

## ANNEX B

### SUMMARY OF PUBLIC COMMENTS AND CSA RESPONSES ON THE 2013 ALTERNATIVE FUNDS PROPOSAL AND THE INTERRELATED INVESTMENT RESTRICTIONS

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#### Part I – Background

##### Summary of Comments

On March 27, 2013, the Canadian Securities Administrators (CSA) published proposals relating to the second phase of the Modernization of Investment Fund Product Regulation Project (the Modernization Project). The proposals included amendments to National Instrument 81-102 *Mutual Funds* (NI 81-102), changes to Companion Policy 81-102CP (81-102CP), related consequential amendments, and proposals relating to National Instrument 81-104 *Commodity Pools* (NI 81-104) and securities lending, repurchases and reverse repurchases by investment funds (collectively, the Proposals). On June 25, 2013, the CSA published CSA Staff Notice 11-324 *Extension of Comment Period* (CSA Staff Notice 11-324) to extend the closing of the comment period on the Proposals from June 25, 2013 to August 23, 2013.

The Proposals included an outline of a more comprehensive regulatory framework for alternative funds (the Alternative Funds Proposals). The Alternative Funds Proposal aimed to (i) introduce core investment restrictions and operational requirements for publicly offered non-redeemable investment funds, other than scholarship plans, (ii) enhance the disclosure requirements relating to securities lending, repurchases and reverse repurchases by investment funds and (iii) create a more comprehensive alternative fund framework to be effected through amendments to NI 81-104 (the Alternative Funds Proposal).

On June 19, 2014, the CSA published final amendments that introduced core investment restrictions and operational requirements for non-redeemable investment funds and new disclosure requirements with respect to securities lending by all investment funds (the June 2014 Amendments), which substantially came into force on September 22, 2014, with the final transitional provisions coming into force in March of 2016.

As was described in CSA Staff Notice 11-324, the Alternative Funds Proposal were being considered in conjunction with certain of the investment restrictions included in the Proposals and separately from the June 2014 Amendments. As a result, the CSA did not summarize comments on the Alternative Funds Proposal or certain proposed amendments regarding investments in physical commodities, borrowing cash, short selling and use of derivatives (the Interrelated Investment Restrictions) in the Summary of Public Comments And CSA Responses published with the June 2014 Amendments.

We have instead chosen to summarize the comments we received on the Alternative Funds Proposal and on the Interrelated Investment Restrictions in connection with the current Notice and Proposed Amendments, in part to reflect that these earlier comments helped to inform our efforts in preparing the Proposed Amendments for consideration.

We received submissions from 36 commenters in relation to the Alternative Funds Proposal and the Interrelated Investment Restrictions, which are listed in Part IV. We wish to thank all those who took the time to comment.

## **Part II - Comments on proposed alternative fund framework**

<b><u>Issue</u></b>	<b><u>Comments</u></b>	<b><u>Responses</u></b>
<b>General comments</b>	Many commenters stated that in order to properly evaluate the CSA's proposals with respect to non-redeemable investment funds, the CSA would need to publish further detail regarding the Alternative Funds Proposals. Additionally, any reforms to the to the investment restrictions applicable to non-redeemable investment funds should be undertaken in connection with the development of the Alternative Funds	We acknowledge this concern and have published the Proposed Amendments for comment. We welcome any specific feedback on the proposals contained therein.

	<p>Proposals.</p> <p>Several commenters agreed with the concept of an Alternative Funds Proposals and thought such a regulatory regime would create opportunities for alternative fund managers and increased investment options for retail investors.</p> <p>Two commenters expressed concern that the Alternative Funds Proposals would create barriers to entry for alternative funds and result in these funds being labeled as high risk.</p> <p>One commenter is of the view the creation of a category of investment funds which are "alternative funds" and which allow alternative investment strategies which present, in general, much greater complexity and higher risk, should, at a minimum, only be permitted if clear labelling is required, in the name of the fund itself (and the category) which makes the complexity and higher risk of this category of funds abundantly clear to retail investors.</p> <p>Two commenters encouraged the CSA to adopt a purposive or principles based framework rather than a prescriptive approach to the Alternative Funds Proposals to allow Canadian investors access to as many different types of alternative funds as possible.</p> <p>One Commenter stated that it is important to harmonize regulation for products perceived by the public as belonging to the same category of risk and liquidity as mutual funds. This prevents regulatory arbitrage and</p>	<p>We agree and acknowledge that is consistent with the intent behind the Proposed Amendments.</p> <p>We believe that the Proposed Amendments will address this concern but welcome any specific feedback in this regard.</p> <p>The Proposed Amendments do include disclosure requirements that will highlight the differences between alternative funds and other more conventional mutual funds in terms of strategies and investments. The required risk disclosure will be consistent with that of any other type of investment fund. We are not proposing a naming convention for alternative funds under the Proposed Amendments.</p> <p>The Proposed Amendments are intended to fit within the existing regulatory framework for investment funds and therefore the approach taken with regards to prescriptive vs principles-based is consistent with the present regulatory regime.</p> <p>The existing regulatory framework provides specific provisions for different types of investment fund products such as conventional mutual funds, conventional mutual funds traded on an exchange,</p>
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	<p>mis-selling. Although where products are different and satisfy different investor needs, the best way to differentiate products is to ensure that there is a clear articulated difference in their structure. Products should be clearly separated based on structural factors such as whether they are redeemable or exchange listed. This would better help investors than creating different investment restrictions on the same types of funds depending on whether they are conventional or alternative.</p> <p>One commenter recommended that the CSA consider similar reforms, such as risk labelling of products or banning certain product features sold to retail investors in order to adequately protect investors. While disclosure is a necessary aspect of securities regulation, it alone will not provide adequate protection to retail investors</p> <p>One commenter stated that minor deviations from the investment restrictions in NI 81-102, should not necessitate a fund being regulated by the alternative funds regime. The commenter asked CSA to clarify that they are not intending to force mutual funds currently investing in reliance of relief from NI 81-102 to transition to the alternative fund regulatory regime.</p>	<p>money market funds, non-redeemable investment funds or other specialized funds including scholarship plans, labour-sponsored investment funds, and commodity pools. The Proposed Amendments are intended to fit within the current framework.</p> <p>We agree that disclosure alone will not provide adequate protection to investors. While the Proposed Amendments do expand the range of investment strategies available to alternative funds, it also imposes what we consider reasonable restrictions to reflect that these funds that are distributed to the public. The Proposed Amendments will also address matters concerns dealer proficiency and we welcome any feedback in this regard.</p> <p>We agree. The Proposed Amendments include codification of exemptive relief that has been routinely granted to mutual funds, and this has been accounted for in considering the range of provisions applicable to alternative funds or non-redeemable investment funds vs mutual funds. As such, we do not believe that it will force mutual funds to become alternative funds, or otherwise create any overlap between the two types of funds. However, we welcome any feedback where this concern may be identified.</p>
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	<p>One commenter stated that the CSA appears to have a presumption that alternative funds are more risky than conventional funds, but that this is not the case for all alternative funds.</p>	<p>We agree that this is not always the case and believe the Proposed Amendments do not necessarily have this presumption, but welcome any feedback in this regard.</p>
<p><b>Definition of Alternative Fund</b></p>	<p>A commenter expressed concerned that the use of the term alternative fund could be interpreted to mean these funds are high risk or volatile and that it may lead to confusion or preclude privately offered funds from utilizing the term alternative in their names.</p> <p>One commenter through a term based on the structure of a product would better assist investors.</p> <p>Another commenter suggested that such funds be called "Risk-Magnified Funds", "Higher-Risk Funds" or some other term that sets out clearly that such funds carry increased risks, as compared to conventional non-redeemable and mutual funds.</p>	<p>We understand the concern. Under the Proposed Amendments, the term “alternative fund” will be used for descriptive purposes to reflect that these funds are permitted to engage in certain strategies or invest in asset classes that are not permitted for more conventional mutual funds. We are not proposing any mandatory naming conventions or other labelling requirements. We are also proposing to remove the warning label language currently applicable to commodity pools under Form 41-101F2 because we recognize that not all alternative funds or strategies are inherently riskier than a conventional mutual fund. However, we are seeking feedback as to whether we should consider a different defined term to describe these types of funds.</p> <p>Under the Proposed Amendments, the term “alternative fund” will only be applied to mutual funds, and reflects that they can engage in strategies not necessarily available to more conventional mutual funds.</p> <p>We did not propose a naming convention under the Proposed Amendments, The Propose Amendments provide tailored disclose for Alternative Funds that will highlight how alternative fund differs from other conventional mutual funds in terms of the investment strategies and asset classes it is permitted to invest in.</p>

