



ONTARIO
SECURITIES
COMMISSION

OSC Staff Notice 81-712

→ 2010

Investment Funds Branch Annual Report

Table of Contents

Introduction

1. Key Policy Initiatives

- 1.1 Point of Sale (POS)
- 1.2 Scholarship Plans
- 1.3 Modernization of Investment Fund Product Regulation
- 1.4 NI 31-103 – Registration Requirements and Exemptions
- 1.5 NI 23-102 – Use of Client Brokerage Commissions – Prospectus Form Amendments
- 1.6 International Financial Reporting Standards (IFRS)
- 1.7 Amendments to Part VI of the TSX Company Manual – Fund Mergers

2. Disclosure and Compliance Reviews

- 2.1 Focused Reviews of Investment Funds, September 2008 – September 2009
- 2.2 Targeted Reviews of Independent Review Committee (IRC) Disclosure
- 2.3 Commodity Based Funds
- 2.4 Closed-end Fund Conversions
- 2.5 Daily Leveraged Exchange Traded Funds
- 2.6 Long-term Warrant Offerings
- 2.7 Income Trust Funds – Change in Investment Objectives and Voting Rights



3. Recent Developments in Staff Practices

3.1 OSC Staff Notice 81-710 – Approvals for Change in Control of a Mutual Fund Manager and Change of a Mutual Fund Manager under National Instrument 81-102 Mutual Funds

3.2 The Investment Funds Practitioner

4. Further Information





Introduction

Introduction

This is the first Investment Funds (IF) Branch annual report. This report provides an overview of the key activities and initiatives of the IF Branch for the 2010 fiscal year (April 1, 2009 to March 31, 2010) including:

- key policy initiatives,
- disclosure and compliance reviews, and
- recent developments in staff practices.

The report also provides some updates on the foregoing where there have been new developments since the end of the fiscal year.

The IF Branch of the Ontario Securities Commission (OSC) is responsible for overseeing over 3159 publicly-offered investment funds. Approximately \$517 billion of assets are held by publicly-offered investment funds based in Ontario. This represents 80% of the approximately \$644 billion in publicly-offered investment fund assets in Canada.

We administer the regulatory framework for investment funds, including:

- reviewing and assessing product disclosure for all types of investment funds, including prospectuses and continuous disclosure filings,
- considering applications for discretionary relief from securities legislation and rules, and
- taking a leadership role in developing new rules and policies to adapt to the changing environment in the investment fund industry.

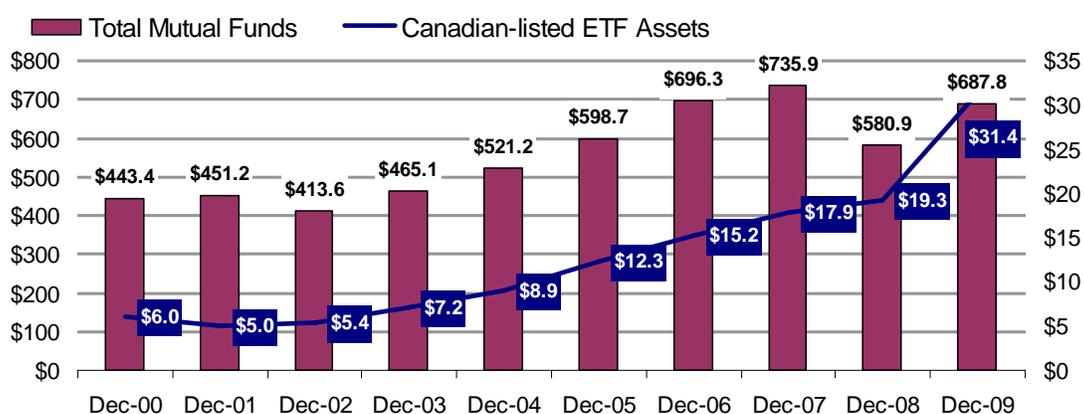
The investment fund products we oversee include conventional mutual funds, closed-end funds and mutual funds (including index based funds) listed and posted for trading on a stock exchange (ETFs), commodity pools, scholarship plans, labour-sponsored or venture capital funds and flow-through limited partnerships.

