

# The road ahead\*

Challenges for Investment Funds in a world of change  
Accounting for investments under IFRS – Consolidation



“Every time I find the meaning of life, they change it.”

Unknown

### Accounting for investments under existing IFRS

Since 2004, most Investment Funds in Canada have not consolidated controlled investments as a result of the application of Accounting Guideline 18 – Investment Companies (AcG-18), recording investments at fair value in all but rare circumstances. This may no longer be the case as the Accounting Standards Board in Canada is set to incorporate International Financial Reporting Standards (IFRS) into Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted.

AcG-18 has historically represented industry-specific GAAP aimed to accommodate the uniqueness of Investment Fund financial reporting in Canada. Comparable guidance for Investment Funds does not exist under IFRS which means (get ready for it) – we’re back to considering the substance of the relationship between a Fund and its investee for each investment held. That is, for each investment that a fund holds, consideration will need to be given to whether or not the fund has control, joint control, or significant influence over the investee. In circumstances where such conditions exist, fair value accounting may not be appropriate and alternative accounting methods may need to be applied. Nevertheless, all hope is not lost as in most circumstances under IFRS, Funds will be able to elect to carry investments at fair value through profit and loss.

Similar to Canadian GAAP, IFRS includes a standard designed to consider circumstances where control may exist in substance, rather than as a result of a 50% or more holding in the voting interests of an entity. Under Canadian GAAP, this concept resides in Accounting Guideline 15 – Consolidation of Variable Interest Entities (AcG-15) and, in general, Investment Funds that apply AcG-18 are not required to consolidate variable interests under AcG-15. The corresponding standard under IFRS is SIC 12 – Special Purpose Entities (SIC 12).

Unlike Canadian GAAP, there is no industry-specific exemption from SIC 12 for Investment Funds. Additionally, SIC 12 is narrower in scope than AcG-15 and the assessment of control under SIC 12 places more emphasis on qualitative considerations than AcG-15. Accordingly, application of SIC 12 may result in significantly different outcomes than AcG-15 in many circumstances.

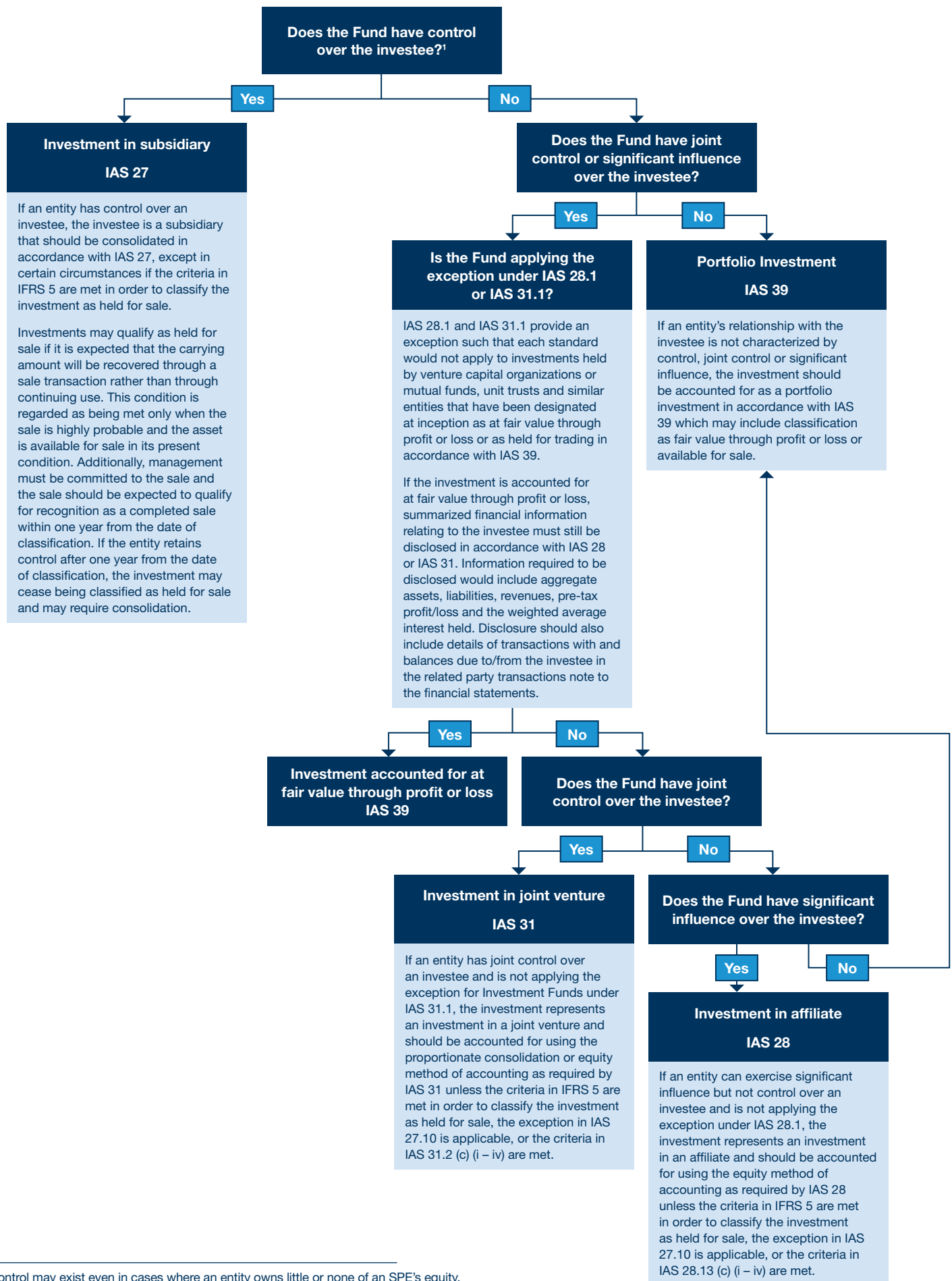
Generally, Investment Funds will elect to not apply equity method accounting for associates or proportionately consolidate investments in joint ventures under IFRS, as they will be able to elect to carry such investments at fair value through profit and loss. However, unlike Canadian GAAP, these exemptions do not extend to the disclosure of such investments at present. For example, the usual disclosures about associates currently need to be provided such as summarised financial information, including the aggregated amounts of assets, liabilities, revenues and profit or loss. The recent improvements to IFRS, issued by the International Accounting Standards Board (IASB), eliminate much of the required disclosures in these areas and are expected to be fully incorporated into IFRS prior to Canada’s adoption thereof.

### Looking Ahead

In June 2003, the IASB added a project on consolidation to its agenda to address the definition of control and disclosures relating to both consolidated and non-consolidated entities. An exposure draft of the proposed guidance is set to be released later this year. At the moment, IFRS defines control as having the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The IASB staff are recommending this definition be changed to consider whether a company has current power sufficient to use or manage the assets and liabilities of an entity so as to benefit from them, as if they are its own.

The Board will be holding round-tables with constituents beginning in September 2008, prior to issuing the exposure draft. A revised standard is expected to be published in the latter half of 2009.

## Accounting for investments under existing IFRS – a general framework



<sup>1</sup> Control may exist even in cases where an entity owns little or none of an SPE's equity.

## For more information

If you would like to find out more about our investment management practice and how we can help, you can contact one of the following in PricewaterhouseCoopers Investment Funds Group.

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