

# Similarities and differences\*

A comparison of International Financial Reporting Standards, US GAAP and Canadian GAAP for Investment Funds



## To Our Clients and Other Friends

PricewaterhouseCoopers is the leading provider of business solutions to the investment management industry in Canada. Our clients include not only many of the largest retail mutual fund companies, but also numerous niche-driven asset managers that offer unique and diversified products to investors through alternate investment strategies such as hedge funds, structured products and private equity funds.

Our strength in serving the investment management industry comes from our skills, our experience, and our seamless global network of dedicated professionals who focus their time on understanding the industry and working on solutions to investment management industry issues.

For more information on how PricewaterhouseCoopers can assist you in managing value and reporting, please speak to your local engagement leader, or contact one of our industry experts.

A handwritten signature in blue ink, appearing to read 'Raj Kothari', with a horizontal line underneath the name.

**Raj Kothari, FCA**  
**Canadian Investment Management Industry Practice Leader**

This PricewaterhouseCoopers publication is for those who wish to gain a broad understanding of the key similarities and differences between **International Financial Reporting Standards (“IFRS”) , accounting principles generally accepted in the United States of America (“US GAAP”)** and **Canadian generally accepted accounting principles (“Canadian GAAP”)** that are specifically applicable to investment funds.

Neither IFRS nor Canadian GAAP provide industry specific standards for investment funds, whereas US GAAP provides investment funds with a set of industry specific accounting standards and practices, generally summarized in the AICPA Audit and Accounting Guide, Investment Companies. In Canada, although there is no equivalent in GAAP of the AICPA Audit and Accounting Guide, Accounting Guideline 18 provides some direction for the basis of accounting to be followed by investment funds.

This publication does not intend to capture all similarities and differences between IFRS, US GAAP and Canadian GAAP, only the key similarities and differences specifically related to investment funds. When applying the standards, readers should also consult all the relevant accounting standards and, where applicable, their national and provincial laws and regulations. Such laws and regulations are not covered by this publication. Furthermore, this publication does not intend to cover the accounting by investment managers and general partners of investment funds.

Additionally, National Instrument 81-106, released by the Canadian Securities Administrators, provides detailed regulatory requirements for financial statement disclosure and presentation of all reporting issuer and most non-reporting issuer funds. These additional requirements have been presented in italics where applicable.

Subject	IFRS	US GAAP	Canadian GAAP
<b>Framework</b>			
Accounting Standards / Industry Practice	<p>IFRS does not provide specific standards / requirements for investment funds, either registered or non-registered.</p> <p>All the standards in IFRS should be followed and an explicit and unreserved statement of the compliance with IFRS should be included in the notes to the financial statements.</p>	<p>AICPA Accounting and Audit Guide, Investment Companies provides specific guidance on industry accounting standards and practices for both SEC registered and non-SEC registered investment funds. This document does not address the additional regulatory reporting requirements of SEC-registered investment funds.</p>	<p>Accounting Guideline 18 – Investment Companies provides guidance on how investment funds that meet the definition of an investment company, as defined therein, should account for investments.</p> <p><i>National Instrument 81-106 (NI 81-106) provides additional guidance on financial statement presentation.</i></p>
<b>Financial Statements</b>			
Components of Financial Statements	<p>Two years' balance sheets, income statements, statements of changes in equity (if any), cash flow statements and notes (including the accounting policies).</p>	<p>Comparative financial statements are not required for investment funds. Financial statements include a statement of assets and liabilities, a schedule of investments (or a condensed schedule of investments, see below), a statement of operations, a statement of changes in net assets, a statement of cash flows (if required) and notes to the financial statements.</p>	<p>Two years' balance sheets, income statements, statements of changes in net assets, cash flow statements (if required), one year statement of investments and notes.</p>
Balance Sheet	<p>Does not prescribe a particular format for an investment fund. The balance sheet can be presented in current / non-current format, or using liquidity presentation.</p>	<p>The statement of assets and liabilities is non-classified and requires certain items to be presented. Investments are usually presented as first line because of their importance to an investment fund.</p>	<p>Does not prescribe a particular format for an investment fund.</p> <p><i>Disclosure of certain items is required by NI 81-106 Part 3.1.</i></p>
Schedule of Investments	<p>Not required, but is best practice to present a schedule of investments on a voluntary basis. If presented, comparative information should be included. If a schedule of investments is not presented, a meaningful analysis of investments should be provided so that the reader has an understanding of the nature of the investments, given their significance.</p>	<p>Investments should be presented and disclosed either on the face of the statement of net assets or in a schedule of investments. At a minimum, a condensed schedule should be provided, with specific presentation and disclosure requirements.</p>	<p>Not required under GAAP.</p> <p><i>National Instrument 81-106 requires that a statement of investment portfolio be presented as at the end of the reporting period. Comparative information from prior years is not presented.</i></p>