We generally distinguish between conventional mutual funds and non-conventional investment funds on the basis of how an investor can obtain liquidity for their investment. Conventional mutual funds provide investors with the right to obtain their proportionate share of a fund's net asset value (NAV) on demand. Non-conventional funds, such as closed-end funds and ETFs, generally provide investors with liquidity by listing their securities on a stock exchange or through an alternative redemption feature that may not permit investors to redeem on demand or that is at

a discount to NAV. We discuss the different types of funds further on our website www.osc.gov.on.ca at [Investment Funds - Fund Operations](#).

In the last ten years, offerings of non-conventional mutual funds, particularly ETFs, have proliferated. The number of ETFs has grown from 3 in December 2000 to 109 in December 2009 to 146 at the end of June 2010. ETF assets under management have grown at a much faster rate than conventional mutual funds and increased over 500% from approximately \$6 billion in December 2000 to over \$30 billion in December 2009.

Total Mutual Funds and ETF Assets In billions of dollars



Source: Investor Economics

The dynamic nature of the investment funds industry requires IF staff to constantly adapt and respond to rapid product developments and innovations. In all aspects of investment funds regulation, we strive to be effective and responsive and to achieve and enhance investor protection.

This report provides information about some of the initiatives we are undertaking to promote clear and concise disclosure in order to assist investors to make more informed investment decisions and to address the sufficiency of regulatory coverage across all investment fund products. The report also highlights recent product and market developments and our regulatory response to these developments to assist the investment fund industry in understanding and complying with current regulatory requirements.



1. Key Policy Initiatives

- 1.1 Point of Sale (POS)
- 1.2 Scholarship Plans
- 1.3 Modernization of Investment Fund Product Regulation
- 1.4 NI 31-103 – Registration Requirements and Exemptions
- 1.5 NI 23-102 – Use of Client Brokerage Commissions – Prospectus Form Amendments
- 1.6 International Financial Reporting Standards (IFRS)
- 1.7 Amendments to Part VI of the TSX Company Manual – Fund Mergers

1. Key Policy Initiatives

We continue to play a leading role in several significant policy initiatives with other securities regulators in Canada through the Canadian Securities Administrators (the CSA). We also work with colleagues in other OSC branches on various initiatives that impact the fund industry.

This section reports on the status of significant policy initiatives including:

- the CSA's point of sale project,
- the CSA's scholarship plan project, and
- the CSA's project to modernize investment fund product regulation.

This section also reports on other projects we have worked on with other OSC branches that impact the fund industry including:

- CSA National Instrument 31-103 *Registration Requirements and Exemptions* (NI 31-103),
- CSA National Instrument 23-102 *Use of Client Brokerage Commissions* (NI 23-102),
- CSA Implementation of International Financial Reporting Standards, and
- Amendments to the TSX Company Manual.

1.1 Point of Sale (POS)

The CSA POS project is a continuation of the project begun by securities and insurance regulators to harmonize the disclosure regime of mutual funds and segregated funds, as described in the Framework paper published by the Joint Forum of Financial Market Regulators (the Joint Forum) on October 24, 2008.

The Joint Forum focussed on three principles:

- providing investors with key information about a fund,
- providing the information in a simple, accessible, and comparable format, and
- providing the information before investors make their decision to buy.

This is a significant investor protection initiative. Central to the proposal is the Fund Facts document. It is a short and concise document written in plain language that highlights the potential benefits, risks and costs of investing in a mutual fund. Investors would receive a Fund



Facts at a time that is relevant to their investment decision, generally before they buy a fund for the first time.

On June 19, 2009, the CSA published proposed amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*, its Forms and Companion Policy (collectively, NI 81-101) as a first step in implementing the key concepts and principles set out by the Joint Forum. The comment period expired on October 17, 2009 and we received 54 comment letters.

The comments showed that stakeholders generally agree with the benefits of providing investors with a more meaningful and simplified form of disclosure and support the Fund Facts as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration.

