

## **Annex B**

### **Specific Questions of the CSA relating to the Alternative Funds Framework in NI 81-104**

#### **Definition of “Alternative Fund”**

1. Does the use of the term “alternative fund” appropriately describe the types of investment funds that should be captured by NI 81-104? If not, please propose other terms that better describe the types of investment funds that use investment strategies that should be permitted under a revised version of NI 81-104.

#### **Investment Restrictions**

##### ***Concentration Restriction***

2. We seek feedback on the types of investment strategies an alternative fund may engage in that would require a fund’s investment in an issuer to exceed the current 10% concentration restriction in proposed amended NI 81-102. If you think that the concentration restriction under NI 81-104 should be higher than the current 10% issuer concentration limit in NI 81-102, please provide feedback on what an appropriate concentration restriction would be for alternative funds. See also question 2 in Annex A.

3. Given that we anticipate alternative funds having more leveraged exposure than is permissible under NI 81-102, should we consider other measurements for an alternative fund’s concentration? Should issuer concentration for alternative funds be based on the total notional exposure of the fund? We seek feedback on this and other measurements that would better describe the level of concentration in an alternative fund portfolio.

##### ***Borrowing***

4. Should alternative funds that are structured as mutual funds and alternative funds that are structured as non-redeemable investment funds have different borrowing restrictions in NI 81-104? Would a mutual fund’s need to fund regular redemptions mean that the amount of leverage through cash borrowings could increase rapidly and cause difficulties in maintaining the 3:1 total leverage limit we are considering?

##### ***Short Selling***

5. Should NI 81-104 include exemptions from subsections 2.6.1(2) and (3) of NI 81-102 to permit the creation of leverage through short selling and increase flexibility for alternative funds to engage in long/short strategies?

### ***Leveraged Daily Tracking Alternative Funds***

6. Are there specific issues relating to the marketing of Leveraged Daily Tracking Alternative Funds that the CSA should consider? Are there specific issues relating to the proficiency of individual dealing representatives who sell Leveraged Daily Tracking Alternative Fund securities and dealer supervision of trades in Leveraged Daily Tracking Alternative Fund securities that the CSA should consider?

### ***Counterparty Credit Exposure***

7. We seek feedback on the impact to existing commodity pools that are relying on the Counterparty Exposure Exemption if this exemption in NI 81-104 were to be repealed.

Would repealing the Counterparty Exposure Exemption sufficiently mitigate the risk of exposure to a single counterparty, particularly in connection with illiquid OTC derivatives? Are there other ways we should consider to mitigate counterparty risk; for example, by requiring the posting of collateral by the counterparty? If so, what requirements should apply to the use of collateral? If an alternative fund receives collateral from a counterparty to a specified derivatives transaction, should the collateral be considered in determining the alternative fund's exposure to the counterparty?

### ***Total Leverage Limit***

8. Do you agree with a total leverage limit for alternative funds of 3:1 based on the leverage calculation method currently specified in Item 6.1 of Form 41-101F2? If not, what should the total leverage limit of an alternative fund be, and why? Should the total leverage limit be lower for mutual funds that are alternative funds because of the need to fund regular redemptions?

9. What other leverage measurement methods could be used to inform investors of the amount of leverage used by alternative funds, other than the method currently specified in Item 6.1 of Form 41-101F2? Please also explain why the alternative leverage measurements you propose provide investors with a better understanding of the amount of leverage used by alternative funds.

### ***Other Investment Restrictions for Alternative Funds***

10. Are there other specific investment strategies that NI 81-104 should permit or restrict?

### ***On-going Investment by Sponsors***

11. Should the sponsors of an alternative fund be permitted to withdraw their seed capital investment in the alternative fund if the fund reaches a sufficient size? Or should the sponsors be required to maintain an investment in the alternative fund? We invite

feedback on why sponsors should be required to maintain an on-going investment in an alternative fund and the amount of on-going investment that would be appropriate.

### **Proficiency**

12. Should additional proficiency requirements for all individual dealing representatives who sell securities of alternative funds be introduced? If yes, please provide specific examples of the courses or experience that should apply. If no, please explain.

### **Enhanced Disclosure and Transparency**

#### ***Naming Convention***

13. Would requiring an alternative fund to include the words “Alternative Fund” in its name achieve the purpose of distinguishing alternative funds from other investment funds for investors and the market? If not, please propose other ways to facilitate the ready identification of alternative funds.

In addition, would requiring investment funds governed only by NI 81-102 to include specific words (e.g., “Conventional Fund”) in their name further this purpose? If not, why not? Would the diversity of investment funds that are governed only by NI 81-102 and their different risk levels impede the creation of a uniform descriptor for such funds?

#### ***Monthly Website Disclosure***

14. We seek feedback on whether there are any impediments for an alternative fund to disclose on its or its manager’s website on a monthly basis (with appropriate time lag for the manager to prepare the information) the fund’s largest monthly NAV drawdown for the past five years and the maximum and average daily leverage employed during the most recent 12 month period. We further invite feedback on whether this information will be useful to investors or the market generally.

Is there other information that could be provided regularly on the website of the alternative fund or its manager that would be meaningful for investors or for the market?

### **Transition**

15. How should the disclosure of an existing investment fund’s intent to transition into the alternative fund regime in NI 81-104 be made? For example, should investors be provided with written notice or would a press release be sufficient? In addition to disclosing their intent to transition into the alternative fund regime, what other measures should be required for existing investment funds to transition into the alternative fund regime?

### **Costs and Benefits of Implementing Alternative Funds Framework**

16. Please see question 12 in Annex A.