financial year or interim period, by”;

(2) by replacing paragraph (b) with the following paragraph:

“(b) the total expenses of the investment fund, excluding commissions and other portfolio transaction costs, before income taxes, for the period.”.

16. Section 18.2 of the Regulation is repealed.

17. Section 18.3 of the Regulation is repealed.

18. Section 18.4 of the Regulation is repealed.

19. Section 18.5 of the Regulation is repealed.

20. Form 81-106F1, Contents of Annual and Interim Management Report of Fund Performance, of the Regulation is amended:

(1) in Item 1 of Part A, by adding the following subsection after subsection (e):

“(f) **Terminology**

All references to “net assets” or “net assets per security” in this Form are references to net assets in accordance with Canadian GAAP as presented in the financial statements of the investment fund. All references to “net asset value” or “net asset value per security” in this Form are references to net asset value as determined in accordance with Part 14 of the Regulation.

Investment funds must use net assets as shown on the financial statements in the “*The Fund’s Net Assets per [Unit/Share]*” table. All other calculations for the purposes of the MRFP must be made using net asset value.”;

(2) in Part B:

(a) in Item 3.1:

(i) in subsection (1), by deleting the words “This information is derived from the Fund’s audited annual financial statements.” and by replacing the tables with the following tables:

“*The Fund’s Net Assets per [Unit/Share]*”⁽¹⁾

| | [insert year] | [insert year] | [insert year] | [insert year] | [insert year] |
|--|---------------|---------------|---------------|---------------|---------------|
| Net Assets, beginning of year | \$ | \$ | \$ | \$ | \$ |
| Increase (decrease) from operations: | | | | | |
| total revenue | \$ | \$ | \$ | \$ | \$ |
| total expenses | \$ | \$ | \$ | \$ | \$ |
| realized gains (losses) for the period | \$ | \$ | \$ | \$ | \$ |
| unrealized gains (losses) for the period | \$ | \$ | \$ | \$ | \$ |
| Total increase (decrease) from operations ⁽²⁾ | \$ | \$ | \$ | \$ | \$ |
| Distributions: | | | | | |
| From income (excluding dividends) | \$ | \$ | \$ | \$ | \$ |
| From dividends | \$ | \$ | \$ | \$ | \$ |
| From capital gains | \$ | \$ | \$ | \$ | \$ |
| Return of capital | \$ | \$ | \$ | \$ | \$ |
| Total Annual Distributions ⁽³⁾ | \$ | \$ | \$ | \$ | \$ |
| Net assets at [insert last day of financial year] of year shown | \$ | \$ | \$ | \$ | \$ |

(1) *This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements differs from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements./This difference is due to [explain].]*

(2) *Net assets and distributions are based on the actual number of [units/shares] outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of [units/shares] outstanding over the financial period.*

(3) *Distributions were [paid in cash/reinvested in additional [units/shares] of the Fund], or both.*

Ratios and Supplemental Data

| | [insert year] | [insert year] | [insert year] | [insert year] | [insert year] |
|--|---------------|---------------|---------------|---------------|---------------|
| Total net asset value (000's) ⁽¹⁾ | \$ | \$ | \$ | \$ | \$ |
| Number of [units/shares] outstanding ⁽¹⁾ | | | | | |
| Management expense ratio ⁽²⁾ | % | % | % | % | % |
| Management expense ratio before waivers or absorptions | % | % | % | % | % |
| Trading expense ratio ⁽³⁾ | % | % | % | % | % |
| Portfolio turnover rate ⁽⁴⁾ | % | % | % | % | % |
| Net asset value per [unit/share] | \$ | \$ | \$ | \$ | \$ |
| Closing market price [if applicable] | \$ | \$ | \$ | \$ | \$ |

(1) *This information is provided as at [insert date of end of financial year] of the year shown.*

(2) *Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.*

(3) *The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.*

(4) *The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.”;*

(ii) by deleting subsection (2) and renumbering subsections (3) to (13) as subsections (2) to (12);

(iii) by replacing subsection (6) with the following:

“(6) Except for net assets, net asset value and distributions, calculate per unit/share values on the basis of the weighted average number of unit/shares outstanding over the financial period.”;

(iv) by replacing subsection (12) with the following subsection:

“(12) (a) Calculate the trading expense ratio by dividing

(i) the total commissions and other portfolio transaction costs disclosed in the statement of operations; by

(ii) the same denominator used to calculate the management expense ratio.

(b) If an investment fund invests in securities of other investment funds, calculate the trading expense ratio using the methodology required for the calculation of the management expense ratio in section 15.2 of the Regulation.”;

(v) by replacing subsection (13) with the following subsection:

“(13) Provide the closing market price only if the investment fund is traded on an exchange.”;

(b) in Item 3.2, by replacing the first paragraph with the following paragraph:

“An investment fund that is a scholarship plan must comply with Item 3.1, except that the following table must replace “The Fund’s Net Assets per [Unit/Share]” table and the “Ratios and Supplemental Data” table.”;

(c) in Item 4.3, by adding, in subsection (1) of the French text, the words “, l’information suivante” after the words ““Rendements composés annuels””, and by replacing, at the end of paragraph *a* of subsection (1) of the English text, the word “or” with the word “and”;

(d) in Item 5:

(i) in paragraph (b) of subsection (2), by replacing the words “net assets” with the words “net asset value”;

(ii) in paragraph (d) of subsection (2), by replacing the words “net assets” with the words “net asset value”;

(iii) by replacing Instruction (8) with the following Instruction:

“(8) *If an investment fund invests substantially all of its assets directly or indirectly (through the use of derivatives) in securities of one other fund, list only the 25 largest holdings of the other investment fund by percentage of net asset value of the other investment fund, as disclosed by the other investment fund as at the most recent quarter end.*”.

21. This Regulation shall come into force on *(insert the date of coming into force of this Regulation)*.