Subject	IFRS	US GAAP	Canadian GAAP
<b>Financial Statements (Cont.)</b>			
Income Statement	Does not prescribe a standard format, although expenses are presented in one of two formats (function or nature). Certain minimum items are presented on the face of the income statement.	Specific items are required to be presented and disclosed on the face of the statement of operations.	Does not prescribe a particular format for an investment fund. <i>Disclosure of certain items is required by NI 81-106 Part 3.2.</i>
Statement of Changes in Equity	An investment fund (primarily a fund that issues puttable shares) might not have equity. In such case, a statement of changes in equity is not required. However, it is best practice to present a statement of changes in net assets attributable to holders of redeemable shares or interests.	Specific items are required to be presented and disclosed on the face of the statement of changes in net assets.	Does not prescribe a particular format for an open-end investment fund. Disclosure of certain items is required by CICA 3240 for closed-end funds. <i>NI 81-106 Part 3.3 requires presentation of certain items.</i>
Statement of Cash Flows – Exemption	No Exemptions.	If certain criteria are met, an investment fund may be exempted from presenting a statement of cash flows.	If certain criteria* are met, an investment fund may be exempted from presenting a statement of cash flows.  *as outlined in CICA 1540.02
Statement of Cash Flows – Format and Standard	Standard headings, but limited guidance on contents. Either direct or indirect method can be used for cash flows from operating activities. IFRS encourages the use of the direct method.	Similar to IFRS, but more specific guidance for items included in each category. Purchases and sales of investments are included in operating activities. The direct or indirect method can be used for cash flows from operating activities.	Similar to both IFRS and US GAAP. Either the direct or indirect method can be used.  <i>Specific guidance on presentation is provided in NI 81-106 Part 3.4.</i>

Subject	IFRS	US GAAP	Canadian GAAP
<b>Consolidated Financial Statements</b>			
<p>Consolidation Model</p>	<p>No exceptions for investment funds. Consolidation is based on the existence of control defined as the power to govern the financial and operating policies of an entity so as to obtain benefits.</p> <p>Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control (rare circumstances). The existence of currently exercisable potential rights is also taken into consideration.</p> <p>When a feeder fund is not an SPE and has control over its master fund (such as through the ownership of voting shares), the master fund should be consolidated into the feeder fund. Should the feeder no longer have control, the master fund should be deconsolidated.</p> <p>In some circumstances, where the feeder fund is only to invest in one particular master fund, the feeder and master funds may represent an integrated entity, in which case the integrated entity could be considered the reporting entity and one set of financial statements is prepared.</p>	<p>An investment fund may only consolidate its subsidiaries that are also investment funds. However, if an investment fund is a feeder fund within a "master / feeder" structure, the master fund should not be consolidated but shown using specific presentation requirements. Additionally, if an investment fund is classified as a fund of funds, it would not consolidate investee funds but show its investments using specific presentation requirements.</p> <p>Consolidation of operating companies is not appropriate except in the case of operating subsidiaries providing services to the investment fund.</p>	<p>Accounting Guideline 18 provides that control does not usually preclude fair value measurement. Accordingly, so long as an investment fund meets the definition of an investment company as defined in Accounting Guideline 18, it is usually required to present its investment at fair value irrespective of whether or not it controls the entity.</p> <p>Certain investments in operating enterprises providing services to the investment company may need to be consolidated.</p> <p>Additionally, a non-investment company parent or equity method investor in investment companies may be required to measure the investment companies' investments at fair value, if certain criteria in Accounting Guideline 18 paragraph 10 are met.</p>
<p>Special Purpose Entity / Variable Interest Entity</p>	<p>Special purpose entities should be consolidated when the substance of the relationship indicates control.</p>	<p>Investments accounted for at fair value in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, Investment Companies, are not subject to consolidation under FIN 46(R).</p>	<p>Variable interest entities are generally not consolidated effective on adoption of paragraph 5(a) of Accounting Guideline 18. Certain VIE's which provide services to the investment company may need to be consolidated.</p>
<p>Investments in Associates</p>	<p>Based on significant influence; presumed to have significant influence if 20% or greater interest and not having control. If less than 20%, other factors should be considered.</p> <p>Investments in associates should be accounted for under the equity method, except when the investments in associates are classified as financial instruments at fair value through profit or loss upon initial recognition (the "fair value option") and accounted for accordingly. However, to use the fair value option, IFRS requires certain conditions to be met (see "financial Instruments – Classification" below).</p>	<p>Definition of an equity investee is similar to IFRS.</p> <p>Investments in associates held by an investment fund are accounted for at fair value, not under the equity method. However, certain associates that provide services to the investment fund are accounted for under the equity method.</p>	<p>Similar to US GAAP.</p>

