

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

1. Paragraph (3) of section 1.3 of the *Policy Statement to Regulation 81-106 respecting Investment Fund Continuous Disclosure* is replaced with the following:

“(3) The Regulation uses terminology that may be defined or referred to in Canadian GAAP. Some of these terms may be defined differently in securities legislation. *Regulation 14-101 respecting Definitions* provides that a term used in the Regulation and defined in the securities statute of a local jurisdiction has the meaning given to it in the statute unless the definition in that statute is restricted to a specific portion of the statute, or the context otherwise requires.”.

2. Section 2.1 of the Policy Statement is amended:

(1) by replacing paragraph (2) with the following paragraphs:

“(1.1) Subsection 2.6(2) of the Regulation, applicable to financial years beginning on or after January 1, 2011, refers to Canadian GAAP for publicly accountable enterprises, which is IFRS incorporated into the Handbook contained in Part I of the Handbook. Subsection 2.6(1) of the Regulation, applicable to financial years beginning before January 1, 2011, refers to Canadian GAAP applicable to public enterprises contained in Part IV of the Handbook.

(2) The CSA believe that an investment fund’s financial statements must include certain information, at a minimum, in order to provide full disclosure. The Regulation sets out these minimum requirements, but does not mandate all the required disclosure. Canadian GAAP applicable to publicly accountable enterprises also contains minimum requirements relating to the content of financial statements. An investment fund’s financial statements must meet these requirements as well.

In some cases, the Regulation prescribes line items that may already be required by Canadian GAAP, but these line items are expressed more specifically for the activities of an investment fund. For example, Canadian GAAP requires a “trade and other receivables” line item on the statement of financial position, but the Regulation requires accounts receivable to be broken down into more specific categories. In other instances, the line items prescribed in the Regulation are in addition to those in Canadian GAAP. Investment funds are responsible for disclosing all material information concerning their financial position and results in the financial statements.”;

(2) by deleting paragraph (3).

3. The Policy Statement is amended by adding the following after section 2.1:

**“2.1.1. Classification of Securities Issued by an Investment Fund**

(1) One goal of the Regulation is comparable financial statement presentation between investment funds. However, the adoption of IFRS results in certain changes to this presentation. For example, the presentation is impacted by the classification of an investment fund’s securities as either equity instruments or financial liabilities. Certain line items, such as “total equity or net assets attributable to securityholders”, acknowledge the difference between an equity and liability presentation, but maintain a comparable measurement between investment funds regardless of this classification.

(2) If an investment fund’s securities are classified as financial liabilities, IFRS requires financing costs to include the distributions made by the investment fund to those securityholders. However, if an investment fund’s securities are classified as equity instruments, distributions to holders of these securities are not included in financing costs (and are not recognized as an expense), creating a difference that reduces comparability.

To address this, the Regulation requires distributions to be excluded from certain calculations, specifically: (i) increase or decrease in net assets attributable to securityholders from operations as disclosed in the statement of comprehensive income, and (ii) determination of total expenses for the management expense ratio (MER).

(3) For investment funds that classify their own securities as financial liabilities, “net assets attributable to securityholders” represents the equivalent of “total equity” for investment funds that classify their own securities as equity instruments. Net assets attributable to securityholders does not include amounts owed on securities issued by the investment fund that provide leverage to the fund.”.

4. Section 2.2 of the Policy Statement is amended by replacing, wherever they occur in the French text, the words “de vérification” with the words “d’audit”, and making the necessary changes.

5. Section 2.3 of the Policy Statement is repealed.

6. Section 2.5 of the Policy Statement is amended by replacing, wherever they occur, the words “statement of operations” with the words “statement of comprehensive income”.

7. Section 2.5.1 of the Policy Statement is amended by replacing, in the French text, the words “notes y afférentes” with the words “notes de celui-ci”.

8. Section 2.6 of the Policy Statement is amended by replacing, in the French text, the words “notes afférentes aux” with the word “notes des”.

9. Paragraph (2) of section 2.7 of the Policy Statement is amended by replacing the words “statement of net assets” with the words “statement of financial position”.

10. Paragraph (3) of section 2.8 of the Policy Statement is amended by replacing the words “Interim financial statements” with the words “The interim financial report”.

11. The title of Part 3 of Policy Statement is replaced, in the French text, with the following:

**“PARTIE 3 AUDITEURS ET RAPPORTS D’AUDIT”.**

12. Section 3.1 of Policy Statement is amended, in the French text:

(1) by replacing, in the title, the word “**Vérificateur**” with the word “**Auditeur**”;

(2) by replacing, in the second paragraph, the words “leur vérificateurs” with the words “leur auditeur” and the words “des vérificateurs” with the words “des auditeurs”.

13. Sections 3.2 to 3.4 of the Policy Statement are replaced with the following:

**“3.2. Modification of Opinion**

(1) The Regulation generally prohibits an auditor’s report from containing a modification of opinion under Canadian GAAS. A modification of opinion includes a qualification of opinion, an adverse opinion, and a disclaimer of opinion.

