



cutting through complexity

International Financial Reporting Standards (IFRS) for Funds

WAISC West

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Agenda

- IFRS – Do I Really Care?
- Timeline and Transition
- Specific Topics
 - Debt vs. Equity
 - Fair Value
 - Cash Flow Statement
 - Consolidation
 - Other
- Future Standards

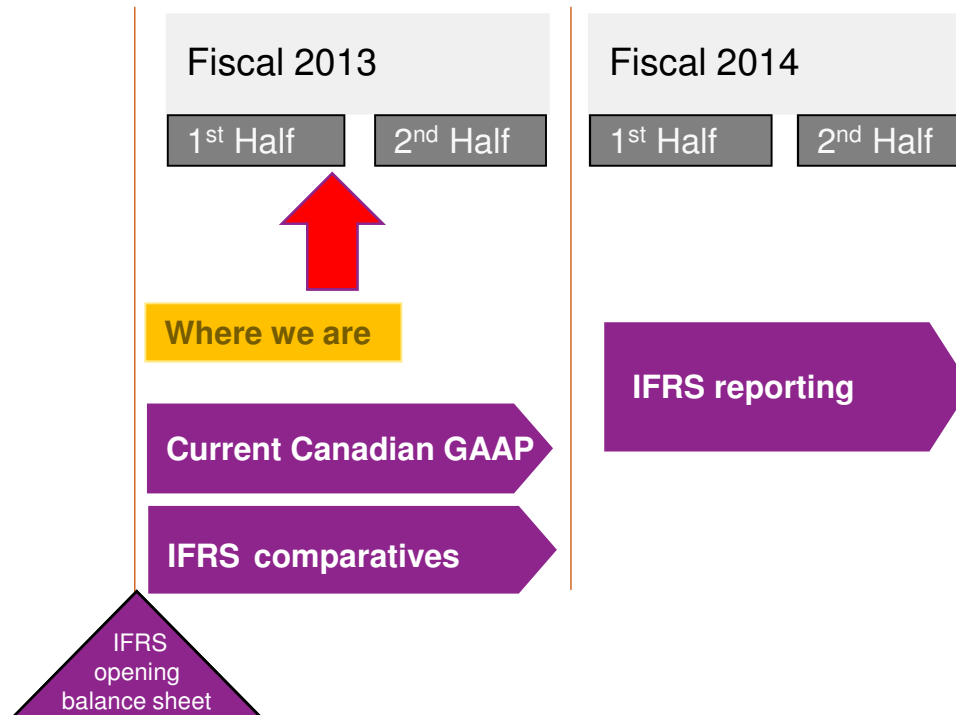
IFRS – Do I Really Care?

- IFRS required for funds that are Publicly Accountable Enterprises (PAEs) effective January 1, 2014
- PAEs include:
 - Reporting issuer funds
 - Funds subject to National Instrument 81-106 (NI 81-106)
 - Funds otherwise required to use IFRS due to securities law, etc.
- PAEs also include those that meet the definition of PAE under GAAP
 - Some divergence in application (number of investors vs. type of investors)
- Expectation is that vast majority of funds in Canada will be PAEs
- If not a PAE, need to decide which GAAP to apply
 - You can choose IFRS or use ASPE

IFRS – Do I Really Care?

- A PAE is an entity, other than a not-for-profit organization, or a government or other entity in the public sector that:
 - has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or instruments in a public market; or
 - **holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary business**
- Typically, funds with institutional investors out of scope (ie many private equity funds)
- Funds that are not reporting issuers or do not follow NI 81-106 (or otherwise required by securities law, etc.) will need to refer to definition

Timeline and Transition



Timeline and Transition

- First set of annual IFRS financial statements will include:
 - Statements of financial position at December 31, 2014, December 2013 and January 1, 2013
 - Statements of comprehensive income for the year ended December 31, 2014 and December 31, 2013
 - Statements of changes in equity for the year ended December 31, 2014 and December 31, 2013
 - Statements of cash flows for the year ended December 31, 2014 and December 31, 2013
 - Notes to the financial statements will include:
 - Explanation of transition from CGAAP to IFRS
 - Reconciliations from CGAAP to IFRS for financial position, financial performance and cash flows
- Also applicable to first semi-annual financial statements
 - June 30th financial statements also require opening balance sheet, reconciliations, etc.