	<p>Two commenters believed the term alternative fund provided an appropriate description of the types of investment funds that should be captured by NI 81-104.</p> <p>A commenter felt that fixed portfolio ETFs (as defined in NI 81-102) should not automatically be considered alternative funds.</p>	<p>We agree this term will better describe the types of investment objectives and strategies that characterize these types of funds.</p> <p>Fixed portfolio ETFs will not automatically be considered alternative fund under the Proposed Amendments. We do note however, that this term is being replaced by the term “fixed portfolio investment fund”, but this change will not impact whether or not these funds are considered alternative funds.</p>
<b>Concentration restrictions</b>	<p>One commenter stated the imposition of restrictions on selected aspects of investment fund strategies may impair these strategies without achieving the objective of increased investor protection. However the commenter supported the use of balanced restrictions that will enhance investor protection while permitting funds sufficient latitude to effectively execute their investment strategies.</p> <p>Several commenters felt there is no need for a concentration restriction applicable to alternative funds.</p> <p>A few commenters suggested that an appropriate concentration restriction for alternative funds could be set using a threshold of 20% of total assets or net assets.</p>	<p>We believe the Proposed Amendments provide a good balance between investor protection and an effective framework for alternative funds offered to the public.</p> <p>We do not agree that there should be no concentration limits. Under the Proposed Amendments, alternative funds will be considered to be mutual funds, a defining feature of which is the ability to redeem securities at their net asset value. Excessive concentration of a mutual fund’s portfolio in a single issuer can impact a fund’s ability to meet regular redemption requests.</p> <p>We are proposing to increase the concentration limits for alternative funds to 20% of NAV. We welcome any specific comments as to whether this is sufficient or not.</p>

	<p>Two commenters maintained that disclosure of the additional risks associated with a less diverse portfolio would be sufficient.</p> <p>A commenter felt that fixed portfolio ETFs (as defined in NI 81-102), which may make concentrated investments in one or more issuers, should not automatically be considered alternative funds.</p> <p>One commenter believed it would be appropriate for an alternative fund to be permitted to invest up to 30% of its net asset value in a single issuer and, perhaps as an additional control, to limit an alternative fund to investing no more than 50% of its net asset value, in aggregate, in holdings that exceed 10% of the fund's net asset value.</p> <p>One commenter advised that flow-through limited partnerships will often invest more than 10% of their net assets in securities of a single issuer.</p>	<p>We believe the usual requirements regarding risk disclosure in an investment fund's prospectus will allow for sufficient disclosure of the risks connected with the concentration limits for alternative funds under the Proposed Amendments.</p> <p>Under the Proposed Amendments, fixed portfolio ETFs will not automatically be considered alternative funds. We also note that we are proposing to replace that term with the term "fixed portfolio investment fund", but that this change will not impact whether or not a fixed portfolio ETF that is a mutual fund will be considered an alternative fund.</p> <p>Under the Proposed Amendments, the concentration limits applicable to an alternative fund will be 20% of net asset value, but we are not proposing any other specific concentration limits. We welcome feedback as to whether or not this is sufficient.</p> <p>We note that flow-through limited partnerships will not be alternative funds under the Proposed Amendments as these types of funds are typically non-redeemable investment funds. The proposed higher concentration limit of 20 % will also apply to non-redeemable investment funds. That said we welcome any feedback regarding any specific hardships on certain types of funds that may result from the Proposed Amendments.</p>
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<b>Measurement of concentration where investments are leveraged</b>	<p>One commenter expressed the view that leverage cannot be examined in a vacuum and that liquidity of an investment fund's portfolio is more important than the fund's use of leverage from a risk management prospective.</p> <p>Another commenter stated the current leverage measurement requirements based on net asset value provide accurate information about the concentration of a fund's portfolio.</p> <p>A couple of commenters stated that if a concentration restriction were to be put in place, total notional exposure would be the appropriate measurement.</p>	<p>Thank you for the comment. We welcome feedback on the leverage provisions within the Proposed Amendments.</p> <p>Under the Proposed Amendments, the proposed methodology for measuring leverage will be based on NAV.</p> <p>The Proposed Amendments contemplate using notional exposure to calculate leverage created by derivatives. The concentration provisions in NI 81-102 have always contemplated a look through test that considers indirect exposure through derivatives or investment in underlying funds and will continue to do so under the Proposed Amendments.</p>
<b>Borrowing restrictions</b>	<p>A few commenters thought it is necessary that a borrowing limit should take into account whether the securities of the fund are redeemable or that funds should be required to match their redemption terms to the liquidity of their investments.</p> <p>One commenter believed that alternative funds should have a higher borrowing limit than conventional funds.</p>	<p>Under the Proposed Amendments we decided on only one borrowing limit for alternative funds and non-redeemable investment funds, without consideration of redemption frequency. We are comfortable that the requirements will not impede a fund's ability to meet its redemptions, as borrowing will be limited to no more than 50% of a fund's NAV, when combined with any short-selling by the fund. The fund will still have to manage its portfolio in order to meet its redemption requirements consistent with NI 81-102. We welcome any specific feedback in this regard.</p> <p>We agree and the Proposed Amendments reflect this view.</p>



