

CSA Staff Notice 81-320 Update on International Financial Reporting Standards for Investment Funds

Purpose

This notice updates investment funds and their advisers on the adoption of International Financial Reporting Standards (IFRS) by investment funds in Canada.

Current Canadian generally accepted accounting principles (Canadian GAAP) refer to “investment companies”, the majority of which are “investment funds” for the purposes of securities legislation. This notice applies only to those investment companies that are investment funds as defined in securities legislation and are subject to National Instrument 81-106 *Investment Fund Continuous Disclosure* (NI 81-106).¹

The Canadian Securities Administrators (CSA) previously published proposals relating to the adoption of IFRS by investment funds on October 16, 2009.² These proposals were based on the Canadian Accounting Standards Board (AcSB) decision to transition financial reporting for Canadian publicly accountable enterprises to IFRS as issued by the International Accounting Standards Board (IASB) for financial years beginning on or after January 1, 2011. However, the AcSB published amendments to the Handbook of the Canadian Institute of Chartered Accountants (Handbook) on October 1, 2010 that provide a one-year deferral of the transition to IFRS for investment companies.³

Background

Under International Accounting Standard 27 *Consolidated and Separate Financial Statements* (IAS 27), an entity is required to consolidate investments that it controls. As part of a project on consolidation, the IASB announced that it will propose that investment companies be exempt from consolidation and instead account for controlling interests in other entities at fair value.⁴ Based on the IASB’s proposed work plan (as published on July 2, 2010), it appears that the IASB will finalize this exemption in 2011.

Following this IASB announcement, the AcSB amended Part I of the Handbook to require investment companies, as defined in and applying Accounting Guideline 18 *Investment Companies*, to adopt IFRS as issued by the IASB for annual periods beginning on or after January 1, 2012, with earlier adoption permitted. The deferral of the mandatory changeover

¹ The CSA published final IFRS-related amendments for issuers that are not investment funds on October 1, 2010.

² These proposals were published in French on March 12, 2010 by the Autorité des marchés financiers and the New Brunswick Securities Commission.

³ The AcSB Decision Summary regarding the deferral is at www.acsbcanada.org/decision-summaries/2010/item42260.aspx.

⁴ The IASB work plan and projected timetable for this project can be found in the Standards Development section of the IASB/IFRS website (www.ifrs.org/Current+Projects/IASB+Projects/Consolidation/IE/Investment+entities).

from January 1, 2011 to January 1, 2012 is intended to allow the IASB's proposed exemption from consolidation for investment companies to be in place prior to the adoption of IFRS by investment companies in Canada.

Move to IFRS by investment funds

CSA staff are also of the view that it would be preferable for the IASB's proposed consolidation exemption to be in place when IFRS is adopted by investment funds in Canada. Accordingly, we will be reviewing and revising the proposed amendments to NI 81-106, and related consequential amendments, previously published for comment in light of the recent developments at both the IASB and AcSB.

The CSA comment period for the proposed amendments ended on January 14, 2010, and the majority of the comments related to the implications of IAS 27 to Canadian investment funds. Given the proposed exemption that the IASB is now considering, the issues raised by commenters relating to consolidation may no longer exist for the majority of investment funds. As a result, CSA staff anticipate that the proposed amendments to NI 81-106 related to the consolidation requirement may no longer be required.

In order to have more certainty about the scope and impact of the anticipated exemption from consolidation for investment companies that the IASB is considering, CSA staff will take additional time before seeking approval in each CSA jurisdiction to either republish or finalize IFRS-related amendments to NI 81-106 and other instruments related to investment funds. We now expect this to be during the second half of 2011, with the goal of having the necessary IFRS-related amendments for investment funds in force by January 1, 2012.

Prior to the mandatory changeover to IFRS set out in the Handbook, CSA staff consider the standards in Part V of the Handbook to be Canadian GAAP as applicable to public enterprises for securities legislation purposes. CSA staff recognize that some investment funds may want to prepare their financial statements in accordance with IFRS as issued by the IASB for annual periods beginning prior to January 1, 2012. Therefore, an investment fund that wants to use IFRS for interim and annual financial statements relating to annual periods beginning prior to January 1, 2012 must apply for exemptive relief from the current requirement to prepare its financial statements in accordance with Canadian GAAP as applicable to public enterprises.⁵ Investment funds filing applications for exemptive relief from NI 81-106 should also identify any issues that early adoption may create with respect to their financial disclosure.

Questions

Please refer your questions to any of:

Stacey Barker
Senior Accountant, Investment Funds
Ontario Securities Commission

Vera Nunes
Assistant Manager, Investment Funds
Ontario Securities Commission

⁵ This requirement is found in section 2.6 of NI 81-106.

416-593-2391
sbarker@osc.gov.on.ca

Suzanne Boucher
Analyste, Service des fonds d'investissement
Autorité des marchés financiers
514-395-0337, ext. 4477
or 1-877-525-0337, ext. 4477
suzanne.boucher@lautorite.qc.ca

Manny Albrino
Associate Chief Accountant
British Columbia Securities Commission
604-899-6641 or 1-800-373-6393
malbrino@bcsc.bc.ca

Wayne Bridgeman
Senior Analyst, Corporate Finance
Manitoba Securities Commission
204-945-4905
wayne.bridgeman@gov.mb.ca

Kevin Hoyt
Director, Regulatory Affairs and Chief Financial Officer
New Brunswick Securities Commission
506-643-7691
kevin.hoyt@nbsc-cvmnb.ca

October 8, 2010

416-593-2311
vnunes@osc.gov.on.ca

Mathieu Simard
Analyste, Service des fonds d'investissement
Autorité des marchés financiers
514-395-0337, ext. 4475
or 1-877-525-0337, ext. 4475
mathieu.simard@lautorite.qc.ca

Christopher Birchall
Senior Securities Analyst
British Columbia Securities Commission
604-899-6722 or 1-800-373-6393
cbirchall@bcsc.bc.ca

Ian G. Kerr
Senior Legal Counsel
Alberta Securities Commission
403-297-4225
ian.kerr@asc.ca