

Nova Scotia Securities Commission

Rule 81-106 (Amendment)
Investment Fund Continuous Disclosure

-and-

Amendments to National Instrument 81-106
Investment Fund Continuous Disclosure

-and-

Amendments to Companion Policy 81-106CP
to National Instrument 81-106
Investment Fund Continuous Disclosure

WHEREAS:


1. Pursuant to section 150 of the *Securities Act*, R.S.N.S. 1989, chapter 418, as amended (the Act), the Nova Scotia Securities Commission (the Commission) has power to make rules subject to compliance with the requirements of the Act;
2. Pursuant to section 19 of the Act, the Commission has power to issue and publish policy statements;
3. Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* and Amendments to Companion Policy 81-106CP *to National Instrument 81-106 Investment Fund Continuous Disclosure*, copies of which are attached hereto and are hereinafter called the Rule and Companion Policy respectively, have been made a rule by one or more of the Canadian securities regulatory authorities; and
4. The Commission is of the opinion that the attainment of the purpose of the Act is advanced by this Instrument.

NOW THEREFORE the Commission hereby:

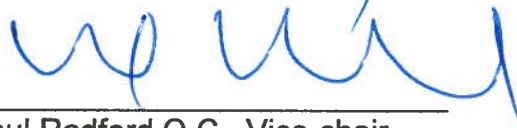
- (a) pursuant to the authority contained in section 150 of the Act and subject to compliance with the requirements of section 150A of the Act, approves the Rule and makes the same a rule of the Commission;
- (b) pursuant to the authority contained in section 19 of the Act and subject to publication on the Commission's website, issues the Companion Policy as a policy statement of the Commission; and

(c) declares that the rule approved and made pursuant to clause (a) and the issuance of the policy statement pursuant to clause (b) shall both take effect on **January 1, 2014**, unless the Minister disapproves the rule or returns it to the Commission in accordance with subsection 150A(3) of the Act in which event the rule and the policy statement shall not be effective until the rule is approved by the Minister.

IN WITNESS WHEREOF this Instrument has been signed by the Chair and Vice-chair of the Commission, being the members of the Commission prescribed by the Chair pursuant to subsection 15(3) of the Act to attend the hearing of this matter and the quorum with respect to this matter, on the 16th day of October, 2013.



Sarah P. Bradley, Chair



Paul Radford Q.C., Vice-chair

Attachments

**Amendments to
National Instrument 81-106 *Investment Fund Continuous Disclosure***

Although this amendment instrument amends section headers in National Instrument 81-106, section headers do not form part of the instrument and are inserted for ease of reference only.

1. ***National Instrument 81-106 Investment Fund Continuous Disclosure is amended by this instrument.***
2. ***Section 1.1 of National Instrument 81-106 is amended by***
 - (a) ***adding the following after the definition of “EVCC”:***

“financial statements” includes interim financial reports;;
 - (b) ***repealing the definition of “net asset value” and substituting the following:***

“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;;
 - (c) ***adding the following after the definition of “non-redeemable investment fund”:***

“publicly accountable enterprise” means a publicly accountable enterprise as defined in the Handbook;; ***and***
 - (d) ***adding the following after the definition of “scholarship plan”:***

“statement of changes in financial position” means a statement of changes in equity or a statement of changes in net assets attributable to securityholders;
3. ***Section 2.1 of National Instrument 81-106 is amended by***
 - (a) ***striking out “statement of net assets” in paragraph (1)(a) wherever it occurs and substituting “statement of financial position”;***
 - (b) ***striking out “statement of operations” in paragraph (1)(b) wherever it occurs and substituting “statement of comprehensive income”;***
 - (c) ***striking out “statement of changes in net assets” in paragraph (1)(c) wherever it occurs and substituting “statement of changes in financial position”;***
 - (d) ***repealing paragraph (1)(d) and substituting the following:***

- (d) for financial years beginning on or after January 1, 2014, a statement of cash flows for that financial year and a statement of cash flows for the immediately preceding financial year;; **and**
- (e) **striking out “; and” at the end of paragraph (1)(e) and repealing paragraph (1)(f) and substituting the following:**
 - (f) a statement of financial position as at the beginning of the immediately preceding financial year if the investment fund discloses in its annual financial statements an unreserved statement of compliance with IFRS and the investment fund:
 - (i) applies an accounting policy retrospectively in its annual financial statements,
 - (ii) makes a retrospective restatement of items in its annual financial statements, or
 - (iii) reclassifies items in its annual financial statements; and
 - (g) notes to the annual financial statements.