	<p>One commenter thought that borrowing from prime brokers would facilitate alternative fund investment strategies. The requirements prime brokers typically impose with respect to liquidity, leverage and capital will restrict the use of borrowing by funds.</p> <p>A Commenter believed where an alternative fund invests outside of Canada it may be advantageous for the fund to borrow from a local lender.</p> <p>Two commenters stated alternative funds or non-redeemable funds should not be subject to any restriction on borrowing. The determination of the adequate leverage ratio for these funds should be left to the direction of fund managers.</p>	<p>Under the Proposed Amendments, alternative funds would be permitted to borrow from an entity that would qualify as a custodian pursuant to section 6.2 of NI 81-102. This includes would include dealers that act as prime brokers in Canada. We welcome any specific feedback in this regard.</p> <p>The Proposed Amendments do not contemplate permitting alternative funds to borrow from non-Canadian lenders. However, we welcome specific submissions on this issue.</p> <p>We do not agree that there should be no limit on borrowing or leverage for alternative funds that can be sold to retail investors and have proposed limits on borrowing that we believe strike a reasonable balance between encouraging innovative strategies and limiting the risk to the funds from excessive leverage. We note that it is common in many international jurisdictions to impose borrowing limits on publicly distributed mutual funds.</p>
<b>Short selling restrictions</b>	<p>Several commenters thought Alternative funds should have increased flexibility to engage in short selling.</p>	<p>We agree. The Proposed Amendments provide alternative funds with greater flexibility to engage in short selling. For example:</p> <ul style="list-style-type: none"> <li>• A larger portion of an alternative fund's portfolio can be sold short</li> <li>• A larger portion of a single issuer's securities can be sold short</li> <li>• We are proposing to remove the restrictions on the use of proceeds from short sales</li> <li>• We are removing the cash cover requirements</li> </ul>

	<p>Many commenters expressed that the NI 81-102 investment restrictions that apply to short selling would impair the ability of alternative funds to utilize many common investment strategies. In particular, the cash cover requirements would prevent these funds from continuing to use common investment strategies.</p> <p>One commenter believed a blanket short selling limit of 40% of NAV may be acceptable where short selling for market hedging purposes (as defined by IIROC) is not included in the calculation of an alternatives fund's short selling for the purposes of compliance with the limit.</p> <p>One commenter maintained that short selling of government bonds should be exempt from restrictions on short selling.</p> <p>One commenter stated that short selling is essential to alternative fund strategies.</p> <p>One commenter recommended the aggregate market value of securities of any one issuer that may be sold short by an alternative fund should be limited to 20% of the NAV of the fund and that the aggregate market value of all securities that may be sold short by an alternative fund should be limited to 100% of the NAV of the fund.</p>	<p>(though short selling will fall within the overall leverage limits applicable to alternative funds).</p> <p>Please see the response above.</p> <p>Please see the response above. The Proposed Amendments do not contemplate an exemption for hedging transactions for the short selling limit.</p> <p>We are not proposing to exempt new type of securities from the short-selling restrictions at this time, but welcome any feedback on whether certain exemptions may be appropriate.</p> <p>We understand and believe the Proposed Amendments reflects this.</p> <p>Please see above. We have not proposed that the short-selling provisions in the Proposed Amendments go this far. We think the limits proposed therein are a reasonable place to start. We welcome any feedback on whether or not the short-selling provisions are sufficient.</p>
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	<p>A commenter thought allowing alternative funds to fully hedge out their long positions through equivalent short positions may also allow managers to tactically reduce portfolio volatility where they see potential downside risks to the market.</p>	<p>Please see above.</p>
<p><b>Leveraged daily tracking funds</b></p>	<p>A commenter stated that leveraged daily tracking alternative funds are highly volatile and clearly not appropriate for many investors. The commenter is of the view that many of the trades in these securities are done through discount brokerages where the proficiency of the registered representatives is not an issue, but the proficiency of the investor is a greater concern. The commenter believes that additional regulation may not be of assistance, but increased investor education is strongly recommended.</p> <p>Another commenter referred to disciplinary cases and cases before the Ombudsman for Banking Services and Investments where leveraged daily tracking funds have been sold to retail investors for whom they were not suitable.</p> <p>One commenter believed that the existing regulatory regime mandates sufficient proficiency for the marketing and sale of alternative funds, including leveraged daily tracking funds.</p>	<p>Thank you for the comment. We agree that investor education is very important, particularly with respect to products with the potential for high volatility such as leverage daily tracking funds. A number of CSA members have made considerable efforts over the last years to improve investor education material on their websites</p> <p>In addition, a key element of the Proposed Amendments is to also bring alternative funds into the prospectus regime that exists for other type of mutual funds, including the requirement to prepare a fund facts document. We are proposing that Alternative Funds provide additional disclosure in their fund facts documents. These changes will amount to required text box disclosure that will clearly highlight how the alternative fund differs from other conventional mutual funds in terms of investment strategies.</p> <p>Please see our responses below relating to proficiency standards for mutual fund restricted individuals dealing in Alternative Funds</p>