However, the CSA received significant comments related to operational and compliance concerns with point of sale delivery. A large number of commenters also asked the CSA to implement a point of sale disclosure regime for other types of publicly offered investment funds and other securities at the same time.

On June 16, 2010, the CSA published Staff Notice 81-319 *Status Report on the Implementation of Point of Sale Disclosure for Mutual Funds*. The report states that the CSA remains committed to the implementation of point of sale disclosure for mutual funds. However, the CSA has decided to proceed with a staged implementation of the project. This will facilitate making the Fund Facts available to investors as soon as possible. It will also allow the CSA to further consider and consult with stakeholders on the issues related to point of sale delivery for mutual funds and the applicability of a point of sale delivery requirement for comparable investment fund products. We expect consultations to begin in 2011.

The CSA published final amendments to NI 81-101 on October 6, 2010 which completes the first stage of the implementation. This requires a mutual fund to prepare and file a Fund Facts document and have it posted to the mutual fund's or its manager's website. These rule amendments come into force January 1, 2011 with an effective date of April 8, 2011.

1.2 Scholarship Plans

We have been working with the CSA to develop proposals to update the rules that govern the formation and operation of scholarship plans, which are a type of investment fund product used by Canadians to save for their children's education.



On March 26, 2010, the CSA published proposed amendments to National Instrument 41-101 *General Prospectus Requirements* (NI 41-101) and proposed new Form 41-101F3 Information Required in a Scholarship Plan Prospectus that includes a new plan summary document. The proposals set out the first phase of the CSA's initiative to modernize the securities regulation of scholarship plans, which involves providing investors with a new prospectus form specifically tailored for scholarship plans.

This is an important investor-focused initiative. The number of investors in scholarship plans, particularly investors with low to modest incomes, has grown substantially since 1998 when the Government of Canada actively began encouraging saving for post-secondary education through the Canada Education Savings Grant (CESG).

We know that many investors have trouble understanding the unique features and complexity of scholarship plans. Central to the new prospectus form is the Plan Summary document. It is in plain language, will generally be no more than three pages, and highlights the potential benefits, risks and costs of investing in a scholarship plan.

The comment period for the proposed amendments to NI 41-101 expired on June 22, 2010 and 13 comment letters were received. The CSA is currently reviewing and considering all of the comments received.

The second phase of the CSA's initiative is to reformulate National Policy 15 *Conditions Precedent to Acceptance of Scholarship or Educational Plan Prospectuses* (NP 15) by replacing it with a new operational rule for scholarship plans. While certain aspects of scholarship plan regulation have been updated (for example, specific disclosure requirements for scholarship plans in their management reports of fund performance), a comprehensive review of NP 15 has not been conducted since the policy was put into place. We are considering issues such as investment restrictions, fees, the calculation and disclosure of performance data, sales communications, and actuarial certification for scholarship plans.

1.3 Modernization of Investment Fund Product Regulation

On June 25, 2010, the CSA published proposed amendments to National Instrument 81-102 *Mutual Funds* (NI 81-102) and National Instrument 81-106 *Investment Fund Continuous Disclosure* (NI 81-106). These amendments focussed on Phase 1 of our proposals to modernize investment fund product regulation.



Phase 1 codifies frequently granted exemptive relief to mutual funds under NI 81-102 and NI 81-106. This includes various technical relief granted to ETFs to facilitate their trading on a stock exchange, relief to engage in short-selling, and relief to allow the commingling of cash received for purchases and redemptions of mutual fund securities with cash received for purchases and sales of other securities sold by a dealer. The codified exemptions are subject to conditions that are designed to address any potential investor protection concerns based on our experience granting the relief on a discretionary basis.

Phase 1 also proposes to introduce additional liquidity and term restrictions on investments by money market funds in short-term debt, including asset backed commercial paper (ABCP). It would also increase the transparency of such portfolio holdings for all investment funds. These proposed new requirements take into account feedback received on [CSA Consultation Paper 11-405](#) *Securities Regulatory Proposals Stemming from the 2007-2008 Credit Market Turmoil and its Effect on the ABCP Market in Canada* and the results of our targeted reviews of money market fund managers discussed below in section 2.1.

