Appendix B

Summary of Public Comments on Proposed Amendments to NI 81-106

1. Alternatives to IFRS	
Comment	Five commenters stated that, from an investor's perspective, the overall comparability and understandability of IFRS financial statements for investment funds will be significantly reduced when compared to the presentation format of current Canadian GAAP financial statements as a result of issues relating to valuation, consolidation, and classification of puttable instruments. One commenter pointed out that reduced comparability is unfortunate, but unavoidable under IFRS. As IFRS does not currently provide for specialized industry accounting for investment funds, four commenters urged the CSA to consider alternatives to IFRS, such as preparing financial statements in accordance with a presentation framework as prescribed by the CSA. National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**) would need to be changed to allow investment funds to prepare financial statements in accordance with IFRS, except that investments must be presented on a fair value basis. The financial statements would not contain an unreserved statement of compliance with IFRS. Such financial statements would receive an unmodified opinion following a compliance framework and NI 81-106 would need to be changed to accommodate acceptance of a compliance framework. One commenter requested that private investment funds be excluded from NI 81-106. Two commenters suggested that the CSA approach the Canadian Accounting Standards Board (**AcSB**) to exclude investment funds from the definition of publicly accountable enterprises, which are subject to IFRS.
Response	*Background* Following a period of public consultation, the AcSB announced in 2006 a strategic plan to adopt IFRS by publicly accountable enterprises in Canada. In 2008, the AcSB confirmed the 2011 changeover date for publicly accountable enterprises and, since then, has incorporated IFRS into the Handbook of the Canadian Institute of Chartered Accountants (the **Handbook**). IFRS is a single set of high quality, globally accepted accounting principles adopted by the International Accounting Standards Board (**IASB**). Reporting issuers other than investment funds adopted IFRS for financial years beginning on or after January 1, 2011. The mandatory changeover date for investment funds was deferred by the AcSB for three years and is now January 1, 2014.

	NI 81-106 currently requires investment funds to prepare financial statements in accordance with Canadian GAAP as applicable to public enterprises.[1] In CSA Staff Notice 81-320 (Revised) *Update on International Financial Reporting Standards for Investment Funds* (**Staff Notice 81-320**) – first published on October 8, 2010, revised on March 23, 2011 and March 16, 2012 – the CSA stated that we consider the standards in Part V of the Handbook to be Canadian GAAP as applicable to public enterprises for securities legislation purposes. The CSA supports the AcSB's plan to move financial reporting for all Canadian publicly accountable enterprises to IFRS and believes that investment fund financial statements should be prepared using the same accounting standards as other issuers for financial years beginning on or after January 1, 2014. These amendments are intended to provide investment funds with an efficient transition to IFRS. *Maintaining comparability* The amendments attempt to maintain comparability of financial statement presentation and performance reporting among investment funds. In the financial statements, certain changes to accounting terms and phrases were made to conform with IFRS; however, changes in terminology generally will not affect the amounts shown on the financial statements. For example, currently an investment fund discloses its "net assets", which under IFRS will become either "total equity" or "net assets attributable to securityholders" (depending on the classification of the fund's securities). We intend for the determination of either total equity or net assets attributable to securityholders under IFRS to yield the same result as the determination of net assets under current Canadian GAAP for most investment funds. As well, we have required the presentation of certain additional line items on the statement of comprehensive income. For example, investment funds that classify their securities as financial liabilities will disclose the "increase or decrease in net assets attributable to securityholders (excluding distributions) from operations" to maintain comparability with the "increase or decrease in total equity from operations" to be disclosed by investment funds that classify their securities as equity instruments. The changeover to IFRS is not expected to substantially impact the disclosure provided to investors in the management report of fund performance, nor affect the calculation of the management expense ratio or trading expense ratio. *New accounting framework* The amendments have not changed the requirement to disclose an investment fund's assets and liabilities at "current value", which is defined in NI 81-106 as the value calculated in accordance with Canadian GAAP. Previously, Accounting Guideline 18 *Investment* Companies (AcG-18) allowed an investment fund to measure all its