<p><b>Counterparty credit exposure</b></p>	<p>A few commenters thought it would not be appropriate to repeal the Counterparty Exposure Exemption from NI 81-104 and that maintaining the exemption would allow alternative funds to operate more efficiently.</p> <p>A number of commenters believed that imposing mandatory posting of collateral on a mark-to-market basis would be more appropriate. Requiring a counterparty to post collateral that is segregated from the other assets of the fund would mitigate risk. In addition, the CSA should consider imposing requirements as to the nature of the collateral that should be posted.</p> <p>One commenter stated that counterparty risk is a significant issue for more than just the alternative funds sector. Rules on counterparty exposure should be consistent with other CSA rules on counterparties.</p> <p>Two commenters thought that central clearing requirements for derivative transactions would reduce the use of OTC derivatives by investment funds, but a restriction limiting unsecured exposure to any one counterparty would mitigate risk.</p>	<p>The Proposed Amendments do include a repeal of the exemption for commodity pools from the counterparty exposure limit provisions of subsection 2.7(4) of NI 81-102 (the Counterparty Exposure Exemption), as well as introducing an exemption from the counterparty credit rating provisions in subsection 2.7(1) of NI 81-102 for alternative funds. This was seen as way to offer alternative funds more options in terms of counterparties to work with (as we understand that there are now fewer counterparties that would meet the “designated rating” threshold required under subsection 2.7(1) of NI 81-102, while at the same time mitigating counterparty risk by limiting a fund’s exposure to any one counterparty. We welcome any specific feedback or commentary on other options that may more effectively help achieve the same goal.</p> <p>Under the Proposed Amendments, the counterparty exposure limits in subsection 2.7(4) will apply to all investment funds, except in the case of specified derivatives that have been centrally cleared.</p> <p>The CSA currently has proposals out for comment for implementing a mandatory central clearing regime for certain types of derivatives transactions, similar to regimes implemented in other jurisdictions around the world. The Proposed Amendments contemplate an exemption from the counterparty credit limit provisions of subsection 2.7(1) of NI 81-102 and the counterparty exposure limits of subsection 2.7(4) of NI 81-102 for derivatives transactions that are executed through a central clearing house that is registered with the applicable regulatory agency.</p>
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	<p>One commenter said an example of an operational efficiency that would likely not be available to alternative funds under a regime where the Counterparty Exposure Exemption was unavailable is alternative funds' use of clearing brokers. Many alternative funds use clearing brokers to help settle derivatives trades and net out exposures to what would otherwise be multiple counterparties. In this arrangement, the clearing broker acts as a counterparty to the fund and provides significant simplification with respect to negotiations with and monitoring of executing parties.</p> <p>A commenter thought it may also be difficult, given the relatively small size of the Canadian market and the challenges that Canadian alternative funds may face in accessing large numbers of counterparties, for alternative funds to observe a 10% counterparty exposure limit.</p> <p>One commenter did not believe that the Counterparty Exposure Exemption should be repealed because it is not clear that there is any risk from single counterparty exposure that needs to be mitigated.</p>	<p>Please see above.</p> <p>Please see above. As part of the Proposed Amendments, we are proposing to loosen the requirements for alternative funds, to only engage with counterparties that have a “designated rating”, with the intent that this will open up the range of counterparties available to transact with.</p> <p>Please see above. We welcome any specific feedback in this regard.</p>
<b>Total leverage limit</b>	<p>Two commenters stated the use of leverage by an investment fund does not necessarily mean that such a fund would be riskier than a fund that does not employ leverage.</p>	<p>While leverage itself may not necessarily make a fund riskier than one that does not use leverage, it does have to potential to magnify the potential loss in a way that an unlevered fund will not. As such, we believe that it is appropriate to set limits on the use of leverage by investment funds and to have those funds disclose their leverage, both of which are part of the Proposed</p>