The comment period on the Phase 1 amendments expired on September 24, 2010 and 19 [comment letters](#) were received. The CSA continues to review and consider all of the comments received.

Phase 2 of the initiative, now underway, will assess whether there are any market efficiency, fairness, or investor protection issues that arise out of the differing regulatory regimes that apply to different types of investment funds and other competing retail investment products. Phase 2 will consider what initiatives may be necessary in order to achieve more consistent, fair, and functional regulation across the investment fund product spectrum.

1.4 NI 31-103 – Registration Requirements and Exemptions

[National Instrument 31-103](#) *Registration Requirements and Exemptions* (NI 31-103) came into force on September 28, 2009. The OSC's Compliance and Registrant Regulation (CRR) Branch led this significant CSA project, with IF staff providing support on issues that impacted the investment fund industry. Most notably, NI 31-103 created a new category of registration for investment fund managers that direct the business, operations, and affairs of investment funds. Registered investment fund managers are subject to new, on-going requirements on their business operations and client relationships, including capital and insurance requirements. NI 31-103 also contains the conflict of interest prohibitions that previously existed under s. 118 of the *Securities Act* (Ontario).



As part of this CSA registration reform initiative, we drafted consequential amendments to the schedules in National Instrument 81-107 *Independent Review Committee for Investment Funds* (NI 81-107). The purpose of these amendments was to preserve the exemptions from the conflict of interest prohibitions codified under NI 81-107. We continue to work with our colleagues in the CRR Branch on various implementation issues related to NI 31-103, such as the interpretation of the investment fund manager registration requirement for non-residents.

1.5 NI 23-102 – Use of Client Brokerage Commissions – Prospectus Form Amendments

National Instrument 23-102 Use of Client Brokerage Commissions (NI 23-102) came into force on June 30, 2010. The OSC's Market Regulation Branch led this initiative. Our contribution included proposed consequential amendments to the investment fund prospectus disclosure forms, Form 81-101F2 and Form 41-101F2 (the Form Amendments), to coincide with the coming into force of NI 23-102.

The Form Amendments harmonize the disclosure requirements related to the use of client brokerage commissions with NI 23-102 by requiring disclosure of the nature and details of any arrangements the fund's adviser has entered into relating to the use of client brokerage commissions. While the Form Amendments replaced similar existing disclosure requirements for conventional mutual funds in Form 81-101F2, the disclosure requirement is new for all other types of investment funds that use Form 41-101F2.

1.6 International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) has adopted a strategic plan to move financial reporting for Canadian publicly accountable enterprises, including investment funds, to International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The OSC supports Canada's move to IFRS, a globally accepted, high quality set of accounting principles.

We have been working with the OSC's IFRS Working Group and the Office of the Chief Accountant to address what regulatory changes may be necessary to accommodate the transition to IFRS for investment funds. On October 16, 2009, the CSA published proposed amendments to NI 81-106 and related consequential amendments. The amendments include changes to accounting terms and transitional changes in order to assist filers with their conversion to IFRS. The comment period expired on January 14, 2010 and 11 comment letters were received.



The majority of the comments related to the IFRS requirement that investment funds consolidate their portfolio holdings for financial reporting purposes. This remains a significant issue for the investment fund industry as it transitions to IFRS, and it is currently a focus of the IASB. The CSA is waiting for the deliberations currently underway by the IASB on this issue to be completed before proceeding with the proposed amendments to NI 81-106.

In the interim, the AcSB issued a decision summary dated June 16, 2010 advising that it was proposing a change to the CICA Handbook so that IFRS will apply to investment companies only for financial years beginning on or after January 1, 2012 (as opposed to January 1, 2011 which is the adoption date for other publicly accountable enterprises), although early adoption would be permitted. On October 1, 2010, the AcSB published amendments to the Introduction to Part I of the CICA Handbook to reflect the foregoing. On October 8, 2010, the CSA published CSA Staff Notice 81-320 Update on IFRS for Investment Funds. The notice confirms that the CSA is now working towards the goal of having the necessary IFRS related amendments for investment funds in force by January 12, 2012.

