

1.1.3 CSA Staff Notice 81-320 (Revised) – Update on International Financial Reporting Standards for Investment Funds

CANADIAN SECURITIES ADMINISTRATORS' STAFF NOTICE 81-320 (REVISED) UPDATE ON INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR INVESTMENT FUNDS

First published October 8, 2010, revised March 23, 2011 and March 30, 2012

Purpose

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

The Handbook of the Canadian Institute of Chartered Accountants (Handbook) refers 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.

The AcSB has deferred for a third time the transition to IFRS for investment companies. On February 29, 2012, the AcSB issued amendments to the Handbook extending the deferral to January 1, 2014.³

Background

Under existing International Accounting Standard 27 *Consolidated and Separate Financial Statements* (IAS 27) and the recently issued IFRS 10 *Consolidated Financial Statements*, which replaces IAS 27 for financial years beginning on or after January 1, 2013, an entity must consolidate investments that it controls. The IASB published the Exposure Draft *Investment Entities* on August 25, 2011⁴ which proposed that an “investment entity” be exempt from consolidating entities that it controls and instead account for controlling interests in other entities at fair value. The IASB has not yet indicated a target date when a final standard for investment entities will be available.⁵

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 interim and annual periods beginning on or after January 1, 2014, with earlier adoption permitted. The deferral of the mandatory changeover to January 1, 2014 is intended to allow the IASB's proposed exemption from consolidation for investment entities to be in place prior to the adoption of IFRS by investment entities 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 2009, 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.

¹ The IFRS-related amendments to CSA rules for issuers that are not investment funds came into force on January 1, 2011.

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 most recent deferral is at <http://www.frascanada.ca/accounting-standards-board/meetings/decision-summaries/2011/item59121.aspx>

⁴ The Exposure Draft *Investment Entities* and comment letters submitted to the IASB can be found on the Consolidations – Investment Entities project webpage <http://www.ifrs.org/Current+Projects/IASB+Projects/Consolidation/IE/investment+entities+ED+Aug+2011/ED+and+comment+letters.htm>.

⁵ 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/IASB+Work+Plan.htm).

In order to have more certainty about the scope and impact of the anticipated exemption from consolidation for investment entities 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, with the goal of having the necessary IFRS-related amendments for investment funds in force by January 1, 2014.

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 generally accepted accounting principles (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, 2014. Therefore, an investment fund that wants to use IFRS for interim and annual financial statements relating to annual periods beginning prior to January 1, 2014 must apply for exemptive relief from the current requirement to prepare its financial statements in accordance with Canadian GAAP as applicable to public enterprises.⁶ 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.

CSA Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards*⁷ sets out the CSA's views on the disclosure that investment funds should be providing in advance of the changeover to IFRS. Investment funds should continue to provide appropriate disclosure about the expected impacts of the changeover to IFRS in accordance with the guidance in CSA Staff Notice 52-320 in their annual and interim filings in advance of the January 1, 2014 changeover date.

Questions

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⁶ This requirement is found in section 2.6 of NI 81-106.

⁷ This CSA Staff Notice was published May 9, 2008.