

Appendix A

Summary of Proposed Amendments

Terminology Changes

Certain terminology changes were made to conform terms used in the Instrument and other investment fund rules with IFRS terms, where applicable. Throughout the Instrument and other rules for which we have proposed amendments:

References to	Are changed to
former auditor	predecessor auditor
interim financial statements	interim financial report
net assets (in financial statements)	total equity or net assets attributable to securityholders
reservation of an audit opinion	modification of opinion
retroactive	retrospective
shareholders' equity	equity
statement of changes in net assets	statement of changes in financial position
statement of net assets (or balance sheet)	statement of financial position
statement of operations	statement of comprehensive income

Amendments to NI 81-106 *Investment Fund Continuous Disclosure*

Part 1 Definitions and Applications

Section 1.1 – Definitions

- Added the definition “financial statements” to clarify that this term includes interim financial reports.
- Amended the definition of “net asset value”.

The definition of “net asset value” was amended to clarify that when the investment fund’s own securities are classified as liabilities (rather than equity), total liabilities of the investment fund do not include net assets attributable to securityholders, as this represents the value of the investment fund’s own securities.

- Added the definition “publicly accountable enterprise” consistent with the definition in NI 52-107.
- Added the definition “statement of changes in financial position”.

Under IFRS, an investment fund will have to classify its own securities as either equity instruments or financial liabilities. This classification will impact financial statement presentation. The new definition recognizes that if an investment fund's securities are classified as equity, that investment fund will prepare and file a statement of changes in equity, but if the investment fund's securities are classified as liabilities, the fund will prepare and file a statement of changes in net assets attributable to securityholders.

Part 2 Financial Statements

Sections 2.1 and 2.3 – Annual and Interim Financial Statements

- For financial years beginning on or after January 1, 2011, all investment funds will have to file a comparative statement of cash flows as required by IFRS.
- For financial years beginning on or after January 1, 2011, if an investment fund applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements, the investment fund must also file a statement of financial position as at the beginning of the comparative year or period. As we believe investors need this information to understand how the change affected the investment fund's reported financial position, financial performance and cash flows, the Instrument will require the presentation of this opening statement of financial position in both annual financial statements and interim financial reports.

Section 2.6 – Acceptable Accounting Principles

- This section is amended to state that investment fund financial statements are prepared using current Canadian GAAP for financial years before 2011. For years beginning on or after January 1, 2011, investment funds must prepare financial statements using IFRS, defined as Canadian GAAP applicable to publicly accountable enterprises.
- Added a requirement to use the same accounting principles for all periods presented in the financial statements. An investment fund's first IFRS financial statements must include comparatives that are also prepared in accordance with IFRS.

Section 2.7 – Acceptable Auditing Standards

- For financial years beginning before January 1, 2011, we maintained the current auditing standards. For financial years beginning on or after January 1, 2011, audited financial statements must be accompanied by an auditor's report in the form specified by Canadian GAAS for financial statements prepared in accordance with a fair presentation framework. The proposed amendments also require the auditor's report to refer to IFRS as the applicable fair presentation framework.

Part 3 Financial Disclosure Requirements

Section 3.1 – Statement of Financial Position

- Changed line items 14 and 15 from “total net assets and securityholders’ equity” to “total equity or net assets attributable to securityholders” to accommodate either the equity or liability presentation depending on how the investment fund classifies its securities.

Section 3.2 – Statement of Comprehensive Income

- Removed line item 12 “capital tax” and amended line item 14 to read “income tax” rather than “provision for income tax”.
- Added line 17.1 to require disclosure of the type of distributions made by an investment fund, when the investment fund’s own securities are classified as financial liabilities. Under IFRS, if an investment fund’s securities are classified as a liability, distributions are included in financing costs and recognized as an expense.
- Changed line items 18 and 19 from “increase or decrease in net assets from operations” to “increase or decrease in total equity from operations, or in net assets attributable to securityholders (excluding distributions) from operations” to accommodate either the equity or liability presentation depending on how the investment fund classifies its securities.

If the investment fund’s own securities are classified as financial liabilities, causing distributions to be recognized as an expense, distributions are excluded from these line items to maintain comparability with investment funds that classify their securities as equity instruments.