1.7 Amendments to Part VI of the TSX Company Manual – Fund Mergers

We worked with staff in the Market Regulation Branch in reviewing amendments to Part VI of the Toronto Stock Exchange (the TSX) Company Manual. We recommended that the Commission approve the amendments, which came into force on August 16, 2010. The amendments codify a new securityholder voting requirement for investment funds that are listed issuers and that are the target of an acquisition. The amendments also codify two new exemptions from securityholder voting requirements in connection with acquisitions. The exemptions are based on TSX staff practice and are subject to several conditions including IRC approval.





2. Disclosure and Compliance Reviews

- 2.1 Focused Reviews of Investment Funds, September 2008 – September 2009
- 2.2 Targeted Reviews of Independent Review Committee (IRC) Disclosure
- 2.3 Commodity Based Funds
- 2.4 Closed-end Fund Conversions
- 2.5 Daily Leveraged Exchange Traded Funds
- 2.6 Long-term Warrant Offerings
- 2.7 Income Trust Funds – Change in Investment Objectives and Voting Rights

2. Disclosure and Compliance Reviews

On an ongoing basis, staff in the IF Branch review the prospectus and continuous disclosure filings of Ontario-based investment funds. Risk-based criteria are used to select investment funds for reviews of their disclosure documents. We may also choose to conduct targeted reviews of a particular industry segment or on a particular topic. In addition to our prospectus and continuous disclosure reviews, the IF Branch works closely with staff in the CRR Branch on issues related to fund manager compliance and identifying possible emerging issues. This can sometimes lead to us conducting joint reviews.

This section discusses:

- the findings of the focused reviews that staff in the IF Branch conducted with the CRR Branch in response to the market events of 2008-2009,
- our reviews of disclosure related to NI 81-107, and
- some observations and themes from our on-going prospectus disclosure reviews of certain types of investment funds.

2.1 Focused Reviews of Investment Funds, September 2008 – September 2009

In response to concerns emerging from the market turmoil experienced by the global financial services industry, we worked with our colleagues in the CRR Branch to conduct extensive reviews of major segments of the Canadian investment fund industry. The reviews focused on Ontario-based money market funds, non-conventional investment funds, and hedge funds. The primary purpose of the reviews was to assess fund managers' compliance with Ontario securities laws.

On January 19, 2010, in conjunction with the CRR Branch, we published [OSC Staff Notice 33-733 Report on Focused Reviews of Investment Funds, September 2008 – September 2009](#). The report summarizes the findings from the responses to the questionnaires sent to each category of investment fund and from the on-site visits. It also includes suggested practices. The questionnaires and on-site visits were used to gather information about the funds' portfolio holdings, exposure to illiquid assets, valuation methodologies, and the approaches used to manage the risk of large redemptions during the market downturn.

The report concludes that, despite the overall market downturn and its impact on the returns of many of these products during our review period, we did not observe any industry-wide



compliance issues. During our on-site visits, however, we noted some instances of non-compliance which we addressed separately with each individual fund manager.

2.2 Targeted Reviews of Independent Review Committee (IRC) Disclosure

NI 81-107, which became fully operational in November, 2007 following a one year transition period, introduced the requirement for every investment fund that is a reporting issuer to have a fully independent body, the Independent Review Committee (the IRC). The IRC's role is to oversee all decisions involving an actual or perceived conflict of interest faced by the fund manager in the operation of the fund.

In developing the instrument, the CSA recognized potential benefits or efficiencies may be derived by permitting investment funds to make limited investments in securities of related issuers or trade portfolio securities with related investment funds. Accordingly, NI 81-107 allows fund managers to engage in a limited number of related-party and self-dealing transactions that are otherwise prohibited or restricted by securities legislation. The IRC, however, must approve these transactions and the instrument also imposes objective pricing and transparency requirements on these transactions.

After NI 81-107 came into effect, the CSA continued to receive a number of applications for discretionary relief to permit related-party and self-dealing transactions beyond the exemptions codified under the rule. Each of these applications represented a subtle policy shift from the CSA's position when NI 81-107 came into force. Before proceeding any further with novel applications on a case-by-case basis, we concluded it was important to evaluate how the IRC approval mechanism is working and report back to our Commission.