[1] Section 2.6 of NI 81-106

	investments at fair value. To the extent that the measurement principles are different under IFRS, certain investments held by an investment fund may be measured differently compared to what was disclosed in its Canadian GAAP financial statements from previous years, and in the IFRS financial statements of other investment funds. While the measurement options under IFRS may result in reduced financial statement comparability, in the CSA's view, it is important for an investment fund to be able to make a statement of unreserved compliance with IFRS and for the auditor's report to refer to IFRS as the applicable fair presentation framework. *Pooled funds* For jurisdictions where NI 81-106 applies to a mutual fund that is not a reporting issuer, the requirement for financial reporting originates in securities legislation. The scope of these amendments does not permit us to change the *Securities Act* in those jurisdictions.
2. Consolidation	
Comment	**2.1 Usefulness of consolidated financial statements** All commenters believe that consolidated financial statements do not provide the most useful decision-making information for investors. Two commenters pointed out that the information of importance to investors is the assessment of cash flows, changes in fair value, and comparison of NAV and change in NAV to a benchmark. Four commenters stated that consolidated financial statements would be misleading because items such as property, plant and equipment would be brought onto the fund's statement of financial position and would not be measured at fair value.
Response	Staff Notice 81-320 provided a history of the consolidation issue. Under existing IFRS 10 *Consolidated Financial Statements* (**IFRS 10**), an entity is required to consolidate investments that it controls. During the development of the consolidation standard in 2009, the IASB heard from users of investment fund financial statements who were unanimous in their view that fair value of investments held by investment funds was the most useful decision-making information for investors, not consolidated financial information. As a result, the IASB published the Exposure Draft *Investment Entities* on August 25, 2011, which proposed that a class of entities defined as "investment entities" be excepted from consolidating entities that they control and instead account for controlling interests in other entities at fair value. This issue was largely resolved for the investment fund industry when the IASB published *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) on October 31, 2012, which provides an exception to consolidation for investment entities. Based on our analysis and feedback from stakeholders, it appears that most investment funds as defined in securities legislation will qualify as investment entities. We have revised the proposed IFRS-related amendments to NI 81-106 (and other instruments related to investment funds) to reflect that most investment funds

	will not be required to consolidate entities that they control. Accordingly, we have removed the proposed requirement in NI 81-106 for an investment fund to prepare a statement of investment portfolio on a non-consolidated basis within a set of consolidated financial statements. Any remaining investment funds, that may be required to consolidate, can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.
Comment	**2.2 Operational issues** Eight commenters cited operational difficulties if consolidated financial statements were to be prepared, such as: daily tracking of percentage ownership; access to an unrelated fund manager's financial information; breach of confidentiality; consolidation of entities with non-coterminous year-ends; consolidation of private entities using different sets of GAAP; and the audit of the stub period. Four commenters stated that the investment fund industry is not structured to deal with consolidation and the change will result in modifications to information technology systems, and policies and procedures. These transitional costs will be passed onto investors through a higher MER. Three commenters thought that non-consolidated financial statements prepared by registrants, such as investment fund managers, represent a precedent for the CSA to accept non-consolidated financial statements.
Response	Please see the response to Item 2.1 above. Most registrants, such as investment fund managers, prepare non-consolidated financial statements for the specific purpose of determining their excess working capital. These are not public general-purpose financial statements and are only delivered to the securities regulatory authority or regulator under the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. If the registrant has a related reporting issuer entity, that entity must comply fully with IFRS and National Instrument 51-102 *Continuous Disclosure Obligations*.
Comment	**2.3 Statement of investment portfolio and auditor's opinion** One commenter stated that the presentation of both consolidated financial statements and non-consolidated fair value information in the same set of financial statements may be confusing but, more importantly, seven commenters believed that giving a non-consolidated statement of investment portfolio equal prominence as consolidated primary financial statements would result in a modified audit opinion. Commenters encouraged us to require the portfolio disclosure as a schedule, while others thought it would be more prudent to include the disclosure in the notes to the financial statements to avoid the requirement to show comparative information. Three commenters thought a numerical or explanatory reconciliation between the statement of investment portfolio and statement of financial position may be

	confusing and asked that the proposed requirement be removed. Instead, the basis of presentation should be disclosed on the statement of investment portfolio. One commenter thought that a three-way quantitative reconciliation between the consolidated financial statements, the non-consolidated portfolio (established using bid price), and the net asset value (established using closing price) would be essential for readers. Two commenters stated that requiring the preparation of consolidated and non-consolidated financial statements, or a standalone non-consolidated statement of investment portfolio would be costly because two audit reports would be required with differing materiality.
Response	We revised the proposed amendments. We no longer are proposing that a non-consolidated statement of investment portfolio be included within a consolidated set of financial statements. For an investment fund subject to NI 81-106, the statement of investment portfolio will account for entities that it controls on the same basis as in the primary financial statements. Any remaining investment funds, that may be required to consolidate, can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.
Comment	**2.4 Reconciliation between net assets and NAV** Two commenters stated that there could be additional reconciliations between net assets and NAV as a result of an investment fund consolidating entities that it controls. One commenter indicated that little useful information would be provided because the reconciliation would highlight differences arising from accounting presentation requirements, not fair value changes. One commenter took the view that the reconciliation was a non-GAAP measure.
Response	We acknowledge that there may be additional reconciling items between net assets and NAV as a result of IFRS. Reconciling items may arise because IFRS provides an entity with options on how to measure its investments and those options are different from the guidance in AcG-18 that an "investment company" should measure its investments at fair value. Reconciling items may also include the consolidation of non-fair valued assets and liabilities on the statement of financial position accounted for on a different basis than the rest of the portfolio; however, we do not expect this type of reconciling item to be widespread because of our understanding that most investment funds will not be required to consolidate entities that they control as a result of the amendments to IFRS 10 (refer to the response to Item 2.1). As required in item 5, section 3.6(1) of NI 81-106, an explanation of these differences will be provided. The reconciliation, which appears in the notes to the financial statements, will be audited and will explain to investors why the NAV at which they transacted is different from the net assets in the audited financial statements. There is already an existing requirement to discuss fair value changes, if material, in the results of operations or past performance sections within the management report of fund performance.