4. Section 2.3 of National Instrument 81-106 is amended by

- (a) **in the title, striking out “Interim Financial Statements” and substituting “Interim Financial Report”;**
- (b) **striking out “interim financial statements” and substituting “an interim financial report”;**
- (c) **striking out “include” and substituting “includes”;**
- (d) **striking out “statement of net assets” in paragraph (a) wherever it occurs and substituting “statement of financial position”;**
- (e) **striking out “statement of operations” in paragraph (b) wherever it occurs and substituting “statement of comprehensive income”;**
- (f) **striking out “statement of changes in net assets” in paragraph (c) wherever it occurs and substituting “statement of changes in financial position”;**
- (g) **repealing paragraph (d) and substituting the following:**
 - (d) for financial years beginning on or after January 1, 2014, a statement of cash flows for that interim period and a statement of cash flows for the corresponding period in the immediately preceding financial year;; **and**

(h) *repealing paragraph (f) and substituting the following:*

- (f)** a statement of financial position as at the beginning of the immediately preceding financial year if the investment fund discloses in its interim financial report an unreserved statement of compliance with International Accounting Standard 34 *Interim Financial Reporting* and the investment fund
 - (i)** applies an accounting policy retrospectively in its interim financial report,
 - (ii)** makes a retrospective restatement of items in its interim financial report, or
 - (iii)** reclassifies items in its interim financial report; and
- (g)** notes to the interim financial report.

5. *Section 2.4 of National Instrument 81-106 is amended by*

- (a) *in the title, striking out “Interim Financial Statements” and substituting “Interim Financial Report”; and***
- (b) *striking out “interim financial statements” and substituting “interim financial report”.***

6. *Section 2.6 of National Instrument 81-106 is repealed and substituted by the following:*

2.6 *Acceptable Accounting Principles*

- (1)** For financial years beginning before January 1, 2014, the financial statements of an investment fund must be prepared in accordance with Canadian GAAP applicable to public enterprises.
- (2)** For financial years beginning on or after January 1, 2014, the financial statements of an investment fund must be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises.
- (3)** Financial statements must be prepared in accordance with the same accounting principles for all periods presented in the financial statements.

7. *Section 2.7 of National Instrument 81-106 is amended by repealing subsection (2) and substituting the following:*

- (2)** For financial years beginning before January 1, 2014, audited financial statements must be accompanied by an auditor’s report prepared in accordance with Canadian GAAS and the following requirements:

1. The auditor's report must not contain a reservation or express a modified opinion.
 2. The auditor's report must identify all financial periods presented for which the auditor has issued an auditor's report.
 3. If the investment fund has changed its auditor and a comparative period presented in the financial statements was audited by a different auditor, the auditor's report must refer to the former auditor's report on the comparative period.
 4. The auditor's report must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.
- (3) For financial years beginning on or after January 1, 2014, audited financial statements must be accompanied by an auditor's report prepared in accordance with Canadian GAAS and the following requirements:
1. The auditor's report expresses an unmodified opinion.
 2. The auditor's report identifies all financial periods presented for which the auditor has issued an auditor's report.
 3. The auditor's report is in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework.
 4. The auditor's report refers to IFRS as the applicable fair presentation framework.
 5. If the investment fund has changed its auditor and a comparative period presented in the financial statements was audited by a predecessor auditor, the financial statements are accompanied by the predecessor auditor's report on the comparative period or the auditor's report refers to the predecessor auditor's report on the comparative period.