(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 modification of opinion or other similar communication that would constitute a modification of opinion under Canadian GAAS. However, we believe that such exemptive relief should not be granted if the modification of opinion 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.

### **“3.3. Auditor's Involvement with Management Reports of Fund Performance**

Investment funds' auditors are expected to comply with the Handbook with respect to their involvement with the annual and interim management reports of fund performance required by the Regulation as these reports contain financial information extracted from the financial statements.

### **“3.4. Auditor Involvement with Interim Financial Reports**

(1) The board of directors of an investment fund that is a corporation or the trustees of an investment fund that is a trust, in discharging their responsibilities for ensuring reliable interim financial reports, should consider engaging an external auditor to carry out a review of the interim financial reports.

(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 reports, to disclose if an auditor was unable to complete a review and why, and to file a written report from the auditor if the auditor performed a review and expressed a reservation in the auditor's interim review report. No positive statement is required when an auditor performed a review and provided an unqualified communication. If an auditor was engaged to perform a review on an interim financial report applying review standards set out in the Handbook, and the auditor was unable to complete the review, the investment fund's disclosure of the reasons why the auditor was unable to complete the review should normally include a discussion of

- (a) inadequate internal control,
- (b) a limitation on the scope of the auditor's work, or
- (c) a failure of management to provide the auditor with written representations the auditor believes are necessary.

(3) 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 an interim financial report using standards for a review of an interim financial report by the auditor as set out in the Handbook.

(4) The Regulation does not specify the form of notice that should accompany an interim financial report that has not been reviewed by the auditor. The notice accompanies, but does not form part of, the interim financial report. We expect that the notice will normally be provided on a separate page appearing immediately before the interim financial report, in a manner similar to an audit report that accompanies annual financial statements.”.

14. Section 9.3 of the Policy Statement is replaced with the following:

**“9.3. Meaning of Fair Value**

The Handbook describes fair value as being the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties motivated by normal business considerations. Accordingly, fair value should not reflect the amount that would be received or paid in a forced transaction, involuntary liquidation or distress sale.”.

15. Paragraph (3) of section 9.4 of the Policy Statement is amended, in the French text, by replacing the words “titres de participation” with the words “titres de capitaux propres”.

16. Section 10.1 of the Policy Statement is amended:

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

“(2) Paragraph 15.1(1)(a) requires the investment fund to use its "total expenses" (other than distributions if these are an expense for the investment fund) before income taxes for the relevant period as the basis for the calculation of MER. Total expenses, before income taxes, include interest charges and taxes, including sales taxes, GST and capital taxes payable by the investment fund. Withholding taxes need not be included in the MER calculation.

The CSA is of the view that if an investment fund issues securities that provide leverage to the fund, amounts paid to holders of these securities are financing costs and should not be excluded from total expenses when calculating the MER of the investment fund's residual securities. Securities that provide leverage generally include preferred shares.

Non-optional fees paid directly by investors in connection with the holding of an investment fund's securities do not have to be included in the MER calculation, which differs from the previous requirement in *Regulation 81-102 respecting Mutual Funds.*”;

(2) in paragraph (5):

(a) by replacing the second and third sentences of the first paragraph with the following:

“If the investment fund has not calculated the historical MERs in the manner required by the Regulation, we are of the view that the change in the method of calculating the MER should be treated in a manner similar to a change in accounting policy under International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Under Canadian GAAP, a change in accounting policy requires a retrospective application of the change for all periods shown.”;

(b) by deleting, in the second paragraph, the word “retroactively”.

17. Appendix B of the Policy Statement is amended:

(1) by replacing, in the address for Autorité des marchés financiers, the words “À l'attention de la Direction des marchés des capitaux” with the words “À l'attention de la Direction des fonds d'investissement et de l'information continue”;

(2) by replacing, in the address for New Brunswick Securities Commission, “606 – 133 Prince William Street” with “85 Charlotte Street, Suite 300 », and “E2L 2B5” with “E2L 2J2”;

(3) by replacing, in the address for Nunavut, the words “Attention: Director,

Legal Registries Division” with the words “Attention: Superintendent of Securities”;

(4) by replacing, in the address for Saskatchewan Financial Services Commission, “S4P 3V7” with “S4P 4H2”;

(5) by replacing the address for Newfoundland and Labrador with the following:

**Financial Services Regulation Division**  
**Department of Government Services**  
P.O. Box 8700  
St. John's, NL  
A1B 4J6  
Attention: Superintendent of Securities”;

(6) by replacing, in the address for Northwest Territories, the words “Legal Registries” with the words “Securities Office”, and the words “Director, Legal Registries” with the words “Superintendent of Securities”;

(7) by replacing, in the address for Yukon, the words “**Registrar of Securities, Government of Yukon**” with the words “**Superintendent of Securities, Government of Yukon**” and the words “Registrar of Securities” with the words “Superintendent of Securities”.