	<p>One commenter believed the appropriate overall leverage limit for an alternative fund would depend on a number of factors, including the volatility of the fund's investments, risk parameters imposed by the manager, the liquidity of the fund's portfolio and how quickly the fund can de-lever. The Commenter supports the general principle of an overall leverage limit which accommodates as many different types of alternative funds as possible.</p> <p>A commenter believed the calculation of the overall leverage of a fund should exclude hedging positions and positions in sovereign debt and associated currencies.</p> <p>A few commenters suggested that the UCITS model for regulated alternative funds provides for more practical and meaningful ways of controlling risk than imposing an absolute limit on leverage or notional exposure. The CSA should consider liquidity, borrowing, VAR and diversification limits.</p> <p>One commenter felt it would be dangerous to monitor or regulate the risk of an alternative fund by limiting</p>	<p>Amendments.</p> <p>Under the Proposed Amendments, we are proposing a single leverage limit for all alternative funds, to be calculated in the same way. We believe this will assist in investor in understanding and comparing leverage use by different funds.</p> <p>We have not proposed to allow for any exclusions in calculating total leverage under the Proposed Amendments – this is consistent with how funds are currently expected to calculate their maximum use of leverage under Form 41-101F2. As well, hedging transactions do not necessarily fully offset the risk of the initial position – a full exclusion of any hedging transaction may obscure a fund's true leverage by assuming the hedged position creates an offset that may not actually be the case. However, we do welcome any additional feedback on these proposals.</p> <p>Thank for you the comment. We are aware of the UCITS model and note that NI 81-102 both currently and under the Proposed Amendments, incorporates many similar elements. We are also seeking comments on the flexibility and convenience of using the gross notional exposure.</p> <p>We agree and are not proposing to do so under the Proposed Amendments, which also include limits on</p>
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	<p>leverage or solely through a leverage limit.</p> <p>A commenter suggested the CSA should focus on margin to equity ratios rather than leverage.</p> <p>Another commenter agreed that a limit of 3:1 seems reasonable for alternative funds that are not mutual funds. For mutual funds, the total limit should be lower. The combination of illiquid assets and leverage may create further problems for mutual funds.</p> <p>One commenter believed exemptions from a total leverage limit should be considered on a case-by-case basis.</p> <p>Another commenter proposed a total leverage limit of no more than 4:1 as an absolute limit and would suggest that 3:1 be set as the maximum at the time of investment, which would provide flexibility to account for market fluctuations.</p> <p>A few commenters expressed the view that a total</p>	<p>the use of borrowing and short selling, independent of the overall leverage limit being proposed.</p> <p>Thank you for the comment. The method we are proposing is intended to be a simple and consistent method to calculate total leverage across different types of alternative funds. The margin to equity ratio may be inconsistent across different funds and different periods. Required margins may vary from one derivative product to another as well as from one period to the next. We welcome any further comment in this regard.</p> <p>We agree and this is reflected in the Proposed Amendments which contemplate a 3:1 leverage ratio for alternative funds and non-redeemable investment funds.</p> <p>Considering leverage on a case-by-case basis is largely impractical from a rule-making standpoint. However, we note that the Proposed Amendments will not derogate from an issuer's ability to seek exemptive relief from any provision of NI 81-102.</p> <p>We have proposed a hard limit of 3:1 leverage under the Proposed Amendments as we want leverage to be monitored on a daily basis and not just at the time of investment. However, we welcome any feedback regarding whether or not this is unduly flexible for issuers.</p> <p>We believe the proposed 3:1 leverage limit is</p>
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	<p>leverage limit for funds that offer redemptions should be lower.</p> <p>One commenter felt alternative funds should be subject to a total leverage limit, whether it is 3x as proposed by the CSA or slightly higher, i.e. 4x. This will provide baseline protection for retail investors from highly levered products that are not appropriate even under the alternative fund framework.</p> <p>Another commenter stated that while the proposed level of absolute leverage at 3 to 1 is an appropriate starting point, it is important to ensure that overall levels of risk remain acceptable at the portfolio level.</p> <p>One commenter believed NI 81-104 should not impose any restrictions on leverage for alternative investment funds. And that NI 81-104 should provide for a truly alternative regime that will permit for a range of investment strategies that are required in order to meet investors' needs.</p>	<p>appropriate for alternative funds and non-redeemable investment fund and have not decided to set different limits based on whether a fund offers redemptions. This in part reflects the fact that the availability of redemptions is not much of a distinguishing feature between alternative funds (which under the Proposed Amendments will be mutual funds) and non-redeemable investment funds, as a large proportion of them also offer redemptions at NAV on a yearly basis.</p> <p>We agree and this is reflected in the Proposed Amendments.</p> <p>Thank you for the comment. We note that NI 81-102, both currently and under the Proposed Amendments, incorporates many provisions to address risks at the portfolio level. We welcome any feedback or commentary in this regard.</p> <p>We do not agree that alternative funds that can be sold to retail investors should have unrestricted leverage. We further note that this view is consistent with international regulation of similar products.</p>
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<b>Measurement of leverage</b>	<p>A few commenters thought the current measurement of leverage as long position plus short positions over net asset value should be changed. Short positions entered into for hedging purposes should be subtracted from long positions.</p> <p>One commenter believed the definition of leverage must be altered to allow alternative funds to employ meaningful risk mitigation techniques.</p> <p>Another commenter felt disclosure should illustrate the effect of heightened volatility that is caused by leverage. This would illustrate the costs of leverage and provide a better sense of the potential risks. However, such a proposal would require developing reasonable assumptions regarding underlying asset volatility and cost of leverage over time.</p> <p>One commenter stated that it may be appropriate to measure leverage in conjunction with net exposure where strategies may look to achieve gross leverage levels in excess of 3 to 1. A limitation of net leverage (such as limiting net market exposures in a leveraged portfolio) where leverage exceeds 3x may be appropriate; however, it may also be appropriate to examine Value at Risk measures to limit overall portfolio risk in leveraged environments.</p>	<p>Please see our response to a similar comment above. The Proposed Amendments do not contemplate an exemption for hedging or netting transactions for the leverage calculations.</p> <p>Please see our response above. Under the Proposed Amendments, leverage can be created by cash borrowing, short selling and derivatives. Managers can employ risk mitigation techniques as long as they are permitted under NI 81-102, both currently and under the Proposed Amendments.</p> <p>We thank you for your comment and welcome specific feedback in this regard.</p> <p>Please see our response to similar comments above. In addition, we believe a limitation on net leverage may be ineffective in accurately demonstrating a fund's level of leverage since the net exposure calculation does not distinguish leveraged positions from unleveraged ones. Furthermore, we note that although the value-at-risk is a quite comprehensive measure, it may not be a straightforward method of calculation and can be somewhat subjective in its elements. However, we welcome any specific feedback regarding appropriate methodologies for determining leverage and the overall risk of a fund.</p>
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	<p>Another commenter believed the issue of appropriate leverage measurement methods is best addressed by industry participants. And the concept or method chosen should be clearly formulated, expressed and disclosed and uniformly applicable.</p>	<p>We welcome any feedback from industry participants in this regard.</p>
<b>Other investment restrictions</b>	<p>One Commenter did not believe a restriction limiting alternative funds to investing in other investment funds that are reporting issuers in the same jurisdictions as the alternative fund is reasonable.</p> <p>A commenter encouraged the CSA to permit NI 81-102 conventional mutual funds to invest up to 10% of their net assets in alternative funds.</p> <p>One commenter did not believe there should be restrictions on alternative funds comparing themselves to conventional mutual funds provided the comparisons are relevant, not misleading and that appropriate disclaimers are included.</p> <p>Another commenter felt all investment funds should be placed on a level playing field with respect to such matters as offering, operational and distribution requirements.</p> <p>A commenter stated it is not practical to try to list every possible investment strategy that may be created</p>	<p>Under the Proposed Amendments, alternative funds will be permitted to invest in any investment fund subject to NI 81-102 without requiring that an underlying fund be a reporting issuer in the same jurisdiction as the top fund.</p> <p>This is being proposed under the Proposed Amendments.</p> <p>Under the Proposed Amendments, alternative funds will be defined by how their investment strategies are permitted to differ from those of more conventional mutual funds and will be required to highlight these differences in their disclosure documents.</p> <p>The Proposed Amendments contemplate this. For example, we are proposing that non-listed alternative funds file a simplified prospectus and fund facts and offer point of sale delivery, and we are also proposing that new alternative funds abide by the same seed capital/start-up requirements as more conventional mutual funds.</p> <p>We note that currently, an investment fund is required to disclose its fundamental investment objectives,</p>