8. Section 2.9 of National Instrument 81-106 is amended by

- (a) ***striking out*** "interim financial statements" ***wherever it occurs and substituting*** "an interim financial report";
- (b) ***striking out*** "statement of net assets" ***wherever it occurs and substituting*** "statement of financial position";

- (c) **striking out** “statement of operations” *wherever it occurs and substituting* “statement of comprehensive income”;
 - (d) **striking out** “statement of changes in net assets” *wherever it occurs and substituting* “statement of changes in financial position”;
 - (e) **striking out** “statement of cashflows” *wherever it occurs and substituting* “statement of cash flows”;
 - (f) **in subsection (4), striking out** “subsections 4.8(7) and (8)” *and substituting* “paragraphs 4.8(7)(a) and (b) and (8)(a) and (b)”; **and**
 - (g) **striking out** “, if applicable,” *in subparagraph (4)(a)(ii) and subparagraph (4)(b)(ii).*
9. **Section 2.10 of National Instrument 81-106 is amended in paragraph (j) by striking out** “interim and annual financial statements” **and substituting** “interim financial report and annual financial statements”.
10. **Section 2.12 of National Instrument 81-106 is amended by**
- (a) **in the title, striking out** “Interim Financial Statements” **and substituting** “Interim Financial Report”;
 - (b) **striking out** “interim financial statements” *wherever it occurs and substituting* “interim financial report”; **and**
 - (c) **in subsection (2), striking out** “have” **and substituting** “has”.
11. **Section 3.1 of National Instrument 81-106 is amended by**
- (a) **in the title, striking out** “Statement of Net Assets” **and substituting** “Statement of Financial Position”;
 - (b) **striking out** “statement of net assets” **and substituting** “statement of financial position”;
 - (c) **repealing paragraph 14 and substituting the following:**
 - 14. total equity or net assets attributable to securityholders and, if applicable, for each class or series.; **and**
 - (d) **repealing paragraph 15 and substituting the following:**
 - 15. total equity per security or net assets attributable to securityholders per security, or if applicable, per security of each class or series.

12. Section of 3.2 of National Instrument 81-106 is amended by

- (a) in the title, striking out “Statement of Operations” and substituting “Statement of Comprehensive Income”;**
- (b) striking out “statement of operations” and substituting “statement of comprehensive income”;**
- (c) repealing paragraph 12;**
- (d) striking out “provision for” in paragraph 14;**
- (e) repealing paragraph 15;**
- (f) adding the following after paragraph 17:**

17.1 if recognized as an expense, distributions, showing separately the amount distributed out of net investment income and out of realized gains on portfolio assets sold.;

- (g) repealing paragraph 18 and substituting the following:**

18. increase or decrease in total equity from operations, or in net assets attributable to securityholders from operations, excluding distributions, and, if applicable, for each class or series.; **and**

- (h) repealing paragraph 19 and substituting the following:**

19. increase or decrease in total equity from operations per security, or in net assets attributable to securityholders from operations, excluding distributions, per security or, if applicable, per security of each class or series.

13. Section 3.3 of National Instrument 81-106 is amended by

- (a) in the title, striking out “Statement of Changes in Net Assets” and substituting “Statement of Changes in Financial Position”;**
- (b) striking out “statement of changes in net assets” and substituting “statement of changes in financial position”;**
- (c) repealing paragraph 1 and substituting the following:**
 - 1. total equity or net assets attributable to securityholders at the beginning of the period.;

(d) repealing paragraph 2;

(e) repealing paragraph 6 and substituting the following:

6. if not recognized as an expense, distributions, showing separately the amount distributed out of net investment income and out of realized gains on portfolio assets sold.

6.1 return of capital.; *and*

(f) repealing paragraph 7 and substituting the following:

7. total equity or net assets attributable to securityholders at the end of the period.

14. Section 3.4 of National Instrument 81-106 is amended by

(a) in the title, striking out “Statement of Cashflows” and substituting “Statement of Cash Flows”;

(b) striking out “statement of cashflows” and substituting “statement of cash flows”;

(c) repealing paragraph 1; and

(d) repealing paragraph 3 and substituting the following:

3. payments for the purchase of portfolio assets.