Specific Topics – Debt vs. Equity

- Biggest issue for the industry now that consolidation has been addressed
- Issue relates to the classification of securityholders interest in a fund being disclosed as equity (as it is under CGAAP) or debt in the statement of financial position
- Majority of funds expected to be debt
- Issues with equity presentation are:
 - Bifurcation of equity
 - Potential fair value issues for debt portfolios under IFRS 9
- Issues with debt presentation are:
 - Net assets become zero?
 - Distributions to unitholders treated as an expense
- Industry participants continue to work with the regulators and standard setters on this matter

Specific Topics – Debt vs. Equity

- Why is it an issue?
 - Under CGAAP (EIC-149), units classified as equity
 - Under IFRS, criteria more extensive and restrictive than EIC-149 resulting in more structures to fail the equity test
- Features that will typically get you to debt:
 - Different classed of units with different fee structures, redemption rights, etc.
 - Existence of subordinate share class (such as Founder Shares)
 - Nature of distributions are 'required' as opposed to 'desired'

Specific Topics – Fair Value

- IFRS 13 (Fair Value Measurement) effective January 1, 2013
 - Comprehensive framework for measuring fair value when such measurement is required or permitted under other IFRSs
 - Detailed disclosures required about fair value measurements, including for non financial assets and liabilities
 - Allows the use of closing price for valuation as opposed to bid/ask
 - Potentially eliminates a GAAP/Pricing NAV difference
 - Do not expect any new accounting/pricing differences upon adoption
- IFRS 9 replaces IAS 39 in 2015
 - Consider early adoption
 - See future accounting standards slide

Specific Topics – Cash Flow Statement

- Statement of cash flows required under IFRS
 - Different from CGAAP whereby many funds were exempt from providing one
- Use of direct or indirect method
 - Indirect method most prevalent currently
- Some considerations
 - Portfolio trading considered an operating activity
 - Foreign exchange on cash a separate line item
 - Cash received/paid for interest, dividends and income taxes disclose separately
- Operational considerations to ensure reports available (purchases and sales of investments, etc.)

Specific Topics – Consolidation

- Major concern by Canadian industry which led to deferral of IFRS to 2014
- Addressed by recently issued IFRS 10 – Investment Entities
- Funds that meet the definition of an Investment Entity will account for investments that would otherwise be consolidated, at fair value
- Fundamental differences between CGAAP and existing US GAAP
 - Not a standard for accounting by investment entities (as existed under AcG-18 and US GAAP)
 - Only look to standard IF you have an investment you would consolidate
- Most funds in Canada will meet the definition
- Real estate funds will struggle to qualify, as will some private equity funds
- Separate (existing) guidance for investments subject to significant influence
- IFRS 12 sets out disclosures for non-consolidated entities

Specific Topics – Other

- Income taxes
 - Potential GAAP NAV / Pricing NAV difference related to timing of distributions
- General presentation and disclosure
 - More of it
- Bullion and other physical commodities
 - Not financial instruments...how to measure?
- Resources
 - Look for guidance forthcoming from IFIC, AIMA and others
 - Look for changes to NI 81-106 and other securities law

Specific Topics – Future Standards

- IFRS 9
 - Will replace IAS 39 Financial Instruments – Recognition and Measurement
 - Creates 2 categories of fair value, as opposed to multiple categories currently
 - Financial instruments at amortized cost
 - Financial instruments at fair value
 - Consider early adoption to simplify certain presentation/disclosure
 - Potential issues for funds with debt investments where units are accounted for as equity

Thank you

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