



## CICA Handbook Section 1100, *Generally Accepted Accounting Principles*

### Look Before You Leap

An update for the Investment Management Industry

In the last two publications of *Financial Reporting Release* we have outlined the provisions of new CICA Section 1100, *Generally Accepted Accounting Principles* and provided commentary on its implications and thoughts on implementation.

This newsletter is focused on providing somewhat more focused commentary on the investment management industry and the ramifications of this accounting change specifically to fund financial statements (both pooled and mutual funds). As we noted in the February 2004 *Financial Reporting Release*:

*“Companies should not simply assume they are in compliance with the new rules. Look before you leap into the brave new world of Section 1100.”*

The industry responds – The Accounting Advisory Committee of the Investment Funds Institute of Canada committed resources to identifying key issues that would potentially require consultation with the CICA and the securities commissions. Their work culminated in a number of discussions with the CICA and submissions to the Emerging Issues Committee and the OSC for consideration. The current status (July 2004) of these critical issues and their expected resolution are summarized in the following table.

Accounting Issue Reference	Impact	Current Status
Capital Stock / Retained Earnings Sections 3240 / 3250	Open ended funds may require a breakdown of unitholders' equity on the Statement of Net Assets.	Currently anticipating a modification of these Handbook sections to exempt open ended funds, as defined by AcG 18, from this requirement.
Income Taxes Section 3465 / EIC 107	Deferred tax accounting for temporary differences, including tax loss carryforwards, will need to be instituted at corporate entities. Additional disclosures also likely required.  <i>Daily processes will need to be developed.</i>	EIC 107 already exempts mutual fund trusts from section 3465 requirements.  Not anticipating an extension to fund corporations.

Accounting Issue Reference	Impact	Current Status
Business Combinations Section 1581	All funds will need to account for fund mergers at market value. As a result, tax cost of securities may differ from accounting cost, necessitating two sets of books going forward.	Not anticipating any Handbook change – hence use of tax cost basis in tax deferred fund mergers is not GAAP.
Earnings per Share Section 3500	This ratio should be reflected on the Statement of Operations.  (see also Non-GAAP Measures below)	Discussions with the OSC reflect an expectation of calculating this ratio based on ‘increase/decrease in net assets from operations’ per the Statement of Operations divided by average units outstanding. The EPS should be disclosed on the Statement of Operations.
Bifurcation of Foreign Exchange Gains / Losses Section 1650	The Statement of Operations would need to distinguish gains/losses from market fluctuations versus from foreign exchange, for realized and unrealized gains/losses.	Based on discussions with the CICA and the OSC we understand that such bifurcation <b>is not required</b> .  Note however that Proposed National Instrument 81-106 currently anticipates bifurcation. Submissions to the regulator on the draft should likely highlight this.
Segmented Disclosure Section 1701	Examples include sub-advisory mandates within a fund (e.g. Balanced Fund) – segmentation required?	No Handbook change anticipated; generally, not expecting any meaningful segments in fund financial statements.
Non-GAAP Measures	Non-GAAP measures should be removed - the Financial Highlights table can move into an MD&A section outside the financial statements. This will likely cause process issues in this year’s preparation of annual reports – plan ahead!  Note also that the ‘per unit increase from operations’ amount in the per unit table will not match the new EPS amount.	There have been discussions with the regulator concerning placement of MER disclosure although NI 81-106 is anticipated to resolve this once enacted for mutual funds.  Note also that the provincial securities acts (e.g. Regulation 84(1) of the OSA) require NAV per unit/share at the end of the current and four immediately preceding periods. Not considered a non-GAAP measure; can be provided in a note to the financial statements.

Other less significant accounting and reporting matters used historically by the industry typically revolved around an aim to reflect the tax nature of a transaction in order to align the reporting in the most meaningful way to the investor or were practical accommodations to unique fund processes. Areas such as treatment of corporate actions on a tax basis, presentation of derivative gains and losses as income versus gains/losses, accounting for certain expense credits (e.g. broker commission rebates), accounting for frequent trading charges and ‘trade date plus 1’ accounting will need to be reconsidered for financial reporting purposes, together with any related day-to-day processes.