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Saskatchewan Financial Services Commission – Securities Division
Manitoba Securities Commission
Ontario Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Financial Services Regulation Division, Department of Government Services, Newfoundland and Labrador
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Re: Response to Proposed Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* and Companion Policy 81-106CP *Investment Fund Continuous Disclosure* and Related Amendments (*collectively, "the Proposed Materials"*)

We are writing in response to the request for public comment made by the members of the Canadian Securities Administrators ("CSA") on the Proposed Materials that relate primarily to the upcoming changeover to IFRS in Canada. IFRS is hereafter defined as Canadian GAAP applicable to publicly accountable enterprises.

CLASSIFICATION OF INVESTMENT FUND SECURITIES

The CSA has requested comment on the approach to the treatment of the classification of securities issued by investment funds.

As described within the Proposed Materials, IAS 32 *Financial Instruments: Presentation* classifies a puttable financial instrument as a financial liability, unless the instrument has certain features, in which case it is classified as an equity instrument, and investment funds will have to determine if their securities are puttable instruments and, if so, whether they should be classified as financial liabilities or as equity instruments. Under current Canadian GAAP, and current NI 81-106, investment fund securities are generally classified as equity. The CSA has also indicated that while the classification of an investment fund's securities as either equity instruments or financial liabilities will affect the presentation of the financial statements, they do not expect the change in classification to impact other areas of investment disclosure such as performance or management expense ratios.

We believe that the IFRS requirements for puttable financial instruments are a significant GAAP change, and we agree with the CSA's position and do not believe the change in classification of securities will impact any other areas of investment disclosure such as performance or management expense ratios. However, we wish to further clarify that the classification of these securities as either liabilities or equity will have an impact on the determination of net income for GAAP purposes and other financial statement disclosures required by IFRS and we recommend that the CSA proposals be carefully worded to ensure that the distinction between performance measures reported outside of the financial statements and GAAP information such as earnings per share and net income is clearly outlined in the proposals.

We would also recommend that the CSA consider addressing the possibility that certain types of funds may have some classes of instruments which will be recorded as liabilities and other classes which will be recorded as equity. In that case, additional guidance on how performance measures other than those required by GAAP should be reported may be required to address this situation.

CONSOLIDATION

The CSA has requested comment on the approach to consolidation for investment funds, specifically on the impact of consolidation on Canadian investment funds, including an analysis and determination of how this standard will be applied and the consequences to the presentation of the financial statements. We understand the CSA is of the view that the consolidation requirement will not impact the calculation of trading net asset value, as this calculation must continue to be done using the fair value standard established. We use the phrase "trading net asset value" in the prior sentence to distinguish from a GAAP-compliant net asset value which we believe would have to be calculated and presented on a basis consistent with the accounting policies applied in the primary financial statements. However the requirement to consolidate certain investments could result in additional differences between GAAP net assets (as shown on the financial statements) and trading net asset value, which could impact the reconciliation of these amounts required to be disclosed in the notes to the financial statements.

While we have not gathered any specific quantitative industry data to share with the CSA on the impact of consolidation on the industry, we do believe the IFRS consolidation requirements will be a significant change for the investment fund industry. Under current Canadian GAAP, the requirement to consolidate does not apply to investment funds that account for their investments at fair value in accordance with Accounting Guideline 18 *Investment Companies.* IFRS does not provide specific standards or requirements for investment funds, and as such, if the CSA requires investment funds to apply IFRS, all the standards in IFRS should be followed and an explicit and unreserved statement of compliance with IFRS should be included in the notes to the financial statements. Under the revised definition of control in IASB ED10 and in IAS 27 and SIC 12, we believe there will be requirements for investment funds to consolidate investments in underlying funds and other entities where the fund has control.

If the investment fund financial statements follow all of the requirements of IFRS, including consolidation where required, we expect there will be no limitation upon an auditor's ability to meet the requirements of Part 2.7, (3) subsection 4, for an auditor's report referring to IFRS.

However, as stated above, we do recognize the consolidation requirement is a fundamental shift in the industry's historical accounting practices and understand that the CSA and the industry believe that the usefulness to the user may be better met by the presentation of financial statements on a non-consolidated basis. We also believe the presentation of the primary financial statements on a consolidated basis may be costly for investment funds and time consuming especially if supplementary fair value information is also required to be prepared for investors. In addition, the presentation of both consolidated information and non-consolidated fair value information in the same set of financial statements may be confusing for investors, especially if that information requires significant reconciliation.

As the revised accounting guidance on the consolidation requirements under IFRS is still being finalized, and one of the topics on the agenda of the IASB is a discussion on consolidation for investment funds, we would ask the CSA to update the Proposed Materials in the event that the revised consolidation standard provides any exemption from consolidation for investment funds or similar entities and allow for a comment period on any subsequent changes. We are fully supportive of the IFIC proposal previously submitted to the IASB requesting that investment funds be permitted to apply fair value accounting. We also note that in the event that the revised consolidation standard does provide relief from consolidation accounting, the current IFRS standard still requires consolidation. As a result, transitional provisions may need to be considered by the CSA depending on the effective date of the revised consolidation standard and the transitional guidance contained therein. In the event that the revised consolidation standard will permit investment funds to prepare their financial statements on a fair value basis but this guidance will not be applicable by the time investment funds are required to report in compliance with IFRS, it may be appropriate for the CSA to request that the Accounting Standards Board defer the requirement for investment funds to adopt IFRS until the revised consolidation standard is applicable.