	<p>or proposed in the future.</p> <p>One commenter submitted that NI 81-104 should permit alternative funds to invest in funds that are reporting issuers in specified foreign jurisdictions, reporting issuers in at least one Canadian jurisdiction or offered under prospectus exemptions in Canada and have equivalent redemption/liquidity requirements as the top fund.</p> <p>Another commenter stated that the Alternative Funds Proposals should be as permissive as possible and they should not expressly permit or prohibit any strategy.</p> <p>Two commenters believed that if non-redeemable funds are restricted from holding non-insured mortgages, investment funds that are alternative funds should be permitted to hold them.</p> <p>A commenter expressed the belief that alternative funds should be exempted from paragraph 2.3(i) of NI 81-102 to permit them to invest up to 100% of their net asset value in loan syndications or loan participations (without regard to whether the fund would assume any responsibilities in administering the loan). These exemptions would enable alternative funds to provide</p>	<p>including the primary strategies under which it will seek to achieve those objectives. The Proposed Amendments will not amend these requirements.</p> <p>We have decided against codifying this approach as it is our preference to continue to consider investment in funds from a foreign jurisdiction or Canadian funds offered under prospectus exemptions matters on a case-by-case basis through exemptive relief. As noted above, we are proposing to simplify the fund of fund restrictions for to allow investment in underlying funds that are subject to NI 81-102, regardless of which jurisdiction an underlying fund may be a reporting issuer.</p> <p>While the Proposed Amendments do contemplate a wider variety of strategies or asset classes that will be available to alternative funds, we do not agree that alternative funds that will be distributed to the public should have no investment restrictions.</p> <p>We have not proposed to change the current restrictions on investment funds investing in mortgages under NI 81-102 under the Proposed Amendments. Please provide any specific feedback in this regard.</p> <p>We do not agree and have not proposed any changes to these restrictions under the Proposed Amendments. We further take the view that this type of activity is not consistent with the notion of investment funds being passive investment vehicles.</p>
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	<p>retail investors with loan and mortgage fund solutions that currently are available only on a private placement basis.</p> <p>One commenter believed alternative funds should be permitted to invest up to 20% of their net asset value in illiquid assets.</p> <p>One commenter felt that it is not in the best interest of investors in alternative funds to only permit "top" alternative funds to invest in underlying mutual funds that in turn hold no more than 10% of their net asset value in securities of other mutual funds. Such a restriction would prevent alternative funds from utilizing many types of efficient and effective multi-tier investment structures. Investors in alternative funds should have access to such multi-tier alternative fund structures, which can deliver the benefits of (1) greater portfolio diversification at a reduced cost relative to that which could otherwise be achieved were the top fund required to invest directly in securities held by the underlying funds; (2) more favourable pricing and transaction costs on portfolio trades, increased access to investments and better economies of scale that can be achieved when the top fund invests through underlying funds; and (3) overall reduced portfolio complexity and increased administrative ease, which results in efficiencies that can be passed on to investors in the top funds. The above-noted advantages outweigh regulatory concerns regarding the potential complexity of the structure and duplication of fees, which can be</p>	<p>We have not proposed to increase the illiquid asset limits for alternative funds as we believe the current limits for commodity pools are appropriate for alternative funds. We welcome any specific comments in this regard.</p> <p>We do not agree and have not proposed any changes to the current restrictions on multi-tier fund of fund investment structures. These restrictions were originally put in place to reflect CSA concerns regarding among other things, complexity, transparency, and duplication of or hidden fees. These restrictions have been modified from time to time, usually on a case-by-case basis through exemptive relief to reflect multi-tier structures which in the CSA's view do not raise similar concerns. To the extent that there may be specific structures in which the efficiencies may outweigh the regulatory concerns, we remain of the view that these are best addressed through the exemptive relief process.</p>
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	<p>appropriately addressed through disclosure and restrictions on duplication of fund fees and costs.</p> <p>A commenter supported the CSA’s proposal to maintain the exemptions in 2.3(d)-(g) and (h), 2.8 and 2.11 of NI 81-104 for alternative funds.</p> <p>One commenter felt NI 81-104 should not impose any further restrictions. Should provide for ample flexibility for strategies that are not provided for in NI 81-102.</p>	<p>Thank you for the comment. We are proposing to maintain these exemptions for alternative funds.</p> <p>The Proposed Amendments aim at providing a reasonable balance between encouraging innovative strategies and investors protection.</p>
<b>On-going investment by sponsors</b>	<p>Two commenters did not believe there is a reasonable basis for creating a different seed capital requirement for alternative funds.</p> <p>Two commenters thought sponsors of an alternative fund should be able to withdraw their seed capital once the fund reaches a certain size.</p> <p>One commenter felt sponsors should not be required to maintain an investment in their fund. However, where a sponsor does so, the seed capital should be included in the sponsor’s working capital calculation.</p> <p>One commenter did not think seed capital requirements should not apply to non-redeemable investment funds.</p>	<p>We agree. Under the Proposed Amendments, the seed capital requirements for alternatives will be the same as for other mutual funds.</p> <p>We agree. Under the Proposed Amendments, alternative funds will be permitted to start withdrawing seed capital once the fund has raised \$500,000 in capital from “outside” sources, which is consistent with the requirements for conventional mutual funds.</p> <p>Please see above. We are proposing to amend the seed capital requirements for alternative funds to be align with those of other mutual funds.</p> <p>We have not proposed to change the seed capital requirements applicable to non-redeemable investment funds under the Proposed Amendments.</p>

<p><b>Proficiency standards for representatives dealing in Alternative Funds</b></p>	<p>Several commenters did not feel additional proficiency requirements are necessary for individuals dealing in alternative funds. Additional proficiency requirements would only limit the distribution channels available to alternative funds.</p> <p>Two commenters thought that IIROC registered representatives should not require additional proficiency requirements to sell alternative funds but that proficiency standards for mutual fund restricted representatives should be maintained.</p> <p>[8] One commenter stated that there are no existing courses or proficiency requirements for dealing representatives that would add value to the offering of alternatives funds.</p> <p>[9] One commenter encouraged the CSA to reconsider the existing proficiency requirements in NI 81-104 with the goal of determining whether these are appropriate or necessary.</p> <p>One commenter thought it was necessary that individual representatives that sell alternative funds have a fiduciary duty to act in the best interests of their clients.</p> <p>Another commenter supported improved proficiency requirements for all registrants who sell investment funds, and, in particular, increased proficiency requirements for registrants selling alternative funds.</p> <p>A commenter felt the current mutual fund course does</p>	<p>Under the Proposed Amendments, we are proposing to remove the proficiency requirements currently applicable to mutual fund restricted individuals that trade in securities of a commodity pool (the Proficiency Requirements) under NI 81-104 for alternative funds. This recognizes that a fund operational rule is not the appropriate place for what is essentially a “know your product” provision and that some of provisions may be out of date, having not been updated since its initial implementation. We are of the view that these requirements would be best addressed directly through the registrant regulatory regime including through SRO’s such as the Mutual Fund Dealers Association (MFDA), which are best placed to determine the appropriate proficiency standards for mutual fund dealer representatives. To that end we will be working with the MFDA to come to the best solution on this issue. We have not proposed any changes to the proficiency requirements for IIROC registrants.</p> <p>We welcome any specific feedback on the Proficiency Requirements in light of the Proposed Amendments.</p>
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	<p>not sufficiently address the topic of alternative funds and that additional alternative funds content should be added to the current course or a separate alternative funds course should be created.</p> <p>One commenter stated that the proposal to impose additional proficiency requirements on individual dealing representatives who sell securities of alternative funds is fundamental to the success of the Alternative Funds Proposals. The commenter believes that many problems that have occurred with alternative investments could have been avoided where individual dealer representatives properly understood the risks of their products and effectively discharged their suitability obligations. The commenter suggested that the CSA should consider Chartered Financial Analyst, Chartered Investment Manager or Chartered Alternative Investment Analyst designations as proficiency standards for representatives dealing in alternative funds.</p> <p>One commenter suggested the CSA consider the creation of individual registration categories for alternative fund dealing representative and associate alternative fund dealing representative.</p> <p>A commenter stated, with respect to non-redeemable investment funds in particular, the creation of additional proficiency requirements for the sale of alternative fund securities would represent a fundamental and potentially adverse change to the ongoing business and affairs of existing non-redeemable investment funds as well as the</p>	
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	manufacture and distribution of non-redeemable investment funds in Canada.	
<b>Naming convention for Alternative Funds</b>	<p>Most commenters who provided comments regarding the imposition of a naming convention for alternative funds objected to either the concept of a naming convention or to the proposed use of the term alternative fund.</p> <p>Many commenters objected to the proposed use the words alternative fund as part of the naming convention. These commenters felt such a term could result in alternative funds being labeled as high risk or volatile.</p> <p>Many commenters felt the term alternative fund would not necessarily identify for investors the nature of alternative funds or level of risk and complexity that is associated with these funds.</p> <p>Several commenters believed that improved disclosure was a better approach than a naming convention. These commenters believed it would be more useful for each fund to provide investors with meaningful and prominent disclosure of the fund's key investment objectives, strategies and risks in its disclosure documents, and for non-conventional funds to highlight for investors in a prominent manner the extent to which the fund's investment restrictions and strategies may differ from those used by conventional mutual funds.</p> <p>Several commenters specifically stated that drawing a clear line between funds subject to either NI 81-102 or</p>	<p>Please note that we are not proposing a naming convention for alternative funds under the Proposed Amendments.</p> <p>Please see above.</p> <p>Please see above. We agree, which is why the Proposed Amendments include specific disclosure requirements for alternative fund prospectuses.</p> <p>We agree. Please see above. Among the provisions applicable to alternative fund disclosure in the Proposed Amendments will be a requirement for an alternative fund to disclose how its investment strategies differ from what is permitted by a conventional mutual fund.</p> <p>We note that this is the case today between mutual funds and commodity pools, but we welcome specific</p>



