



Canadian Securities  
Administrators

Autorités canadiennes  
en valeurs mobilières

December 23, 2011

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom

**Subject: Exposure Draft – Investment Entities**

Dear IASB Members:

The Canadian Securities Administrators (CSA) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee is comprised of the Chief Accountants from the provinces of Ontario, Quebec, Alberta and British Columbia. We are submitting this letter to you in response to the invitation from the International Accounting Standards Board (the IASB) to comment on the Exposure Draft on *Investment Entities* (the ED).

Our key message is that we strongly support the approach in the ED for investment entities to measure investments in controlled entities at fair value through profit or loss. This message is consistent with our comment letter dated September 16, 2009 on ED 10 Consolidated Financial Statements. We continue to support a solution that results in fair value information being provided to users of investment fund financial information. We have actively participated in outreach activities amongst Canadian investors who consistently state that fair value information is the most relevant and transparent information for investment decisions. Consolidation does not provide decision useful information for investors in investment entities.

Finalizing an IFRS that exempts investment entities from consolidating controlled entities is of particular need and urgency in Canada. We did not impose IFRS on investment entities when other Canadian publicly accountable enterprises transitioned to IFRS for financial years beginning on or after January 1, 2011 because an exemption from consolidating controlled entities was not available for investment entities. We understand that other jurisdictions have taken a similar approach for investment entities. Our current timeline for the transition from Canadian generally accepted accounting principles to IFRS for investment entities is 2014.

Because of the significance and urgency of this issue, we strongly encourage the IASB to finalize the proposed fair value solution that results in relevant, meaningful, and comparable information across global capital markets at the earliest possible date.

We provided a more detailed response to your questions in the attached Appendix.

If you have any questions on our letter, please do not hesitate to contact us.

Yours truly,

**The CSA Chief Accountants Committee**

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## Appendix

### **Question 1—Exclusion of investment entities from consolidation**

Do you agree that there is a class of entities, commonly thought of as an investment entity in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or why not?

We agree that entities that meet the criteria for classification as investment entities should not consolidate controlled entities and instead measure them at fair value through profit or loss. Canadian retail and institutional investors alike rely on the relevant, comparable, timely and useful fair value information that investment entities currently provide. Fund managers are evaluated on performance of the investment entities, based on fair value measurement.

An investment may be controlled by an investment entity at one reporting date and not controlled by the same investment entity at another reporting date. As a result, consolidating an investment at some dates and not others would confuse investors and obscure information on daily capital appreciation. Providing supplementary fair value information in addition to consolidated statements would only reduce the prominence of the most useful information for investors and increase costs. Providing cash flow information through consolidation about activities of controlled entities, which may only be controlled for a brief time, puts an inappropriate focus on controlled entities above other investments and could obscure information about fund performance.

### **Question 2—Criteria for determining when an entity is an investment entity**

Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss? If not, what alternative criteria would you propose, and why are those criteria more appropriate?

We agree with the criteria for determining whether an entity is an investment entity and are encouraged that the Financial Accounting Standards Board (FASB) and the IASB have converged these criteria. We do not believe these criteria are highly subjective nor do we believe they will be open to abuse, as we have not seen problems in the application of similar criteria by investment entities in Canada.

The criteria for an investment company under Canada's existing standard (Accounting Guideline 18 *Investment Companies*) prohibits guarantees provided by an investee to an investor. If the IASB is concerned about abuse due to benefits that might be provided by an investment entity to an investor, then a similar criteria could be added to the definition.

### **Question 3—Nature of investment activity**

Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to:

- (a) Its own investment activities?
- (b) The investment activities of entities other than the reporting entity?

Why or why not?

We agree that an investment entity should have no substantive activities other than its investing activities. In Canada, securities regulations generally prohibit an investment entity from holding

an investment in a related entity that provides advisory services to the investment entity.

**Question 4—Pooling of funds**

- (a) Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity? Why or why not?
- (b) If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16.

We agree with the general rule that an investment entity should have unrelated investors who collectively hold significant ownership interests in the entity. We recommend that the IASB clarify, similar to the FASB proposal, that an investment entity is not precluded from meeting the pooling of funds criteria if it does not meet the criteria at all times throughout its existence in very limited circumstances such as:

- the entity’s initial offering period has not expired, and the entity is actively identifying suitable investors,
- the entity is actively identifying suitable investors to replace investors who have redeemed their ownership interest, or
- the entity is in the process of liquidation.

**Question 5—Measurement guidance**

Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40, and do you agree that the measurement guidance otherwise proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement*? Why or why not?

We agree with the proposals.

**Question 6—Accounting in the consolidated financial statements of a non-investment entity parent**

Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities? If not, why not and how would you propose to address the Board’s concern?

Fair value measurement through profit or loss for a non-investment entity parent of an investment entity, as the FASB proposes, provides the best information for investors. If a non-investment entity parent has to consolidate a subsidiary in an investment entity’s holdings, and the investment entity accounts for its holdings at fair value through profit or loss, it would result in confusing information for investors and create unnecessary costs. We encourage the IASB to converge with the FASB on this issue. In Canada, we have investment entities with non-investment entity parents, so we do not agree with the statement by the IASB that “the boards [IASB and FASB] expected that in most cases, investment entities would have investment entity parents”. We have not seen “accounting inconsistencies and . . . abuse” referred to in the ED relating to structures that create the perception of a stronger capital base.

We agree with the IASB that an investment entity should account for a controlling financial interest in another investment entity at fair value through profit or loss such as in a fund-of-funds structure. We do not agree with the FASB proposal that if “an investment company holds a controlling financial interest in [a fund-of-funds structure] such an entity, consolidation is required”. We encourage the IASB and the FASB to converge on this issue.

We ask the IASB to clarify that an investment entity is able to hold multiple investments at the same time, directly through another investment entity, or indirectly by gaining exposure to another investment entity through a derivative. This fund-of-funds structure should qualify for measurement of controlled holdings at fair value through profit or loss which would provide the most relevant information to investors.

**Question 7—Disclosure**

(a) Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?

(b) Do you agree with the proposed application guidance on information that could satisfy the disclosure objective? If not, why not and what would you propose instead?

We generally agree with the disclosure objective for investment entities. We have confirmed through investor outreach that the addition of a requirement for a schedule of the investment entity’s investments with appropriate details would provide investors with essential and relevant information about the entity’s holdings.

**Question 8—Transition**

Do you agree with applying the proposals prospectively and the related proposed transition requirements? If not, why not? What transition requirements would you propose instead and why?

Prospective application is appropriate given the potential for inappropriately using hindsight to measure fair value.

Canadian investment entities are scheduled to transition to IFRS for financial years beginning on or after January 1, 2014. To avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current IFRS preparers, we recommend that first-time adopters should be permitted to apply the proposals prospectively similar to the proposed transition requirements for current IFRS preparers.

**Question 9—Scope exclusion in IAS 28**

(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?

(b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organisations, mutual funds, unit trust and similar

entities, including investment-linked insurance funds? Why or why not?

We agree with (b) that IAS 28 be modified to make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other entities.