15. Section 3.6 of National Instrument 81-106 is amended by

(a) adding the following after paragraph (1)1:

1.1 for financial years beginning on or after January 1, 2014, the basis for classifying the investment fund’s outstanding securities, or each class or series of outstanding securities, as either equity instruments or financial liabilities.;

(b) striking out “statement of changes in net assets” in paragraph (1)4 and substituting “statement of changes in financial position”;

(c) repealing paragraph (1)5 and substituting the following:

5. the net asset value per security as at the date of the financial statements compared to the total equity per security or net assets attributable to securityholders per security as shown on the statement of financial

position, and an explanation of each of the differences between these amounts.; *and*

(d) adding the following after subsection (2):

- (3) For financial years beginning on or after January 1, 2014, the notes to the financial statements must disclose**
 - (a) in the case of annual financial statements, an unreserved statement of compliance with IFRS; and**
 - (b) in the case of interim financial reports, an unreserved statement of compliance with International Accounting Standard 34 *Interim Financial Reporting*.**

16. Section 3.8 of National Instrument 81-106 is amended by

- (a) striking out “statement of net assets” in subsection (2) and substituting “statement of financial position”; and**
- (b) striking out “statement of operations” in subsection (3) and substituting “statement of comprehensive income”.**

17. Section 3.9 of National Instrument 81-106 is amended by

- (a) striking out “statement of net assets” wherever it occurs in subsection (2) and substituting “statement of financial position”; and**
- (b) striking out “statement of operations” in subsection (3) and substituting “statement of comprehensive income”.**

18. Section 3.10 of National Instrument 81-106 is amended by

- (a) striking out “statement of net assets” in subsection (2) and substituting “statement of financial position”; and**
- (b) striking out “statement of operations” in subsection (3) and substituting “statement of comprehensive income”.**

19. Section 3.11 of National Instrument 81-106 is amended by

- (a) striking out “statement of net assets” in subparagraph (1)(a)(iii) and substituting “statement of financial position”;**
- (b) striking out “statement of operations” in paragraph (1)(c) and substituting “statement of comprehensive income”; and**

- (c) *repealing subsection (2) and substituting the following:*
- (2) Despite sections 3.1 and 3.2, an investment fund that is a scholarship plan may omit the “total equity per security or net assets attributable to securityholders per security” and “increase or decrease in total equity from operations per security, or in net assets attributable to securityholders from operations, excluding distributions, per security” line items from its financial statements.
20. *Section 4.2 of National Instrument 81-106 is amended by striking out “interim financial statements” and substituting “interim financial report”.*
21. *Section 5.1 of National Instrument 81-106 is amended in paragraph (2)(b) by striking out “interim financial statements” and substituting “the interim financial report”.*
22. *Section 8.2 of National Instrument 81-106 is amended in paragraph (d) by striking out “interim financial statements” and substituting “an interim financial report”.*
23. *Section 8.4 of National Instrument 81-106 is amended by striking out “the net assets” and substituting “of the total equity or net assets attributable to securityholders”.*
24. *Section 8.5 of National Instrument 81-106 is amended in paragraph (b) by striking out “[net assets/venture investments]” and substituting “[total equity/net assets attributable to securityholders/venture investments]”.*
25. *Section 15.1 of National Instrument 81-106 is amended by repealing clause (1)(a)(i)(A) and substituting the following:*
- (A) total expenses of the investment fund, excluding distributions if recognized as an expense, commissions and other portfolio transaction costs, before income taxes, for the financial year or interim period, as shown on its statement of comprehensive income; and .
26. *Section 15.2 of National Instrument 81-106 is amended by*
- (a) *repealing subparagraph (1)(a)(i) and substituting the following:*
- (i) multiplying the total expenses of each underlying investment fund, excluding distributions if recognized as an expense, commissions and other portfolio transaction costs, before income taxes, for the financial year or interim period, by ; *and*
- (b) *repealing paragraph (1)(b) and substituting the following:*

- (b) the total expenses of the investment fund, excluding distributions if recognized as an expense, commissions and other portfolio transaction costs, before income taxes, for the period.

27. Part 18 of National Instrument 81-106 is amended by adding the following before section 18.6:

18.5.1 Transition to IFRS

- (1) For the first interim period in the financial year beginning on or after January 1, 2014, an investment fund must file, with its interim financial report for that interim period, an opening statement of financial position as at the date of transition to IFRS.
- (2) For the first financial year beginning on or after January 1, 2014, an investment fund must file, with its annual financial statements for that financial year, an audited opening statement of financial position as at the date of transition to IFRS.
- (3) Despite sections 3.1, 3.2, 3.3, 3.4 and 3.6, for financial years beginning before January 1, 2014, an investment fund may present line items and use terminology in its financial statements consistent with the immediately preceding financial year.