	We do not agree that the reconciliation between net assets and NAV is a non-GAAP measure. CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures and Additional GAAP Measures* (**Staff Notice 52-306**) sets out that International Accounting Standard 1 *Presentation of Financial Statements* (**IAS 1**) provides for information to be presented in the notes to the financial statements "that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of [the statements]" (IAS 1, paragraph 112(c)). The reconciliation provides an understanding of the differences between net assets on the financial statements and NAV, and represents important disclosure available to investors since 2008.
Comment	**2.5 MER** One commenter pointed out that consolidation of an underlying entity's operating revenues and expenses into the statement of comprehensive income has the potential for increasing MER. There was also a request for guidance on how to complete the per share highlights table in the MRFP based on consolidated information.
Response	As discussed in Item 2.1 above, IFRS provides an exception from consolidation for investment entities. Any remaining investment funds, that may be required to consolidate, can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.
Comment	**3. Classification of puttable instruments** One commenter supported the CSA's attempt to maintain comparability among investment funds and stated that the proposed amendments generally appear to accomplish this objective by providing two different ways of presenting and calculating the affected financial information, depending on how an investment fund's securities are classified. Two commenters requested guidance for the presentation of an investment fund's own securities that are classified as both liability and equity. Three commenters requested that the CSA mandate a liability or equity presentation so that there is one type of presentation for securities issued by investment funds. One commenter stated that partnerships do not issue securities to their limited partners and would not be accommodated by the proposed format. Three commenters stated that the proposed line item "increase or decrease in total equity from operations per security, or in net assets attributable to securityholders (excluding distributions) from operations per security, or, if applicable, per security of each class or series" is a non-GAAP measure and not permitted under IFRS.
Response	International Accounting Standard 32 *Financial Instruments: Presentation* (**IAS 32**) classifies a puttable financial instrument as a financial liability, unless the instrument has certain features, in which case it is classified as an equity instrument. Generally, puttable instruments are securities which are redeemable by the securityholder. As most investment funds issue redeemable securities, investment

	funds will have to determine if their securities are puttable instruments and, if so, whether they should be classified as financial liabilities or as equity instruments. Under IFRS, there may be two different presentations of investment funds' securities, depending on the structure of the investment fund. We require investment funds to be compliant with IFRS and, therefore, cannot mandate one presentation for an investment fund's securities. We have attempted, however, to keep the financial statement presentation as consistent as possible, regardless of whether an investment fund's own securities are classified as equity or liability under IFRS. For example, the amendments allow an investment fund to disclose either total equity (if the fund's own securities are classified as equity) or net assets attributable to securityholders (if the fund's own securities are classified as liabilities). The transition to IFRS was not meant to remove long-established disclosure that investment funds have been providing to investors in their financial statements. While Canadian GAAP only provided some general requirements for the preparation of financial statements and IFRS mandates certain minimum line items, IFRS also requires presentation of "additional line items, headings and subtotals… when such presentation is relevant to an understanding" of an entity's financial position and performance (IAS 1 paragraphs 55 and 85). IAS 1 also contemplates including additional line items, reordering line items, and amending descriptions to provide information that is relevant to the operations of an entity, taking into consideration "the nature and function of the items of income and expense" (IAS 1 paragraph 86). We are of the view that additional line items prescribed by NI 81-106 on the statement of comprehensive income, such as "increase or decrease in total equity from operations per security, or in net assets attributable to securityholders (excluding distributions) from operations per security, or, if applicable, per security of each class or series", provide investors with relevant performance comparisons between investment funds, regardless of whether those funds' own securities are classified as financial liabilities or equity instruments. Staff Notice 52-306 was revised in November 2010 and distinguishes between non-GAAP financial measures and additional GAAP measures. We are of the view that these same additional line items prescribed on the statement of comprehensive income fit into the parameters of additional GAAP measures as required by IFRS.
4. Transition issues	
Comment	**4.1 Extension of filing deadline** Three commenters asked for an extension of the financial statement filing deadlines for investment funds to be consistent with the 30-day extension given to other reporting issuers and the 15-day extension for registrants that transitioned to IFRS in 2011. One commenter cited other countries that granted extensions even for the filing of semi-annual financial statements. One commenter stated that the 60 and 90 day filing deadlines for interim and annual financial statements will not be enough to accommodate the consolidation process