Consequently, IF staff conducted a series of informal meetings with IRCs and carried out a targeted review of the continuous disclosure filings related to IRCs and NI 81-107 generally. The purpose of the meetings was to obtain informal feedback from IRC members on their experience working with the rule. The purpose of the reviews was to assess industry compliance and identify areas of the rule that may require greater clarification or oversight.

We reviewed a sample of approximately 141 investment funds from 41 fund managers, including conventional mutual funds, ETFs, scholarship plans, labour-sponsored or venture capital funds and flow-through limited partnerships. The managers varied in size from \$46 million to \$95 billion in assets under management.

We anticipate publishing an OSC Staff Notice which summarizes our observations and provides guidance by December, 2010.

2.3 Commodity Based Funds

We saw an increased number of new offerings for investment funds that invest all or primarily all of their assets in physical commodities such as gold, silver, platinum, or copper. This trend emerged in both conventional mutual funds and ETFs and was consistent with a global trend of new commodities-based financial products designed to enable retail investors to tap into the recent commodities boom. Our prospectus reviews of these products focused on ensuring there was proper disclosure to investors. In particular, we raised comments designed to improve disclosure regarding:

- risks associated with investing in a single commodity,
- the potential for increased transaction and custodian costs, and
- the experience of the custodian.

2.4 Closed-end Fund Conversions

IF staff also noted an increase in the number of closed-end investment funds that trade on an exchange with investment objectives to automatically convert to open-end mutual funds. Typically, the conversion occurs in one of two ways: automatically at a specified date (for example, two years from the fund's inception); or if the fund trades at a certain discount (often 2%) to NAV for a period of time after a specified date.

In our prospectus reviews of these products and the conversion feature generally, we have focused on whether the funds continue to have the same or substantially similar investment objectives and strategies before and after the conversion. We have generally taken the view that these products should be compliant with the regulatory requirements applicable to conventional mutual funds from inception if they intend to convert to a mutual fund within a relatively short timeframe. Our reviews of these products also focused on improving key disclosure to investors. The key areas of disclosure are:

- the potential that these products will trade at a discount to NAV up to the time of conversion,
- fees for investors both before and after the fund converts to a mutual fund,
- identification of the objective or value to investors of investing in a closed-end fund that will convert in the short-term to a mutual fund,

- the risks associated with the conversions, including that the closed-end fund may have to amend its investment objective or strategies upon conversion to a mutual fund, and
- performance disclosure for periods before and after conversion.

Our prospectus reviews have helped inform Phase 2 of the CSA's project to modernize investment fund product regulation, by identifying some of the issues that arise from having different regulatory regimes for different types of investment fund products.

We anticipate publishing an OSC Staff Notice shortly which sets out our views on the regulatory issues we have identified related to closed-end investment fund conversions and the types of comments IF staff will generally raise as part of our review.

2.5 Daily Leveraged Exchange Traded Funds

We continued to see a number of new ETF offerings – daily leveraged ETFs in particular. Daily leveraged ETFs are exchange-traded investment funds that provide daily investment results that correspond to a multiple of an underlying index. For instance, a leveraged ETF's investment objective may be to provide a return that is equal to two times the daily return of the S&P/TSX 60 index or two times the inverse of the daily return of the S&P/TSX 60 index.

A key issue with daily leveraged ETFs is that some investors do not understand that over periods longer than a day, the return of the fund may differ significantly from its underlying index. This effect becomes more pronounced as the amount of leverage, the time period the daily leveraged ETF is held, and the volatility of the underlying index, increase.

We met with manufacturers of daily leveraged ETFs to express the concern that investors may not be adequately informed regarding the unique risks associated with daily leveraged ETFs. In the course of the prospectus renewals for a number of these products, we also requested that a plainly worded, brief warning in bold type be added to the cover page of the prospectus, advising of the risks of investing in daily leveraged ETFs for periods longer than a day.

