

Appendix A

Summary of Proposed Amendments

The Rule

Part 1 Definitions and Applications

Section 1.1

- amend the definition of “net asset value” to include a reference to Part 14 of the Rule

The term “net asset value” will mean the value calculated in accordance with Part 14 of the Rule, which is the value to be used for all purposes other than financial statements (for example, purchases and redemptions of the investment fund’s securities). The term “net assets” will mean net assets as determined under Canadian GAAP, which is the amount to be used for financial statements and certain information derived from the financial statements (for example, certain disclosure in the management reports of fund performance).

Part 2 Financial Statements

Section 2.9

- correct the requirements for interim financial statements in a transition year and a new financial year by removing the reference to statements of investment portfolio as these statements are not prepared on a comparative basis

Section 2.10

- clarify the requirement for a change in legal structure notice by indicating that this notice must be filed if the investment fund terminates

Part 3 Financial Disclosure Requirements

Section 3.1

- change the term “net asset value” to “net assets” on the statement of net assets

Section 3.2

- add a requirement to show revenue from repurchase and reverse repurchase transactions as a separate line item on the statement of operations
- add a requirement to show commissions and other portfolio transaction costs as a separate line item on the statement of operations

As s. 3855 requires portfolio transaction costs to be expensed, we have added a line item to the statement of operations for this disclosure and have removed the

requirement to show this amount in the notes to the financial statements. Portfolio transaction costs continue to be excluded from the management expense ratio.

Section 3.5

- add a look-through requirement to the statement of investment portfolio for investment funds substantially invested in only one underlying fund

This is consistent with the existing requirement for the summary of investment portfolio in the management report of fund performance and quarterly portfolio disclosure.

Section 3.6

- remove the requirement to show commissions and other transactions costs in the notes to the financial statements as this will be shown on the statement of operations (see section 3.2 above)
- add a requirement to provide a reconciliation in the notes to the financial statements between net asset value at the date of the financial statements and net assets as shown on the financial statements

Part 9 Annual Information Form

Section 9.2

- clarify the requirement for filing an annual information form – an investment fund must file an annual information form if it has not filed a prospectus within its last financial year

Part 10 Proxy Voting Disclosure for Portfolio Securities Held

Section 10.3

- clarify that the proxy voting record must be maintained for meetings of all publicly held companies

Part 14 Calculation of Net Asset Value

Section 14.2

- remove the requirement that investment funds calculate their net asset value in accordance with Canadian GAAP, and replace it with a requirement to determine a fair value for the investment fund's assets and liabilities
- add a requirement to establish written policies and procedures regarding the fair valuation of the investment fund's assets and liabilities

Part 15 Calculation of Management Expense Ratio

Sections 15.1 and 15.2

- exclude commissions and other portfolio transaction costs from the calculation of the management expense ratio

Part 18 Effective Date and Transition

Sections 18.2, 18.3, 18.4 and 18.5

- remove transitional provisions that are no longer necessary

The Form

Part A Instructions and interpretation

Item 1 – General

- add paragraph (f) to explain the difference between the term “net assets” (used only for references to financial statements) and “net asset value” (used for all purposes other than financial statements)

Part B Content Requirements for Annual Management Report of Fund Performance

Item 3 – Financial Highlights

- amend the financial highlights tables so that “The Fund’s Net Assets per [Unit/Share]” table contains information derived from the financial statements, while the “Ratios and Supplemental Data” table is based on the fund’s net asset value (usually calculated daily for conventional mutual funds)
- change the references to “net asset value” to “net assets” as appropriate

As there may be a difference between the net asset value at the end of the last financial year and the net assets at the beginning of the new financial year, investment funds may add an explanation of those differences to the financial highlights tables.

Item 5 – Summary of Investment Portfolio

- change the references to “net assets” to “net asset value” as appropriate

The Policy

The proposed amendments to the Policy reflect the changes to the Instrument, and add guidance to Part 9 concerning the requirement to calculate net asset value by determining a fair value for the investment fund’s assets and liabilities. The proposed amendments to the Policy also confirm that brokerage commissions and other portfolio transaction costs are not included in the management expense ratio (section 10.1).

Prospectus Disclosure

We propose requiring an investment fund to disclose the differences between the valuation principles and practices established by the manager and those in Canadian GAAP.