	and extensions will be required each year.
Response	We are not providing an extension for the first interim financial statements to be prepared under IFRS by investment funds. IFRS did not come into effect for investment funds for financial years beginning January 1, 2011, as it did for most publicly accountable enterprises. As a result, preparers of investment fund financial statements have had three years to consider the implications of adopting IFRS and learn from the experiences of other reporting issuers. Since the publication of CSA Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards* in 2008, investment funds have been providing disclosure in their annual and interim filings about the state of their IFRS readiness. For many years, most investment funds have disclosed in their financial statements or management reports of fund performance that the impact of IFRS will be limited to additional note disclosure and modifications to existing presentation. The CSA also reminded investment funds of their responsibility for IFRS readiness for the past three years with each update to Staff Notice 81-320. With the length of notice provided to investment funds, the CSA is of the view that they should be prepared for the January 1, 2014 changeover date. In 2011, other reporting issuers received a 30-day extension because many of them were required to file quarterly financial statements after the end of their first quarter interim period. Unlike other reporting issuers, investment funds are required to file semi-annual financial statements after the period-end. The semi-annual, rather than quarterly, filing frequency for investment funds provides a longer period to prepare for the first filings under IFRS. In our view, an extension of the filing deadline for investment fund financial statements is not required because investment funds do not file as frequently as other reporting issuers.
Comment	**4.2 Additional guidance** Two commenters requested additional guidance, or the publication of frequently asked questions (**FAQs**), to address: areas silent in IFRS or the amendments; whether the CSA requires preparation of the statement of comprehensive income by function or nature; the presentation format to be used for the statement of changes in financial position; and how performance measures other than those required by GAAP should be reported when a fund has some classes of securities recorded as financial liabilities and other classes recorded as equity instruments. There were also questions relating to specific presentation on the financial statements, such as: • requiring an opening balance sheet for reclassifying of items in the annual financial statements or interim financial reports; • definition of “net investment income or loss” on the statement of comprehensive income; • the disclosure of return of capital on the statement of comprehensive

	income; • separation of redemptions into share capital and undistributed retained earnings in the statements of changes in financial position, and cash flows; • request to add certain subtotals; • inquiries about the placement, repealing, or the lack of certain line items; and • requests to modify the concept of inapplicable line items.
Response	To the extent that these are IFRS transition issues, we defer to auditors of investment funds with whom preparers of financial statements should be discussing such issues. The CSA will prepare FAQs if necessary (based on the number and type of inquiries) or guidance may be issued through other stakeholder communications. Investment funds can contact CSA staff if IFRS creates issues with the presentation requirements in NI 81-106.
Comment	**4.3 Transition issues** Five commenters expressed concern that the IASB would not finalize the proposed relief for investment funds from the consolidation requirement before IFRS is adopted by investment funds in Canada. They asked the CSA to consider transitional provisions.
Response	This was addressed with the deferral of the changeover date from January 1, 2011 to January 1, 2014. The CSA published Staff Notice 81-320 three times during the deferral to communicate the CSA's view that it would be preferable for the IASB's consolidation exception to be in place when IFRS is adopted by investment funds in Canada. The most recent update to Staff Notice 81-320, published in March 2012, confirmed that CSA staff would be taking additional time before seeking approval in each CSA jurisdiction to finalize IFRS-related amendments to NI 81-106 and other instruments related to investments fund, with the goal of having the necessary IFRS-related amendments for investment funds in force by January 1, 2014. On October 31, 2012, the IASB published final amendments relating to the consolidation exception, with those amendments applying to annual periods beginning on or after January 1, 2014.

5. List of commenters

Commenters

- Alternative Investment Management Association
- The Canadian Advocacy Committee of the CFA Institute Societies of Canada
- Deloitte LLP
- Ernst & Young LLP
- Fonds FMOQ
- Growth Works Capital Ltd.
- The Investment Funds Institute of Canada
- KPMG LLP

- Mouvement Desjardins
- PFM Venture Capital Operations Inc.
- PwC