2.6 Long-term Warrant Offerings

We have noted an increased number of long-term warrant offerings. Investment funds typically provide existing investors with a stand-alone right or warrant at no charge under these offerings, but the investor must pay a price to exercise the warrant to obtain another unit of the investment fund. IF staff discussed these types of offerings previously in the [September 2008](#) publication of the Investment Funds Practitioner.

A distinguishing feature of these offerings is that the exercise period of the warrants can range from 6 months to up to a year or longer. A further distinguishing feature is that the exercise price of the warrant is often higher than the current price at which an investor could obtain a unit of the fund on a stock exchange. Normally, the exercise price in a conventional short-term rights offering is at a discount to the current market price to encourage existing investors to subscribe.

The extended exercise period and pricing terms in long-term warrant offerings increase the possibility that the warrant could be traded to another investor that is not an existing unitholder. Consequently, our prospectus reviews of these offerings have focussed on what disclosure and rights will be provided to investors that exercise warrants under these offerings. We have generally sought confirmation that:

- the prospectus for the offering qualifies the underlying securities that the warrants can be exercised into in addition to the warrants themselves, as required by s 4.2(a) of NI 45-101 – *Rights Offerings*, and
- the filer intends to deliver the prospectus upon exercise of the warrant where it has been traded to another investor and the exercise period is more than 6 months.

2.7 Income Trust Funds – Change in Investment Objectives and Voting Rights

The federal government has announced changes to the taxation of distributions of publicly-traded income trusts which take effect in 2011. Consequently, many income trusts are converting back to corporations or pursuing other strategic alternatives. This change impacted mutual funds that invest in income trust securities as the number of income trusts in which they could invest continued to shrink.

A number of conventional mutual funds with the objective to invest primarily in income trust securities were created when income trusts were popular. We saw a number of these mutual funds address the decline in available income trusts by changing their investment objectives to broaden their ability to invest in other types of securities. IF staff reviewed prospectus amendments and renewals filed by these funds to confirm that the disclosure indicated that investors would be provided with the right to vote on the proposed change in investment objective as required under NI 81-102.



3. Recent Developments in Staff Practices

- 3.1 **OSC Staff Notice 81-710 – Approvals for Change in Control of a Mutual Fund Manager and Change of a Mutual Fund Manager under National Instrument 81-102 Mutual Funds**
- 3.2 **The Investment Funds Practitioner**

3. Recent Developments in Staff Practices

We continue our efforts to be transparent regarding the IF Branch's practices and procedures in as timely a manner as possible. Our intent in doing so is to better enable fund managers and their advisors to avoid potential regulatory issues when they are at the planning stage for a new fund or transaction. Our primary transparency tools are staff notices and the Investment Funds Practitioner newsletter.

3.1 OSC Staff Notice 81-710 – Approvals for Change in Control of a Mutual Fund Manager and Change of a Mutual Fund Manager under National Instrument 81-102 Mutual Funds

In our review of applications for regulatory approval of a change in control of the manager of a mutual fund, we saw an increasing number of applications that appeared to have been structured to effect a change of manager of the mutual fund without seeking the requisite securityholder approval.

For example, we saw that some fund managers were taking the view that a change of control of manager followed by an amalgamation either immediately after, or within a foreseeable period of time following, the change in control did not trigger the voting rights provided under NI 81-102 for a change of fund manager.

To inform issuers and their counsel of our concerns and the types of questions we may ask in reviewing such applications, we published on May 14, 2010, *OSC Staff Notice 81-710 Approvals for Change in Control of a Mutual Fund Manager and Change of a Mutual Fund Manager under National Instrument 81-102 Mutual Funds*.

3.2 The Investment Funds Practitioner

The Practitioner is an overview of recent issues arising from applications for discretionary relief, prospectuses, and continuous disclosure documents that investment funds file with the OSC and that are reviewed by IF staff. It is intended to assist investment fund managers and their advisors who regularly prepare public disclosure documents and applications for exemptive relief on behalf of investment funds.

The Practitioner is also intended to make fund managers more broadly aware of some of the issues we have raised in connection with our reviews and how we have resolved them. The Practitioner can be found on our website www.osc.gov.on.ca at Information for Investment Funds.