28. Part A, Item 1 of Form 81-106F1 Contents of Annual and Interim Management Report of Fund Performance is amended by

- (a) **striking out** “This concept of materiality is consistent with the financial reporting notion of materiality contained in the Handbook.” **in paragraph (e); and**
- (b) **striking out the first sentence in paragraph (f) and substituting the following:**

All references to “net assets” or “net assets per security” in this Form are references to total equity or net assets attributable to securityholders determined in accordance with Canadian GAAP as presented in the financial statements of the investment fund.

29. Part B, Item 1 of Form 81-106F1 is amended by repealing the third paragraph and substituting the following:

Securityholders may also contact us using one of these methods to request a copy of the investment fund’s interim financial report, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

30. Part B, Item 3, section 3.1 of Form 81-106F1 is amended by

- (a) *in subsection (1), striking out “total expenses” in The Fund’s Net Assets Per [Unit/Share] table and substituting “total expenses [excluding distributions]”;*
- (b) *in subsection (1), striking out “From income (excluding dividends)” in The Fund’s Net Assets Per [Unit/Share] table and substituting “From net investment income (excluding dividends)”;*
- (c) *in subsection (1), striking out “(excluding commissions and other portfolio transaction costs)” in footnote (2) to the Ratios and Supplemental Data table and substituting “(excluding [distributions], commissions and other portfolio transaction costs)”;* *and*
- (d) *adding the following after subsection (7):*

- (7.1) (a) For financial years beginning before January 1, 2014, the financial highlights may be derived from the investment fund’s financial statements prepared in accordance with subsection 2.6(1) of the Instrument.
- (b) For financial periods beginning on or after January 1, 2014, derive the financial highlights from the investment fund’s financial statements prepared in accordance with subsection 2.6(2) of the Instrument.
- (c) Despite paragraph (a), in an annual MRFP for a financial year beginning on or after January 1, 2014, derive the financial highlights for the immediately preceding financial year from financial statements prepared in accordance with subsection 2.6(2) of the Instrument.
- (d) If the financial highlights relate to financial periods beginning both before and on or after January 1, 2014, disclose, in a note to the table, the accounting principles applicable to each period.

31. Part B, Item 3, section 3.2 of Form 81-106F1 is amended by

- (a) *striking out “Balance Sheet” in the Financial & Operating Highlights (with comparative figures) table and substituting “Statement of Financial Position”;* *and*
- (b) *striking out “Statement of Operations” in the Financial & Operating Highlights (with comparative figures) table and substituting “Statement of Comprehensive Income”.*

32. Part C, Item 1 of Form 81-106F1 is amended by repealing the second paragraph and substituting the following:

“This interim management report of fund performance contains financial highlights but does not contain either the interim financial report or annual financial statements of the investment fund. You can get a copy of the interim financial report or annual financial statements at your request, and at no cost, by calling [toll-free/collect call telephone number], by writing to us at [insert address] or by visiting our website at [insert address] or SEDAR at www.sedar.com.

33. *This Instrument comes into force on January 1, 2014.*

**Amendments to
Companion Policy 81-106CP to National Instrument 81-106 Investment Fund Continuous
Disclosure**

- 1. Companion Policy 81-106CP to National Instrument 81-106 Investment Fund Continuous Disclosure is amended.**
- 2. Section 1.3 is amended by adding the following after subsection (2):**
 - (3) The Instrument uses accounting terms that may be defined or referred to in Canadian GAAP applicable to publicly accountable enterprises. Some of these terms may be defined differently in securities legislation. National Instrument 14-101 *Definitions* provides that a term used in the Instrument 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.
- 3. Section 2.1 is amended by**
 - (a) adding the following before subsection (2):**
 - (1.1) Subsection 2.6(2) of the Instrument, applicable to financial years beginning on or after January 1, 2014, refers to Canadian GAAP for publicly accountable enterprises, which is IFRS incorporated into the Handbook, contained in Part I of the Handbook. IFRS is defined in National Instrument 14-101 *Definitions* as the standards and interpretations adopted by the International Accounting Standards Board.