Section 3.3 – Statement of Changes in Financial Position

- Modified statement to specifically reflect investment fund activities.
- Removed “increase or decrease in net assets from operations” line item as equivalent disclosure is mandated by IFRS.

Section 3.4 – Statement of Cash Flows

- Removed “net investment income or loss” line item as IFRS provides alternative methods of calculating cash flows from operating activities (for example, investment funds may use the direct method of calculating cash flows).

Section 3.5 – Statement of Investment Portfolio

- Specified that this statement must be prepared on a non-consolidated basis (IFRS does not mandate a statement of investment portfolio). Also added a requirement to identify any

investment positions that were consolidated and to explain any differences between the statement of investment portfolio and the statement of financial position relating to the basis of accounting for investments so that users of the financial statements can reconcile the statement of investment portfolio to the statement of financial position.

Section 3.6 – Notes to Financial Statements

- Added a requirement to disclose the basis for classifying the investment fund's own securities as either equity instruments or financial liabilities.
- Added a requirement to disclose an explicit and unreserved statement of compliance with IFRS.

Part 15 Calculation of Management Expense Ratio

Sections 15.1 and 15.2 – Calculation of MER

- Maintained the status quo with respect to the calculation of MER by excluding distributions from total expenses, when distributions are recognized as an expense due to the classification of the investment fund's own securities as financial liabilities. The MER calculation should not be affected by the classification of the securities issued by an investment fund as either equity instruments or financial liabilities.

Part 18 Effective Date and Transition

Section 18.5.1 – Transition to IFRS

- An opening statement of financial position as at the date of transition to IFRS must be filed with an investment fund's first interim and first annual financial statements for periods beginning on or after January 1, 2011.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires issuers to prepare an opening IFRS statement of financial position at the date of transition to IFRS along with various reconciliations relating to the date of transition. As we believe investors need this information to understand how the transition from Canadian GAAP to IFRS affected the investment fund's reported financial position, financial performance and cash flows, we are requiring all investment funds to include this disclosure in their first IFRS interim financial report and first IFRS annual financial statements.

- While the terminology in the Instrument has been modified to adopt IFRS terms, a transition provision has been added to allow investment funds to use the previous terminology and format for financial statements pertaining to financial years beginning before January 1, 2011, but filed after the proposed amendments come into force.

Form 81-106F1 Contents of Annual and Interim Management Report of Fund Performance

Part B Content Requirements for Annual Management Report of Fund Performance

Item 3 – Financial Highlights

- In “The Fund’s Net Assets per [Unit/Share]” table, specified that total expenses should not include distributions, if distributions are an expense for the investment fund, and changed the term “income” to the more specific term “net investment income”.
- Specified that the financial highlights are to be shown on a non-consolidated basis.
- Added transition provisions relating to the adoption of IFRS. Financial highlights for years prior to 2011 can be shown based on the original financial statements which were prepared using Canadian GAAP as it existed at that time. Financial highlights for years beginning on or after January 1, 2011 are based on financial statements prepared using IFRS. However, when showing the first IFRS year, the financial highlights for the prior year must also be based on IFRS, as this information will be available as comparative audited information in the first IFRS financial statements.

Financial highlights for the first interim period beginning on or after January 1, 2011 will be based on IFRS financial statements, while the prior financial years can continue to be shown based on the original financial statements.

Companion Policy 81-106CP

The proposed amendments to the Policy reflect the changes to the Instrument, and explain the CSA’s approach to the transition by investment funds from current Canadian GAAP to IFRS.

Consequential Amendments

We are also publishing for comment proposed consequential amendments to Form 41-101F2, National Instrument 81-101, National Instrument 81-102, and National Instrument 81-104. These consequential amendments predominantly relate to the adoption of IFRS terminology.

Investment Funds should also review the proposed amendments to National Instrument 41-101 published by the CSA on September 25, 2009 as these may impact directly on investment funds that use the long form prospectus.

We note that the term “equity security” is used in certain rules including National Instrument 41-101 and National Instrument 81-101. We are not proposing to amend this term as we are of the view that its meaning is clear in the context in which it is used and should not be confused with the classification of an investment fund’s own securities as either equity instruments or financial liabilities.