

# Appendix A to Standard No. 410

## LABOUR SPONSORED OR VENTURE CAPITAL FUND VALUATION REPORTS

### Report Disclosure Standards and Recommendations

#### Introduction

1. The Canadian Securities Administrators (“CSA”) have developed a nationally harmonized set of continuous disclosure requirements for investment funds. These requirements are set out in National Instrument 81-106 *Investment Fund Continuous Disclosure* (the “Rule”), Form 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance* (the “Form”) and *Companion Policy 81-106CP Investment Fund Continuous Disclosure* (the “CP”).
2. In order to satisfy the independent valuation requirements of the Rule, Chartered Business Valuators may be retained by a Labour Sponsored or Venture Capital Fund (the “Fund”) to perform an independent review to assess whether or not the value of the venture investments or the net asset value of the Fund, as determined by the manager of the Fund or another party, is reasonable. In these circumstances, reports arising from such engagements are termed “Labour Sponsored or Venture Capital Fund Valuation Reports” (which, for ease of exposition, will hereafter be referred to as “Fund Reports”).
3. A Labour Sponsored or Venture Capital Fund means an investment fund that is:
  - a) a labour sponsored investment fund corporation or a labour sponsored venture capital corporation under provincial legislation;
  - b) a registered or proscribed labour sponsored venture capital corporation as defined in the Income Tax Act;
  - c) an employee venture capital corporation (“EVCC”) that does not have a restricted constitution, and is registered under Part 2 of the *Employee Investment Act* (British Columbia), R.S.B.C. 1996 c. 112, and whose business objective is making multiple investments; or
  - d) a venture capital corporation (“VCC”) registered under Part 1 of the *Small Business Venture Capital Act* (British Columbia), R.S.B.C. 1995 c. 429 whose business objective is making multiple investments
4. A Fund Report is defined as “any written communication prepared by a Valuator containing a conclusion as to the reasonableness of the value of the venture investments or the net asset value of a Labour Sponsored or Venture Capital Fund as determined by a manager of the Fund or another party.” A Fund Report does not include work product that

- is in the process of being completed that is provided to a client or knowledgeable third party in circumstances where each of the following conditions are met: (i) the work product is clearly marked as being in draft form and subject to change; (ii) the work product is issued for the purpose of obtaining comment, instruction, confirmation or other information required to complete the Fund Report; (iii) the Valuator knows, or reasonably ought to know, that the intended reader(s) does not intend to rely on the work product or distribute the work product to a third party who may in turn rely on such work product; and (iv) the Valuator has a reasonable expectation at the time the work product is provided that a Fund Report will be completed and issued in due course.
5. Within this Appendix, the person(s) responsible for the initial valuation of the venture investments or net assets is referred to as the “Valuator”, and the person(s) responsible for reviewing and assessing the reasonableness of the initial valuation is referred to as the “Reviewer”.
  6. At a minimum, a Fund Report shall contain the following information, which is set out herein in bold characters. “Recommendations” are not mandatory, but encouraged. “Explanatory comments” provide additional guidance in applying the specific provisions of the Standard.
  7. **Report Introduction**
    - 7.1 **The Fund Report shall have an introduction that includes the following information:**
      - a) **To whom the Fund Report is being provided;**
      - b) **A statement of the nature of the mandate, including the identification of the Valuator and the fact that the Fund Report was prepared to satisfy the requirements of National Instrument 81-106;**
      - c) **A description of the interests being valued;** (*Explanatory comment:* Pursuant to the Rule, the Fund can determine the value of either the venture investments of the Fund, the shares of the Fund or the net assets of the Fund.)
      - d) **The effective date of the valuation performed by the Valuator;**
      - e) **Where applicable, a statement indicating that the Reviewer is also the Fund’s independent auditor;**
      - f) **The name of the firm responsible for preparing the Fund Report.** (*Explanatory comment:* this information may be disclosed elsewhere in the Fund Report, such as in the letterhead and/or on the signature page).
  8. **Report Definition**
    - 8.1 **The Fund Report shall contain definitions of the terms of value used (such as “current value”, “fair value”, “market value”, etc.), along with a statement as to whether these definitions are consistent with the Fund’s valuation policies.**
  9. **Report Scope of Review**
    - 9.1 **The Fund Report shall contain a scope of review, including a clear summary of the specific information that was reviewed and relied upon to arrive at the conclusion.**
  10. **Report Disclosure**
    - 10.1 **At a minimum, all Fund Reports shall include the value of the venture investments or net assets, as determined by the Valuator, along with the Reviewer’s conclusion as to whether or not said value is reasonable.**

**10.2 It is recommended that Fund Reports also include the following information:**

- a) Comments on the approach and techniques used by the Valuator to determine the value of the components which comprise venture investments or net assets of the Fund;
- b) Comments on the approach and techniques used by the Reviewer to assess whether value, as determined by the Valuator, is reasonable;
- c) A statement outlining the proportion of the venture investments that were reviewed in order to arrive at the conclusion.

**11. Report Restrictions and Qualifications**

**11.1 All Fund Reports shall disclose any restrictions that affect the Reviewer's comments, as noted below:**

- a) **Where the Reviewer was limited in the scope of review or where information provided to the Reviewer was substantially incomplete, disclosure should be made of the limitation and of the incomplete information provided, the reasons given and the potential impact on the conclusion. (*Recommendation:* the Reviewer should assess whether the lack of access to relevant information is so significant as to limit his or her ability to issue the Fund Report.)**

June 17, 2009