In January, we published the fourth edition of the Investment Funds Practitioner. Topics included:

- NI 81-107 and the Conflicts Provisions
- Mergers and Reorganizations
- Timing for Obtaining a Prospectus Receipt
- Two-tiered Structured Products
- Yield Disclosure in Prospectuses
- Prospectus Lapse Dates
- Auditor Consents

We intend to publish the fifth edition of the Investment Funds Practitioner this fiscal year. We welcome suggestions for future topics. Possible topics may include:

- Secondary Managed Account Prospectus Relief
- Custodians and Prime Brokers for Funds using NI 41-101
- Inter-fund Trades of Illiquid Securities
- Deeming to Have Ceased to be a Reporting Issuer Applications and Filing the Last Set of Financial Statements
- ETFs/Index Participation Units and Investment Objectives - Naming the Index



4. Further Information

4. Further Information

If you have any questions regarding, or feedback on, our first IF Branch Report, please send them to investmentfunds@osc.gov.on.ca.

You may find additional information regarding investment funds and the IF Branch on our [website](#).

We have also attached a list of IF Branch staff at the end of this report.



INVESTMENT FUNDS BRANCH

NAME	EMAIL
Goldberg, Rhonda – Deputy Director	rgoldberg@osc.gov.on.ca
McKall, Darren – Assistant Manager	dmckall@osc.gov.on.ca
Nunes, Vera – Assistant Manager	vnunes@osc.gov.on.ca
Asadi, Mostafa – Legal Counsel	masadi@osc.gov.on.ca
Bahuguna, Shaill – Database Clerk	sbahuguna@osc.gov.on.ca
Barker, Stacey – Senior Accountant	sbarker@osc.gov.on.ca
Bent, Christopher – Legal Counsel	cbent@osc.gov.on.ca
Buenafior, Eric – Financial Examiner	ebuenafior@osc.gov.on.ca
Chan, Raymond – Senior Accountant	rchan@osc.gov.on.ca
De Leon, Joan – Review Officer	jdeleon@osc.gov.on.ca
Follegot, Daniela – Legal Counsel	dfollegot@osc.gov.on.ca
Fuller, Patricia - Administrative Assistant	pfuller@osc.gov.on.ca
Gerra, Frederick – Legal Counsel	fgerra@osc.gov.on.ca
Huang, Pei-Ching – Senior Legal Counsel	phuang@osc.gov.on.ca
Joshi, Meenu – Accountant	mjoshi@osc.gov.on.ca
Kearsey, Ian – Legal Counsel	ikearsey@osc.gov.on.ca
Kwan,Carina – Legal Counsel	ckwan@osc.gov.on.ca
Lee, Irene – Legal Counsel	ilee@osc.gov.on.ca
Leonardo, Tracey – Administrative Assistant	tleonardo@osc.gov.on.ca
Mainville, Chantal – Senior Legal Counsel	cmainville@osc.gov.on.ca
Nandacumar, Parbatee – Administrative Assistant	pnandacumar@osc.gov.on.ca
Nania, Viraf – Senior Accountant	vnania@osc.gov.on.ca
Oseni, Sarah – Senior Legal Counsel	soseni@osc.gov.on.ca
Paglia, Stephen – Legal Counsel	spaglia@osc.gov.on.ca
Persaud, Violet – Review Officer	vpersaud@osc.gov.on.ca
Russo, Nicole – Review Officer	nrusso@osc.gov.on.ca
Schofield, Melissa – Senior Legal Counsel	mschofield@osc.gov.on.ca
Thomas, Susan – Legal Counsel	stthomas@osc.gov.on.ca

Welsh, Doug – Senior Legal Counsel	dwelsh@osc.gov.on.ca
Yu, Sovener – Accountant	syu@osc.gov.on.ca





ONTARIO
SECURITIES
COMMISSION

OSC Staff Notice 81-712



As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial Securities Act, the provincial Commodity Futures Act and administers certain provisions of the provincial Business Corporations Act. The OSC is a self-funded Crown corporation accountable to the Ontario Legislature through the Minister of Finance.