	<p>NI 81-104 may mislead investors into believing that all funds under one framework are the same and draw attention away from the wide variance among funds within each framework.</p> <p>One commenter felt the imposition of a naming convention would be a highly effective tool and agreed with the use the words alternative fund.</p> <p>One commenter believed better labelling in the name of the investment fund of the heightened risk and complexity along with more robust regulation and enforcement of misleading advertising, coupled with a best interest standard, would go a long way to helping to protect investors. The commenter suggested that such funds be called "Risk-Magnified Funds", "Higher-Risk Funds" or some other term that sets out clearly that such funds carry increased risks, as compared to conventional non-redeemable investment funds and mutual funds.</p> <p>A commenter suggested investment products should have risk labeling and that the CSA should ban the sale of certain classes of types of product to retail investors.</p> <p>One commenter stated that requiring existing funds to change their names to comply with a naming convention requirement would create unnecessary cost</p>	<p>feedback on the Proposed Amendments on this issue or concern.</p> <p>While we have not proposed a naming convention that would mandate the use of the word “alternative fund” in a fund’s name, the term will be still be used for descriptive purposes in distinguishing an alternative fund from a conventional mutual fund.</p> <p>As noted above, we have not proposed to institute a naming convention for alternative funds, though the term will be used for descriptive purposes. While we do not agree that alternative funds will in all cases be inherently riskier than all conventional funds, we welcome any comments regarding whether we should consider a different term to describe these funds than “alternative funds”.</p> <p>We note that the regulatory framework for investment funds requires disclosure of applicable risk factors as well as requiring risk ratings for investment funds. As well, the applicable investment restrictions for investment funds that are distributed to the public necessarily restrict the types of products that can be sold to retail investors.</p> <p>Please see above. We have not proposed a naming convention for alternative funds.</p>
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	<p>and confusion to investors.</p> <p>A couple of commenters believed it would be more helpful to differentiate products based on their structure and that descriptor based on the type of securities a fund may invest in or its investment strategies could be interpreted in various ways or be too restrictive to describe all possibilities.</p> <p>One commenter felt that to make a naming convention work, clear definitions of alternative and conventional funds would be necessary.</p> <p>A couple of commenters believed the term alternative fund is too generic or simplistic to include in a fund name.</p> <p>One commenter thought conventional mutual funds should adopt the more fulsome disclosure requirements of the long form prospectus and mutual funds should not be able to bundle multiple funds into a single prospectus.</p>	<p>NI 81-102 does differentiate funds based on their structure in some aspects (such as whether they are listed or not, or whether or not they are redeemable on a regular basis). We don't believe the Proposed Amendments will necessarily change this.</p> <p>Please see above. We have not proposed a naming convention, though the term "alternative fund" is being defined in NI 81-102 as part of the Proposed Amendments.</p> <p>Please see above.</p> <p>We do not agree that mutual funds should adopt the long form prospectus. The simplified prospectus and fund facts document were designed to better assist investors in understanding the product. Furthermore, as mutual funds are required to distribute the fund facts document in lieu of a simplified prospectus, we do not see any reason to prohibit the bundling of multiple funds into a single prospectus, which is administratively more efficient.</p>
<b>Monthly website disclosure</b>	<p>One commenter believed there should be no distinction in disclosure requirements for conventional and alternative funds. However the commenter supported the introduction of a requirement that all publicly offered investment funds disclose additional variables</p>	<p>We are not proposing specific website disclosure for alternative funds under the Proposed Amendments. However, we will be mandating certain disclosure in a fund's financial statements regarding its experience with leverage. In addition, the fund facts document,</p>

	<p>to understand the risk and performance of a fund, including the standard deviation of a fund.</p> <p>A couple of commenters did not believe publishing maximum and average daily leverage would provide meaningful information to investors, as leverage may not be as significant an indicator of risk as other factors. These commenters felt the proposed disclosure requirements are limited and may be taken out of context.</p> <p>One commenter felt these seemed like reasonable proposals and would not be too onerous on the part of the manager to implement.</p> <p>Another commenter agrees with the proposed disclosure requirements and thinks other risk metrics on a quarterly basis may be useful to investors.</p> <p>One commenter stated that disclosure of monthly performance data would be more meaningful and that the proposed disclosure may be misleading. In particular, the disclosure of maximum drawdown is in the absence of further information will not useful. The commenter suggested the CSA revisit general instruction 11 to Form 41-101F2 to allow for performance data over shorter periods of time.</p>	<p>which will be mandated for alternative funds, disclose adapted information in order to help investors understand a fund's risk and performance.</p> <p>Please see the response above. We note that the total leverage limit is not technically a risk indicator.</p> <p>Thank you for your comment.</p> <p>Please provide any additional feedback on what risk metrics could be relevant for investors.</p> <p>We are not proposing to review performance data disclosure.</p>
<b>Transition to Alternative Funds Framework</b>	<p>Many Commenters believed existing funds should be grandfathered and not made to transition to the alternative funds framework.</p>	<p>We are proposing a 6 month from the coming into force date transition period for existing funds to transition to the new requirements for alternative funds to the extent that they are impacted by them. However,</p>