Subject	IFRS	US GAAP	Canadian GAAP
<b>Assets and Liabilities – Financial Instruments - Investments</b>			
Financial Instruments – Initial Recognition	A financial instrument should be recognized when an entity becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets can be recorded either on a trade date or settlement date basis.	Securities transactions are recorded on a trade date basis.	Similar to IFRS.
Financial Instruments – Derecognition	A financial asset should be derecognized when the contractual rights to the cash flow from the financial asset have expired or are transferred together with substantially all of the risks and rewards of ownership of the asset. Regular way sales can be recorded either on a trade date or settlement date basis.	Securities transactions are recorded on a trade date basis.	Similar to US GAAP. However, regular way sales can be recorded on either a trade date or a settlement date basis.
Financial Instruments – Classification	<p>Classification as financial instruments at fair value through profit or loss (held for trading or designated upon initial recognition under the fair value option), available for sale, held to maturity, and loans and receivables. Held to maturity classification is generally not available to open-ended investment funds.</p> <p>The fair value option can be used in the following cases: (1) a financial instrument containing one or more embedded derivatives, (2) when it results in more relevant information because either it eliminates or significantly reduces a measurement or recognition inconsistency, or (3) a group of financial instruments is managed and its performance is evaluated on a fair value basis.</p> <p>An investment fund typically classifies its investments as financial instruments at fair value through profit or loss.</p>	All investments are valued at fair value. There is no specific classification or guidance similar to the one contained in IFRS.	Investments are generally valued at fair value through profit or loss, as required by Accounting Guideline 18.
Financial Instruments – Initial Measurement	Investments are initially measured at fair value. In the case of financial instruments at fair value through profit or loss, transaction costs, including the bid/offer spreads, should be expensed through profit or loss.	Cost (consideration received or paid) typically represents the value of the investment at initial recognition. Transaction costs and proceeds on sale are included in the cost of investments and flow through unrealized gains and losses.	<p>Investments are measured at fair value upon initial recognition.</p> <p>Transaction costs are recognized in net income immediately.</p>

