

Ontario Securities Commission, Investment Funds and Structured Products Branch – IFRS Release No. 3

OUTCOMES FROM THE REVIEW OF FIRST IFRS INTERIM FINANCIAL REPORTS

Staff of the Investment Funds and Structured Products Branch of the Ontario Securities Commission (OSC) has completed the review of the first IFRS interim financial reports required to be filed for the period ended June 30, 2014. This communication is to inform investment fund issuers and their advisers of the resolution of the issues identified in IFRS Releases No. 1 and 2, issued on September 30, 2014 and November 26, 2014, respectively.

For those investment funds that have yet to file their first IFRS interim financial reports and related management reports of fund performance (MRFPs), we encourage the fund, its manager and advisers to review this release to inform their first IFRS filings.

Opening IFRS Statement of Financial Position

In our review of the first IFRS interim financial reports, we noted that approximately half of the fund managers with investment funds that started in 2013 failed to include an opening IFRS statement of financial position at the date of transition to IFRS (the Opening Statement) on the face of the financial statements.

Background

The Opening Statement is required by IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) and is also mandated in securities law under subsection 18.5.1(1) of National Instrument 81-106 *Investment Funds Continuous Disclosure* (NI 81-106). Companion Policy 81-106CP *Investment Fund Continuous Disclosure* (the Companion Policy) explains that, in staff's view, the continuous disclosure requirements set out in NI 81-106 are minimum requirements that investment funds must include to provide full disclosure in their financial statements, in addition to the requirements in IFRS. Regardless of whether the requirement in IFRS 1 is triggered based on a materiality threshold under IFRS, securities law has made it an express requirement to provide an Opening Statement in the interim financial report under subsection 18.5.1(1) of NI 81-106.

The Opening Statement represents the starting point of an entity's accounting in accordance with IFRS and, as we stated in October 2009¹, we believe that investors need this information to understand how the transition from Part V of the CPA Canada Handbook (pre-changeover Canadian GAAP) to IFRS affects the investment fund's reported financial position, even if to show that the transition has had no effect.

New funds in 2013

All new funds that started in 2013 (the 2013 Funds) prepared annual financial statements at their first year-end in accordance with pre-changeover Canadian GAAP. Accordingly, all 2013 Funds are required to present an Opening Statement at the date of transition to IFRS which, given that these funds are new, is typically the fund's inception date² rather than January 1, 2013. Depending on what the fund manager determines the inception date of the fund to be, the fund may have net assets equal to zero, the seed

¹ In Appendix A, Summary of Proposed Amendments to the Notice and Request for Comments, dated October 16, 2009, which published the IFRS amendments to NI 81-106 and related amendments for comment.

² Preparers of the financial statements should note that the fund's inception date for purposes of the financial statements may differ from the dates used in the Fund Facts and in calculating past performance for the MRFP.

capital, or some other amount which will be reflected on the Opening Statement. We expect the date of transition chosen by the fund to be clear in the financial statements and that fund managers are able to substantiate the transition date selected.

In all cases, once a transition date has been selected, it should be applied consistently by investment funds when preparing their financial statements. While not an exhaustive list, some examples include: (i) the net assets on the Opening Statement should be the same as the net asset balance on the statement of changes in net assets for the beginning of the comparative period; (ii) the transition date associated with the Opening Statement should be the same as the fund's inception date generally disclosed in Note 1 to the financial statements; and (iii) the same transition date should be used in both the interim financial report and the annual financial statements.

Annual financial statements

For the 2013 Funds that did not include an Opening Statement, staff did not request that the funds refile their interim financial reports. This was done on the understanding that these funds would comply with IFRS 1 and subsection 18.5.1(2) of NI 81-106 in their annual financial statements for the period ended December 31, 2014 by including three statements of financial position: one for each of the current financial year and the comparative period, and the third being the Opening Statement. The Opening Statement is required to be presented on the face of the financial statements. If an investment fund determines that the Opening Statement would show zero balances, the fund may replace the Opening Statement with a footnote on the face of the statement of financial position, disclosing the date of transition to IFRS and explaining that the fund had no or minimal net assets on the date of transition.

For some 2013 Funds that have already filed their first IFRS interim financial reports, the guidance in this release may cause a fund to reconsider its inception date, and result in balances in its first IFRS annual financial statements that will be different from amounts in previously filed interim financial reports or in a set of annual financial statements prepared in accordance with pre-changeover Canadian GAAP. In such cases, staff expects an explanation of the differences to be included in the notes to the financial statements.

IFRS 1 Reconciliations

Further to the discussion in IFRS Release No. 1, for investment funds that did not include all of the reconciliation disclosures in their interim financial reports, staff did not request that the financial statements be refiled on the understanding that the equity and comprehensive income reconciliations required by paragraph 24 of IFRS 1 would be included in the first IFRS annual financial statements.

MRFP Disclosure

Further to the discussion in IFRS Release No. 1, for investment funds that did not include a footnote to the Financial Highlights table in the interim MRFP explaining the accounting principles applicable to each period in the table, we did not request that the interim MRFP be restated if the discussion had been included in the management discussion of fund performance (MDFP) section. We asked that the information appear as a footnote to the table in future MRFPs, since the discussion in the MDFP may not be carried forward in subsequent years.

Staff did request the restatement and refiling of the interim MRFP, accompanied by a press release explaining the information being refiled, in cases where there was no discussion of the transition to IFRS at all in the MRFP. Such funds were placed on the Refilings and Errors List on the OSC website. This public list includes issuers that have restated and refiled continuous disclosure documents after a staff review, or for which errors were noted during the review. For more information, please refer to OSC

Staff Notice 51-711 *List of Refilings and Corrections of Errors as a Result of Regulatory Reviews* (OSC Staff Notice 51-711).

Auditor Involvement with Interim Financial Reports

Further to the discussion in IFRS Release No. 2, in cases when an investment fund did not engage an auditor to review its interim financial report, staff requested a refiling and press release if a notice did not accompany the interim financial report to explain that a review had not been performed. These funds were placed on the Refilings and Errors List.

If a review was performed subsequent to the filing of an interim financial report that did not include a notice in the absence of a review, staff also requested that a press release be issued although no refiling of the interim financial report was required. The purpose of the press release was to explain that an error had occurred at the time of the filing, but that a review of the interim financial report had since been completed and resulted in no changes. These funds were placed on the Refilings and Errors List to acknowledge that an error had occurred.

Regulatory Consequences and Remedies

It is the responsibility of every investment fund issuer to meet its continuous disclosure reporting obligations. We remind investment fund managers that an investment fund that has filed financial statements or MRFPs that do not comply with securities legislation or IFRS, could be placed on the list of defaulting reporting issuers maintained on the OSC website until the default is remedied. A content deficiency in any such documents could also lead to the reporting issuer being placed on the default list. For more information, please refer to OSC Policy 51-601 *Reporting Issuer Defaults* and OSC Staff Notice 51-711.

Next Steps

IFRS Release No. 4 will be issued early in 2015 and will take the form of a “tip sheet” to assist investment fund issuers in checking for some of the key elements in a set of first IFRS annual financial statements.

Questions

Questions may be referred to the following staff members of the Investment Funds and Structured Products Branch:

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