	<p>One commenter felt existing funds that are not offering securities to the public should be grandfathered.</p> <p>One commenter stated that if existing funds were made to comply with a new regulatory regime there would be considerable costs associated with changes to funds and their investment strategies.</p> <p>A commenter felt existing funds that are required to transition to the alternative funds framework should be permitted to provide written notice of their intention to transition into the alternative funds regime.</p>	<p>we will expect any new funds filing a prospectus after the date the Proposed Amendments come into force to comply with those requirements from the first day of operations.</p> <p>We welcome any feedback on whether or not this is an appropriate transition period for existing funds.</p>
<b>Other comments</b>	<p>One commenter stated that alternative funds should be permitted to utilize the NI 81-101 simplified prospectus and fund facts disclosure regime.</p> <p>Another commenter believed the CSA should move ahead with point of sale disclosure for all investment products including alternative funds.</p> <p>One commenter did not believe that an alternative fund should be required to disclose in its prospectus how its investment strategies differ from a conventional fund. Such disclosure is not relevant and potentially misleading. This emphasizes potential risk without allowing potential benefits to be disclosed.</p>	<p>We are proposing that alternative funds that are not listed on an exchange use the simplified prospectus and fund facts under the Proposed Amendments.</p> <p>We are proposing that alternative funds that are not listed on an exchange be subject to the point of sale requirements under NI 81-101.</p> <p>We do not agree as it is these differences that will distinguish an alternative fund from a conventional mutual fund. Therefore we believe this disclosure is important and relevant.</p>

<b>Part III - Comments on proposed interrelated investment restrictions</b>		
<b><u>Issue</u></b>	<b><u>Comments</u></b>	<b><u>Responses</u></b>
<b>Borrowing (s. 2.6(a) to (c))</b>	<p>CSA to permit non-redeemable investment funds to borrow from lenders outside of Canada.</p> <p>A couple of commenters thought limiting non-redeemable investment funds to borrowing from Canadian financial institutions would significantly limit the sources of financing from non-redeemable investment funds. These commenters felt that non-redeemable investment funds may prefer to borrow from financial institutions that are not Canadian financial institutions because of potential for preferential rates, better terms, or a pre-existing relationship with the lender.</p> <p>A couple of commenters felt it would be appropriate to borrow from a foreign bank or other institution where a fund has an objective to benefit from investing in foreign markets which may be denominated in foreign currencies and desires leverage denominated in the same currencies to hedge currency exposure.</p> <p>Many commenters did not believe that restricting the use of leverage by non-redeemable investment funds is appropriate or necessary to ensure that investors are protected. These commenters encouraged the CSA to reconsider the proposed restriction.</p> <p>A number of commenters believed enhanced disclosure would be a better solution than a restriction on</p>	<p>Please see our responses above relating to borrowing by an alternative fund. Please note that we are also seeking feedback regarding any additional specific differences between alternative funds and non-redeemable investment funds that we should consider in respect of the proposed borrowing provisions.</p>

	<p>borrowing.</p> <p>A number of commenters felt the current borrowing practices of non-redeemable investment funds may not be the most appropriate basis on which to set a borrowing limit. Although there are currently a number of non-redeemable investment funds that would fit within the CSA's proposed restriction on borrowing, the restriction on borrowing may cause some funds to move to the alternative funds regime, which may not be the intention of the CSA.</p> <p>One commenter saw no evidence justifying a conclusion that additional monitoring and controls exist or otherwise it would be in the best interests of investors to be exposed only to Canadian financial institutions.</p> <p>One commenter suggested limiting the list of lenders to Canadian and foreign regulated banks, regulated insurance companies and regulated investment dealers and their wholly-owned subsidiaries.</p> <p>Three commenters expressed concern a requirement to borrow from a Schedule I or II bank would restrict a fund from issuing debt securities. The ability for a fund to offer high yield debt securities would meet this investor demand, while providing existing equity holders with a longer term financing. In the current low interest rate environment, funds may be in the position to secure long term financing at historically low rates.</p> <p>One commenter thought that due to their nature, only a</p>	
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	<p>low level of liquidity is required on an ongoing basis for non-redeemable investment funds to cover recurring expenses.</p> <p>One commenter expressed concern that limiting borrowing to Canadian financial institutions would reduce competition and possibly increase borrowing costs for non-redeemable investment funds.</p> <p>Two commenters raised the issue that any restriction to limit borrowing to Canadian financial institutions may be in contravention of international trade agreements to which Canada is a party.</p> <p>One commenter identified leverage as being necessary for non-redeemable investment funds to enter into transactions intended to hedge risk.</p> <p>One commenter felt limiting leverage to cash borrowings would limit a fund's ability to meet its objectives. Some non-redeemable investment funds employ the use of derivatives or short selling as a normal part of their portfolio. These funds, if no longer permitted to enter into these positions, may find it difficult or impossible to achieve their objectives and provide investors with returns similar to those provided in the past. In certain market conditions the ability to short-sell may be the fund's best opportunity to generate positive market returns. The ability to enter into these positions is a point of differentiation between non-redeemable investment funds and mutual funds, which investors expect. The commenter does not consider it appropriate to classify funds with these</p>	
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	positions as alternative funds under NI 81-104 unless there are a set of separate rules for non-redeemable investment funds.	
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## Part IV – List of commenters

### Commenters

- AGF Investments Inc.
- Alternative Investment Management Association (AIMA)
- Arrow Capital Management Inc.
- Artemis Investment Management Limited
- Aston Hill Capital Markets Inc.
- Blackheath Fund Management Inc.
- BlackRock Asset Management Canada Limited
- Blake, Cassels & Graydon LLP
- Borden Ladner Gervais LLP
- Brompton Funds Limited
- Canadian Advocacy Council for Canadian CFA Institute Societies, The
- Canadian Foundation for Advancement of Investor Rights (FAIR)
- Canadian Securities Institute, The (CSI)
- Canadian Securities Lending Association (CASLA)
- Canoe Financial LP
- CI Investments Inc.
- Cymbria Corp.
- Faircourt Asset Management Inc.
- Fasken Martineau DuMoulin LLP
- Fidelity Investments Canada ULC



- First Asset Investment Management Inc.
- Front Street Capital
- GD-1 Management Inc. and Global Digit II Management Inc.
- Harvest Portfolios Group Inc.
- IFSE Institute, The
- Investment Funds Institute of Canada, The (IFIC)
- Investment Industry Association of Canada, The (IIAC)
- Man Investments Canada Corp.
- Mark Brown
- McCarthy Tétrault LLP
- McMillan LLP
- Middlefield Group
- Morgan Meighen & Associates Limited
- Osler, Hoskin & Harcourt LLP
- Periscope Capital Inc.
- Private Mortgage Lenders Forum
- Propel Capital Corporation
- Quadravest Capital Management Inc.
- RBC Capital Markets
- RBC Global Asset Management Inc.
- ROI Capital
- Stikeman Elliott LLP
- Stikeman Elliott LLP (on behalf of 42 organizations)
- Stikeman Elliott LLP (on behalf of BMO Capital Markets, CIBC, National Bank Financial, RBC Capital Markets, Scotiabank and TD Securities)
- Strathbridge Asset Management Inc.
- TMX Group Limited
- Trez Capital Fund Management Limited Partnership
- W.A. Robinson Asset Management Ltd.
- Wildeboer Dellelce LLP