Subsection 2.6(1) of the Instrument, applicable to financial years beginning before January 1, 2014, refers to Canadian GAAP as applicable to public enterprises, which the CSA considers to be the standards in Part V of the Handbook.;
 - (b) repealing subsection (2) and substituting the following:**
 - (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 Instrument 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 Instrument 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 Instrument requires accounts receivable to be broken down into more specific categories. In other instances, the line items prescribed in the Instrument are in addition to those in Canadian GAAP.

While the Instrument prescribes line items, it does not prescribe the order in which those line items are presented. Investment funds should present line items, as well as any subtotals or totals, in a logical order that will contribute to a reader’s overall understanding of the financial statements.

Investment funds are responsible for disclosing all material information concerning their financial position and financial performance in the financial statements. ; *and*

(c) *repealing subsection (3).*

4. *Part 2 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 Instrument 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 certain 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 Instrument 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.

5. *Section 2.3 is repealed.*

6. *Section 2.5 is amended by striking out “statement of operations” wherever it occurs and substituting “statement of comprehensive income”.*

7. *Section 2.5.1 is repealed and the following substituted:*

2.5.1 Disclosure of Investment Portfolio

- (1) The term “statement of investment portfolio” is used to describe the disclosure required by section 3.5 of the Instrument. As this term is not used in the Handbook, preparers may refer to it as a “schedule of investment portfolio” within a complete set of investment fund financial statements. Regardless of how the disclosure is described, sections 2.1 and 2.3 of the Instrument require it to be included within a complete set of investment fund financial statements, and subsection 2.1(2) of the Instrument requires annual financial statements to be accompanied by an auditor’s report, for the purposes of securities legislation.

If financial statements for more than one investment fund are bound together, Part 7 of the Instrument requires all of the information pertaining to each investment fund to be presented together and not intermingled with information relating to another investment fund. The CSA is of the view that this requirement applies equally to the portfolio disclosure, which should be presented together with the other financial information relating to the investment fund.

- (2) 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 should provide in the statement of investment portfolio, or the notes to that statement, additional disclosure concerning the holdings of the other investment fund, as available, in order to assist investors in understanding the actual portfolio to which the investment fund is exposed. The CSA is of the view that such disclosure is consistent with the requirements in the Handbook relating to financial instrument disclosure.

8. *Section 2.7 is amended by*

(a) *in the title, striking out* “Accounting For”;

(b) *repealing subsection (1) and substituting the following:*

- (1) Section 3.8 of the Instrument 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 certain aspects of securities lending transactions are disclosed in the same manner.

Generally, in a securities lending transaction, the investment fund is 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. The investment fund retains substantially all of the risks and rewards of ownership. ; *and*

(c) *repealing subsection (2).*

9. *Subsection 2.8(3) is amended by striking out* “Interim financial statements” *and substituting* “The interim financial report”.

10. *Section 3.2 is repealed and the following substituted:*

3.2 Modification of Opinion

- (1) The Instrument prohibits an auditor’s report from expressing a modified 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 Instrument permits the regulator or securities regulatory authority to grant exemptive relief from the Instrument, including the requirement that an auditor’s report express an unmodified opinion or other similar communication that would constitute a modification of opinion under Canadian GAAS. However, we will generally recommend 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 Instrument, 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.

11. Section 3.3 is repealed and the following substituted:

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 Instrument as these reports contain financial information extracted from the financial statements.

12. Section 3.4 is amended by

(a) in the title, striking out "Interim Financial Statements" and substituting "Interim Financial Reports";

(b) repealing subsection (1) and substituting the following:

- (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 a reliable interim financial report, should consider engaging an external auditor to carry out a review of the interim financial report.;

(c) in subsection (2), striking out the first occurrence of "interim financial statements" and substituting "interim financial report";

(d) in subsection (2), striking out the second occurrence of "interim financial statements" and substituting "an interim financial report"; and

(e) repealing subsections (3) and (4) and substituting the following:

- (3) The terms "review" and "written review report" used in section 2.12 of the Instrument 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 Instrument 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 auditor's report that accompanies annual financial statements.

