



## **Adoption of IFRSs by Investment Companies**

### **June 2010**

**COMMENTS MUST BE RECEIVED BY  
AUGUST 23, 2010**

This Exposure Draft of proposed accounting standards is issued by the Accounting Standards Board. The Board is composed of persons knowledgeable in the preparation and use of financial statements who are drawn from public practice, business and academe. All members serve as individuals and not as representatives of their employers or organizations.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggested alternative supported by specific reasoning. All comments received will be available on the website at [www.acsbcanada.org](http://www.acsbcanada.org) 10 days after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

**To be considered, comments to the AcSB must be received by August 23, 2010, addressed to:**

**Peter Martin, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario M5V 3H2**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments to the AcSB. Alternatively, you may send comments by e-mail (in Word format), to: [ed.accounting@cica.ca](mailto:ed.accounting@cica.ca)

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## Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to amend the Introduction to Part I of the CICA Handbook – Accounting (Handbook) to require the adoption of International Financial Reporting Standards (IFRSs) by investment companies as defined in and applying ACCOUNTING GUIDELINE AcG-18, Investment Companies, for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012, with earlier application permitted.

## Background

Under IAS 27 *Consolidated and Separate Financial Statements*, investment companies are required to consolidate controlled investees. As part of a project on consolidated financial statements, the International Accounting Standards Board (IASB) has announced it will propose, subject to comments received on exposure, that investment companies should be exempted from consolidation and should account for controlling interests in other entities at fair value. The IASB has also tentatively decided not to extend the proposed exemption to parents of investment companies that are not themselves investment companies.

Various Canadian stakeholders, including regulators and those from the investment and insurance industries, have raised concerns about whether the revised standard, including the investment company exemption, will be issued in time for the mandatory adoption of IFRSs by Canadian publicly accountable enterprises for interim and annual financial statements relating to annual periods beginning on or after January 1, 2011. Financial statement preparers affected by the IASB's new consolidation standard and currently subject to AcG-18 require certainty about whether they will need to begin consolidating investees currently accounted for at fair value.

## Proposal

The AcSB is proposing that investment companies applying AcG-18 can continue to apply the accounting standards in Part V of the Handbook for an additional year. Adoption of IFRSs in Part I of the Handbook by investment companies applying AcG-18 will be mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The AcSB decided that the proposed deferral of the IFRS changeover date should be limited to those entities expected to qualify for the IASB's proposed exemption from consolidation. Accordingly, parents whose investment company subsidiaries apply the AcG-18 exemption from consolidation would not qualify for the proposed deferral of the IFRS changeover date unless they are themselves investment companies.

To tell the users of an investment company's financial statements that its IFRS changeover date has been deferred, the AcSB is also proposing that investment companies disclose that fact and when it will first present financial statements in accordance with IFRSs.

Investment companies could adopt IFRSs for annual periods prior to the deferred effective date. By continuing to permit adoption of IFRSs in 2011, the AcSB would allow an investment company within the scope of the proposal, but unaffected by the

consolidation of controlling interests in other entities, to adopt IFRSs as originally planned. Investment companies within the scope of the proposal would also be able to adopt IFRSs for 2011, and not consolidate controlling interests in other entities, if the revised IFRS on consolidated financial statements is issued before the entity's first 2011 interim financial statements are released.

### **Plans for finalizing the proposal**

The AcSB will redeliberate this proposal to take into account the comments received on the Exposure Draft. The AcSB will provide updates about its redeliberations on its website at [www.acsbcanada.org](http://www.acsbcanada.org).

The AcSB expects to finalize the proposed amendment in September 2010.

### **Comments requested**

The AcSB welcomes comments on all aspects of the proposed amendment to the Introduction to Part I of the CICA Handbook – Accounting.

The AcSB particularly welcomes comments on the following questions concerning the proposal:

1. Given the possible implications of investment companies that apply ACCOUNTING GUIDELINE AcG-18, Investment Companies, having to consolidate controlling interests in other entities, do you agree with the proposal to defer the mandatory adoption of IFRSs by qualifying entities to interim and annual financial statements relating to annual periods beginning on or after January 1, 2012? If not, what changes would you suggest, and why?
2. Given the AcSB's purpose, do you agree that the proposed deferral applies to the appropriate type of entities (i.e., investment companies and parents of investment companies that are themselves investment companies applying AcG-18)? If not, what other entities should be included or excluded from the scope of the proposed deferral of the IFRS changeover date, and why?
3. Do you agree that an investment company applying AcG-18 that does not prepare its interim and annual financial statements relating to the annual period beginning on or after January 1, 2011 in accordance with IFRSs should state that fact and when it will first present financial statements in accordance with IFRSs? If not, why not?

For your convenience, a PDF response form has been posted with this document that can be downloaded [here](#). You can save the form both during and after its completion for future reference. Alternatively, written comments may be submitted by e-mail (Word format preferred) to: [ed.accounting@cica.ca](mailto:ed.accounting@cica.ca).

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## PROPOSAL

The Introduction to Part I of the CICA Handbook – Accounting would be amended by adding the text denoted by underline and deleting the text denoted by strikethrough, as indicated below.

### Introduction to Part I

- I.1 The Preface to the CICA Handbook – Accounting (Handbook) defines the various categories of reporting entity and specifies which Part of the Handbook applies to each category. This Introduction provides information specific to the use of Part I and should be read in conjunction with the Preface.

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### FIRST-TIME ADOPTION AND TRANSITIONAL PROVISIONS

- I.7 First-time adoption of this Part of the Handbook is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2011, other than by investment companies applying ACCOUNTING GUIDELINE AcG-18, Investment Companies. First-time adoption of this Part of the Handbook by investment companies applying AcG-18 is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012. ~~This Part may be adopted for fiscal years beginning prior to that date.~~
- I.7A An investment company applying AcG-18 that does not prepare its interim and annual financial statements relating to the annual period beginning on or after January 1, 2011 in accordance with this Part of the Handbook discloses that fact and when it will first present financial statements in accordance with International Financial Reporting Standards.
- I.8 This Part may be adopted for annual periods beginning prior to the effective dates specified in paragraph I.7. Entities adopting this Part of the Handbook before ~~January 1, 2011~~ the date specified in paragraph I.7 are not required to apply the standards to interim financial statements in the year of adoption, unless required to do so by another authoritative body.

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