ANNEX A

EXCERPTS FROM THE

SUMMARY OF COMMENTS AND RESPONSES ON THE

CSA NOTICE AND REQUEST FOR COMMENT

MODERNIZATION OF INVESTMENT FUND PRODUCT REGULATION – ALTERNATIVE FUNDS

RE: PART 4 OF NI 81-104 *ALTERNATIVE MUTUAL FUNDS*

On October 4, 2018, the CSA published final amendments to National Instrument 81-102 *Investment Funds* (**NI 81-102**) that introduced a new category of mutual funds known as "alternative mutual funds". The following is a reproduction of the excerpts from the summary of comments and responses relating to "Part 4 - Proficiency and Supervisory Requirements" of National Instrument 81-104 *Alternative Mutual Funds*.

Table of Contents	
Part	**Title**
Part I	**Background**
Part II	**Part 4 – Proficiency and Supervisory Requirements**
Part III	**List of Commenters**
Part I - Background	
On September 22, 2016, the Canadian Securities Administrators (**CSA**) published for comment proposals to repeal National Instrument 81-104 *Commodity Pools*, (**NI 81-104**) and to amend NI 81-102, National Instrument 41-101 *General Prospectus Requirements*, National Instrument 81-101 *Mutual Fund Prospectus Disclosure*, National Instrument 81-106 *Investment Fund Continuous Disclosure*, and National Instrument 81-107 *Independent Review Committee for Investment Funds* (the **Proposed Amendments**). The Proposed Amendments represent the final phase of the CSA's ongoing policy work to modernize investment fund product regulation and are aimed at developing a more comprehensive regulatory framework for mutual funds that seek to make use of more "alternative" investment strategies (**alternative mutual funds**). We received submissions from 41 commenters in respect of the Proposed Amendments. The name of each commenter is listed in Part III of this Summary of Comments. We wish to thank all of those who took the time to comment.	

Part II – Part 4 – Proficiency and Supervisory Requirements	
Comments	**Responses**
There was support for our proposal to repeal the proficiency requirements for mutual fund dealers dealing in commodity pools from Part 4 of NI 81-104, and to engage with the Mutual Fund Dealers Association (**MFDA**) regarding reviewing how existing proficiency requirements may need to be reconsidered in respect alternative funds.	We have reconsidered our initial proposal on mutual fund dealer proficiency for alternative mutual funds and decided to retain those provisions within NI 81-104. We recognize that any consideration of revisions to these proficiency standards should be conducted as part of a larger review of overall dealer proficiency requirements which would be beyond the scope of this Project.
A number of these commenters added that they do not believe that the Proposed Amendments for alternative funds represent a significant departure from conventional mutual funds in terms of complexity, in that many of the same strategies can be employed by both types of products -- the difference relates primarily to the extent these strategies can be used. They recommend we take a principles based approach to any additional proficiency requirements, consistent with general registrant proficiency requirements in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**).	Please see our response above.
A different commenter suggested the proficiency for selling alternative funds should be the same as for selling hedge funds as they are equally complex.	Please see our response above.
One commenter expressed concern that any proposed changes in proficiency requirements not create increased confusion or burden for investors, noting that in some cases, an investor may have to deal with multiple dealers in the same firm with respect to different investment funds in their account with that firm.	Please see our response above.

Part II – Part 4 – Proficiency and Supervisory Requirements	
Comments	**Responses**
Others agreed that proficiency is best dealt with through the MFDA. These commenters added that the current proficiency requirements under NI 81-104 have been a significant impediment to distribution by mutual fund dealers and that establishing unnecessarily strict proficiency requirements again would result in the same issue.	Please see our response above.
One commenter recommended specific proficiency requirements for trading in alternative funds. It added that if the CSA decides to raise the base level for mutual fund dealers then it should recommend a refresher course for all existing dealers as well to level the playing field. This commenter suggests that any additional proficiency courses and content be validated in collaboration with the MFDA, the CSA and any applicable proficiency course providers to ensure consistency and has offered to participate in that process.	Please see our response above. We welcome any input in this area.
Two commenters expressed concern that similar issues that have arisen in the past with the mis-selling of certain products by dealers due to inadequate training can occur again with alternative funds. They believe specific training is required for dealing representatives with evidence of successful completion of the training being retained in personnel records. These commenters added that deficiencies in the "know your client" process could be harmful for investors investing in alternative funds. They also believe that the current suitability standard is inadequate and that a fiduciary or "best interest" standard should be applied to dealers. They added that they do not expect these	The concerns are noted. Please see our response above regarding the mutual fund dealer proficiency standards for alternative mutual funds. As the commenter notes, the CSA is currently working on initiatives that are intended to address some of these concerns and issues.

Part II – Part 4 – Proficiency and Supervisory Requirements	
Comments	**Responses**
products to be sold on a "DSC" basis. They also took note of the concurrent work the CSA is engaged in regarding the relationship between dealers and clients, notably under *CSA Consultation Paper 33-404* which may address some of these concerns.	

Part III – List of Commenters
AGF Investments Inc. Alternative Investment Management Association (AIMA) Arrow Capital Management Inc. AUM Law Professional Corporation Aviva Investors Canada Inc. BlackRock Asset Management Canada Limited BMO Capital Markets and BMO Global Asset Management 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 Imperial Bank of Commerce Canadian Securities Institute, The (CSI) East Coast Fund Management Inc. First Asset Investment Management Inc. Jeffrey L. Glass and Darrin R. Renton Hedge Fund Standards Board Invesco Canada Ltd. The Investment Funds Institute of Canada (IFIC) Investors Group Inc. Irwin, White & Jennings (on behalf of Growthworks Capital Ltd.) Kenmar Associates Lawrence Park Asset Management Ltd. Lightwater Partners Ltd. Lysander Funds Limited Mackenzie Financial Corporations Manulife Asset Management Limited McCarthy Tétrault LLP McMillan LLP Morgan Meighen & Associates Limited Picton Mahoney Asset Managements Portfolio Management Association of Canada (PMAC)

RBC Capital Markets RBC Global Asset Management Inc. RP Investment Advisors Stikeman Elliott LLP (Financial Products and Services Group) Sun Life Global Investments (Canada) Inc. TD Securities Inc. Tim McElvaine Vision Capital Corporation Wildeboer Dellece LLP