In the event that the IASB does not propose any relief for investment funds in the proposed consolidation guidance, we recommend that the CSA consider requiring investment funds to prepare their financial statements in accordance with a presentation framework as prescribed by the CSA proposals. The CSA proposals could require that investment funds prepare their financial statements in accordance with IFRS except that investments must be presented on a fair value basis. This presentation would not result in these non-consolidated financial statements being fully in compliance with IFRS and therefore would not contain an explicit and unreserved statement of compliance with IFRS. However, the trade-off would be that the financial statements would contain the information that the CSA and the industry believes are most relevant for investors.

Reconciliation in the financial statements of the net asset values to the trading net asset value per unit would be required for certain investment funds that would be impacted by IFRS consolidation requirements or because of the classification of fund units as liabilities rather than equity. As the Proposed Materials appear to require this supplementary information (reconciliation), we look forward to the release of the CSA's guidance on this non-GAAP measure to clarify these reconciliations.

FINANCIAL STATEMENTS NOT REQUIRED BY IFRS

The CSA has requested comment on whether the requirement that *the statement of investment portfolio*, prepared on a non-consolidated basis, can be part of the annual financial statements audited in accordance with Canadian GAAS using a fair presentation framework. If not, can disclosure equivalent to the disclosure currently provided in *the statement of investment portfolio* be instead provided in the notes to the financial statements or in an audited supplementary schedule? The CSA also requested comments on the ability of investment funds to prepare *the statement of investment portfolio* on a non-consolidated basis. Specifically, will the Proposed Materials requirement to explain differences between *the statement of investment portfolio* and the statement of financial position result in useful disclosure about the relationship between these two statements, or would a numerical reconciliation achieve this result?

We do not believe that *the statement of investment portfolio*, prepared on a non-consolidated basis, can be presented as a primary financial statement as part of the annual financial statements audited in accordance with Canadian GAAS in accordance with IFRS as a fair presentation framework. We are currently of the belief that if the CSA requires investment funds to prepare their primary financial statements in accordance with IFRS, that investment funds will not be able to include *the statement of investment portfolio*, prepared on a non-consolidated basis, as a primary financial statement.

We understand that the industry is currently contemplating various alternatives including presentation of this supplementary information either as a schedule to the audited financial statements or as a footnote, or in a separate filing prepared in accordance with an accounting framework stipulated by the CSA. We believe these alternatives should be more fully explored by the industry, the CSA, the Canadian Auditing and Assurance Standards Board and the audit firms. This will allow for appropriate discussion and analysis about which alternatives will meet the needs of investors, permit the financial statements to contain a statement of explicit and unreserved compliance with IFRS and will also permit the auditor to issue a clean audit opinion in accordance with the fair presentation requirements considered under Part 2.7, (3) subsection 4, for an auditor's report referring to IFRS.

We believe that at a minimum, there is merit to considering a separate supplementary schedule presenting the investment portfolio, prepared on a non-consolidated basis. However, as discussed above, there may be acceptable alternatives to this option which will eliminate the requirement to issue two separate opinions which would result from this proposal. We believe that an auditor would be able to present an audit opinion on the separate supplementary schedule; however such auditor's report would not refer to IFRS as the applicable fair presentation framework. The CSA would need to provide explicit guidance on the information required in the supplementary schedule.

OTHER

We would urge the CSA to consider an extension to the deadline for filing the first interim financial report in the year of adoption of IFRS. This would be consistent with proposed rule NI 51-102, Part 14 which includes a transition provision to provide reporting issuers with a 30 day extension to the filing deadline for the first IFRS interim financial report. As the CSA noted in the proposed amendments to NI 51-102, the 30 day filing extension should be provided as the first IFRS interim financial report will be due not long after the filing of the Canadian GAAP annual financial statements. The CSA also noted that they recognize that boards of directors, audit committees, and in some cases auditors will require additional time to review and approve the first set of IFRS financial statements. Given the magnitude of possible impacts the Proposed Materials will have on the financial statements in the investment fund industry, we feel the 30 day extension to filing the first interim financial report is prudent. As the CSA also noted in the proposed NI 51-102, all other jurisdictions which transition to IFRS also granted filing extensions for the first IFRS filing, even though they only required issuers to file on a half-yearly basis.

We also ask the CSA to consider issuing a FAQ document to provide guidance on other areas that remain silent either in IFRS, due it its inherent principles based approach, or in the Proposed Materials. For instance, IFRS does not prescribe a standard Income Statement format, although expenses are presented in one of two formats (function or nature). Will the CSA require or recommend one format? To further illustrate, the statement of cash flows is now required (there is no exemption as current Canadian GAAP provides); however IFRS only provides standard headings, and limited guidance on content. We believe these items should be addressed in a FAQ document to increase the comparability across funds and to enhance usefulness to users. In addition, this may help preparers to avoid the disclosure deficiencies noted in previous continuous disclosure reviews.

Should you wish to discuss this response, please contact Andrew Macartney at 416-874-3645.

Yours truly,

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