Subject	IFRS	US GAAP	Canadian GAAP
<b>Assets and Liabilities – Financial Instruments – Investments (Cont.)</b>			
Financial Instruments – Subsequent Measurement	<p>Financial instruments at fair value through profit or loss are subsequently measured at fair value and the change in fair value is recognized in the profit and loss.</p> <p>Available for sale investments are subsequently measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, can be measured at cost (rare circumstance). Any change in value of available for sale securities is recognized in equity except for impairment losses and foreign exchange gains and losses for debt securities. Interest calculated using the effective interest rate method is recognized in the income statement.</p>	<p>Investments are valued at fair value. Unrealized gains or losses on investments are recognized in the statement of operations.</p>	<p>Similar to US GAAP for investment funds meeting the definition of an investment company under Accounting Guideline 18.</p>
Financial Instruments – Fair Value	<p>Long positions should be valued at the bid price and short positions should be valued at the asking price. Assets and liabilities with offsetting markets risks may be valued at mid-market prices for the offsetting risk positions and at bid or asking price for net positions as appropriate.</p> <p>“Blockage factor”, which is the premium or discount based on the relative size of positions (such as a large proportion of the total trading units of an instrument), is precluded for instruments quoted in an active market. For those instruments the fair value of the portfolio is the product of the number of units and the quoted bid/asking price.</p> <p>If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The chosen valuation technique shall make maximum use of market inputs and rely as little as possible on entity-specific inputs.</p>	<p>Can be valued at bid or asking price, last price, mean between bid and asking price, or a valuation within the range of bid and asking price. Neither use of asking price to value long positions nor use of bid price to value short positions is allowed.</p> <p>“Blockage factor” on unrestricted investments traded on an active market is not usually allowed.</p> <p>In the absence of an active market, the amounts representing estimates of fair values using methods applied consistently and determined in good faith by the board of directors should be used.</p>	<p>Similar to IFRS.</p>

Subject	IFRS	US GAAP	Canadian GAAP
<b>Assets and Liabilities – Financial Instruments – Investments (Cont.)</b>			
Financial Instruments – Disclosure	<p>With the adoption of IFRS 7, Financial Instruments: Disclosure, disclosures should be made through the eyes of management to enhance users' understanding of the risk exposure and the entity's risk management. As such, the disclosure requirements are extensive.</p> <p>IFRS 7 includes general disclosure requirements, which are not specifically designed for investment funds.</p> <p>Fair value of financial instruments should be disclosed.</p> <p>The use of judgment and key assumptions and other key sources of estimation uncertainty should be disclosed along with the nature of and the carrying amount of the affected assets and liabilities.</p>	<p>Specific disclosure requirements for investment funds.</p> <p>Fair value of financial instruments should be disclosed.</p> <p>Similar to IFRS, the use of judgment, key assumptions and sources of estimation of uncertainty should be disclosed.</p>	<p>Canadian GAAP disclosure will be similar to IFRS subsequent to the adoption of CICA 3862 – Financial Instruments Disclosures, and CICA 3863 – Financial Instruments Presentation.</p> <p>These standards are applicable for fiscal years beginning on or after October 1, 2007 for all entities.</p>
Financial Instruments – Offsetting	<p>Offsetting is allowed only when there is a legally enforceable right to set off and there is intention to settle on a net basis or to realize the asset and settle the liability simultaneously.</p> <p>There is no exception to the offsetting rules for master netting arrangements; all the conditions for offset must be met.</p>	<p>Similar to IFRS, except that the fair value recognized for derivative contracts under a master netting arrangement can be assumed to meet the intention requirement and can be offset if other requirements are met.</p>	<p>Similar to IFRS.</p>
Fixed Income Securities – Discounts and Premiums	<p>Interest income and expense should be recognized using the effective interest method.</p> <p>However, this does not apply to instruments carried at fair value through profit or loss since there is no obligation to disclose interest income / expense on the face of the income statement.</p>	<p>Premiums and discounts should be amortized using the effective interest method.</p>	<p>Interest income and expense should be recognized using the effective interest method.</p> <p><i>Interest revenue is required to be shown separately on the statement of operations under NI 81-106 Part 3.2.</i></p>