13. Section 9.2 is repealed and the following substituted:

9.2 Fair Value Guidance – Section 14.2 of the Instrument requires an investment fund to calculate its net asset value based on the fair value of the investment fund’s assets and liabilities. This may differ from the calculation of “current value” for financial statement purposes. Section 3.6 of the Instrument requires an explanation of this difference.

While investment funds are required to comply with the definition of “fair value” in the Instrument when calculating net asset value, they may also look to the Handbook for guidance on the measurement of fair value. The fair value principles articulated in the Handbook can be applied by investment funds when valuing assets and liabilities.

14. Section 9.3 is repealed.

15. Section 9.4 is amended by

(a) in the title, striking out “Determination of Fair Value” and substituting “Determination of Fair Value in Calculating Net Asset Value”; and

(b) repealing subsection (1) and substituting the following:

- (1) A market is generally considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices reflect actual and regularly occurring market transactions on an arm’s length basis. Accordingly, fair value should not reflect the amount that would be received or paid in a forced transaction, involuntary liquidation or distress sale.

16. Section 10.1 is amended by

(a) repealing subsection (2) and substituting 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 debt-like securities or securities that otherwise provide leverage to the fund, payments to holders of these securities should be treated as financing costs from the perspective of the investment fund’s other classes of securities (the classes that benefit from the financing or leverage). These costs should not be excluded from total expenses when calculating the MER of

the investment fund's other classes of 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. ;

(b) *in subsection (5),*

(i) *striking out* "Handbook Section 1506 *Accounting Changes*" *and substituting* "International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*" *in the first paragraph;*

(ii) *striking out* "retroactive restatement of the financial information" *and substituting* "retrospective application of the change" *in the first paragraph; and*

(iii) *striking out* "retroactively" *in the second paragraph.*

17. *Appendix B is amended by*

(a) *striking out*

Alberta Securities Commission
4th Floor
300 - 5th Avenue S.W.
Calgary, Alberta
T2P 3C4
Attention: Corporate Finance

and substituting

Alberta Securities Commission
Suite 600
250 - 5th Street SW
Calgary, Alberta
T2P 0R4
Attention: Corporate Finance ;

(b) *striking out*

New Brunswick Securities Commission
606 – 133 Prince William Street
Saint John, NB
E2L 2B5
Attention: Corporate Finance

and substituting

Financial and Consumer Services Commission (New Brunswick)
85 Charlotte Street, Suite 300
Saint John, NB
E2L 2J2
Attention: Corporate Finance ;

(c) *striking out*

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

and substituting

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

(d) *in the address for Department of Justice, Northwest Territories,*

(i) *striking out* "Legal Registries" *and substituting* "Securities Office", *and*

(ii) *striking out* "Director, Legal Registries" *and substituting* "Superintendent of Securities";

(e) *in the address for Department of Justice, Nunavut, striking out* "Attention: Director, Legal Registries Division" *and substituting* "Attention: Superintendent of Securities";

(f) *in the address for Ontario Securities Commission,*

(i) *striking out* "Suite 1903, Box 55", *and*

(ii) *striking out* "20 Queen Street West" *and substituting* "20 Queen Street West, 22nd Floor";

(g) *in the address for Autorité des marchés financiers, striking out* “Direction des marchés des capitaux” *and substituting* “Direction des fonds d’investissement”;

(h) *striking out*

Saskatchewan Financial Services Commission - Securities Division
6th Floor,
1919 Saskatchewan Drive
Regina, SK S4P 3V7
Attention: Deputy Director, Corporate Finance

and substituting

Financial and Consumer Affairs Authority of Saskatchewan – Securities Division
601 – 1919 Saskatchewan Drive
Regina, SK
S4P 4H2
Attention: Deputy Director, Corporate Finance ; and

(i) *in the address for the Government of Yukon, striking out* “Registrar of Securities” *wherever it occurs and substituting* “Superintendent of Securities”.

18. *These amendments become effective on January 1, 2014.*