Subject	IFRS	US GAAP	Canadian GAAP
<b>Balance Sheet</b>			
Net Assets – Classification	<p>In a typical open end investment fund, its shares or interests are redeemable at the option of holders of such shares or interests. The shares or interests should be classified as a financial liability regardless of their legal form.</p> <p>As a financial liability, their related distributions and dividends to holders of redeemable shares should be recognized as expense in profit or loss.</p>	<p>Classified as equity. However, the shares or interests that are redeemable on a fixed date and fixed amount (or determined by reference to an interest rate index, currency index or another external index) should be classified as a liability.</p> <p>Distributions and dividends are recognized as transactions in equity, not in profit or loss, if the shares or interests are classified as equity.</p>	<p>Units of a fund that are redeemable at the option of the holder, or at a specified date, would generally meet the definition of a financial liability. Certain instruments may qualify for the exemption in CICA 3861.16, as clarified by EIC 149 – Accounting for Retractable or Mandatorily Redeemable Shares, in which case the instruments that would otherwise be classified as liabilities are to be classified as equity.</p>
Net Assets – Measurement	<p>Net assets represent the residual value of the assets (net of liabilities). For puttable instruments, the liability is remeasured at the balance sheet date if the holder exercised his right to put the instrument back.</p>	<p>Net assets represent the residual value of the assets, net of liabilities.</p>	<p>Similar to US GAAP.</p>
<b>Income Statement</b>			
Interest and Dividend Income – Recognition	<p>Interest is recognized on an accrual basis using the effective interest rate method. Dividends are recognized when the right to receive payment is established.</p>	<p>Similar to IFRS.</p>	<p>Similar to IFRS.</p>
Realized and Unrealized Gains (Losses) on Investments – Presentation	<p>There is no requirement to disclose net realized gains and losses and the net change in unrealized appreciation (depreciation) separately.</p>	<p>Net realized gains (losses) and net change in unrealized appreciation (depreciation) should be disclosed separately.</p>	<p>Similar to IFRS.</p> <p><i>Realized gains (losses) and unrealized gains (losses) are required to be presented by NI 81-106 Part 3.2.</i></p>
Net Gains (Losses) on Foreign Exchange – Presentation	<p>There is no requirement to disclose net gains (losses) on foreign exchange separately.</p>	<p>Distinction should be made between realized and unrealized gains or losses on foreign exchange. The foreign currency element of gains or losses on investments may be presented separately or together with the local currency market gains or losses on investments.</p>	<p>Similar to IFRS for investments carried at fair value through profit or loss.</p>

Subject	IFRS	US GAAP	Canadian GAAP
<b>Other Accounting and Reporting Topics</b>			
Functional Currency / Reporting Currency	<p>The functional currency is the currency of the primary economic environment in which an investment fund operates.</p> <p>The determination of the functional currency is based on a hierarchy of indicators. For an investment fund, the indicators are generally mixed and management is required to use judgment to determine the functional currency.</p> <p>When the presentation currency is different from the functional currency, disclosure of the functional currency and the presentation currency is required. The reason for having a different presentation currency should also be disclosed.</p>	<p>Definition of functional currency is similar to IFRS.</p> <p>The determination is similar to IFRS except that US GAAP has no hierarchy.</p>	<p>Investment companies determine their functional currency based on facts and circumstances using judgment. In certain cases an entity may choose a reporting currency which differs from the entity's functional currency. In such cases, the translation method in EIC 130 – Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in Reporting Currency, is used.</p>
Foreign Currency Transactions	Foreign currency transactions are initially recorded using the exchange rate at the date of the initial transaction.	Similar to IFRS.	Similar to IFRS.
Foreign Currency Balances	Assets and liabilities carried at fair value through profit or loss are translated at the exchange rate in effect at the balance sheet date.	Similar to IFRS.	Similar to IFRS.
NAV per Share	Not required, but is common practice to disclose NAV per redeemable security.	Required.	Not required. <i>Required by NI 81-106 Part 3.1.</i>
Earnings per Share	<p>Earnings per share information is not required when the equity instruments of an investment fund are not publicly traded.</p> <p>Also, if all the shares of the fund are classified as financial liabilities, there is no requirement to disclose earnings per share.</p>	Not required.	<p>Required by Canadian GAAP for all publicity accountable entities.</p> <p><i>Increase (decrease) in net asset value per unit is required to be disclosed under NI 81-106.</i></p>
Financial Highlights	Not required.	Required and should follow specific calculation, presentation and disclosure requirements.	<p>Not required.</p> <p><i>Required to be presented in Management's report on fund performance and should follow specific calculation, presentation and disclosure requirements outlined in NI 81-106.</i></p>
Related Party Transactions	Amounts and nature of transactions, and balances due to / from related parties should be disclosed.	Similar to IFRS.	Similar to IFRS. However, there are specific measurement criteria for related party transactions under Section 3840.
Segment Reporting	Required unless an investment fund's shares or debt instruments are not publicly traded.	Not required.	Similar to IFRS, segmented reporting is required for publicly traded investment funds.

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