

A large, abstract graphic of a network or sphere made of interconnected blue nodes and lines, positioned in the upper right background.

# Canada

## Accounting

FUNDS AND FUND MANAGEMENT 2009

### 1.1 Requirement to produce financial statements

#### Requirement to maintain the books and records in the local jurisdiction

All accounting records of Canadian mutual funds must be maintained in and updated in Canada. Semiannual and annual accounts must be prepared and all detailed reconciliations (investments, cash, units, etc.) must be performed in the country. Dividends must be issued from the country.

There is no requirement for other Canadian listed funds to maintain their books and records in Canada.

#### Production of financial statements by collective investment funds

Mutual funds and most other investment funds are required to produce financial statements. All funds registered with a securities commission (including many pooled and hedge funds) are required to have their annual financial statements audited.

Canadian regulated funds are required to produce annual and semiannual financial statements.

The directors are responsible for the preparation of the financial statements and two directors are required to sign the statement of net assets. For unit trusts, the manager takes responsibility for the preparation of the statements. Two directors of the manager should sign the balance sheet.

#### Choice of period/year-end for collective investment funds

Canadian regulated funds can choose their own year-end. Once chosen, they cannot alter the year-end without the prior approval of the relevant provincial regulator(s).

For listed funds, the first annual report must be for a period not exceeding 18 months from the date of first issue of units. An interim report must be produced for the first six months of operation, and thereafter semiannually.

### Requirement for comparatives

Comparatives are required for the financial statements, other than for the statement of investments.

### Restrictions on the currency under which financial statements must be prepared

The reporting currency should be specified in the prospectus of the fund.

### Accounting publications specific to the funds industry (as issued by accounting bodies or the regulators)

Industry practice is no longer a significant source of Canadian Generally Accepted Accounting Principles although the Canadian Institute of Chartered Accountants did issue a research report on financial reporting by investment funds in 1997, which is still referenced and is in the process of being updated. Although the research report is not considered a source of GAAP, it is useful in providing guidance on measurement, disclosure, and presentation issues. Accounting Guideline 18, investment companies do require investment funds to account for their investments at fair value. In addition, there are specific presentation and disclosure requirements for reporting issuer (public) and certain private funds (depending primarily on province of registration) imposed by securities requirements (most notably National Instrument 81-106).

### Use of short form accounts

There are no provisions in legislation for short form accounts.

### Classes of shares

Financial statements are required which incorporate all classes of shares.

There is no requirement to produce financial statements for each class of share unless the class is referable to a different investment portfolio.

## 1.2 Requirement to audit financial statements

The financial statements of investment funds require annual audits. Audited financial statements of reporting issuer funds must be filed within 90 days of year-end. There is no requirement to review the interim financial statements

except in certain cases when these statements are incorporated by reference into a prospectus.

The annual financial statements of Canadian listed funds must be audited in accordance with Canadian generally accepted auditing standards. The auditor must be independent of the fund and the fund's manager and is required to be a member of the Canadian Public Accountability Board (similar to U.S. requirements).

#### 1.3 Publication of financial statements

Canadian investment funds are required to make available their financial statements to the public at the places specified in the prospectus within 90 days for annual and 60 days for semiannual financial statements. They must be supplied to unitholders free-of-charge on request. The latest annual and semiannual financial statements must be offered to investors free-of-charge before the conclusion of a contract. The financial statements cannot be solely provided electronically.

The timelines described above apply to filing with the regulators also.

#### 1.4 Accounting standards

Canadian Generally Accepted Accounting Principles (GAAP) must be used for investment funds. KPMG in Canada would also note that the CICA has announced its intention to harmonize with IFRS and that process did begin in 2005. It is expected to conclude by 2011 and most Canadian investment funds will be required to adopt IFRS. It should also be noted that many pronouncements within Canadian GAAP have already been modified to conform with IFRS.

## 1.5 Contents of financial statements

Requirements for inclusion in annual financial statements:

	Required by law	Required by GAAP (Canadian)	Complied with for Best Practice
A statement which includes all income less expenses plus realized and unrealized gains and losses	Yes	Yes	Yes
A statement which only includes income less expenses	No	No	No
A statement which only includes income less expenses plus realized gains and losses	No	No	No
Statements of net assets and liabilities	Yes	Yes	Yes
Statement of changes in net assets	Yes	Yes	Yes
Cash flow statement	No	No except in certain cases	No
Statement of accounting policies	Yes	Yes	Yes
5 year net asset value table	No (required to be shown in MRFP referenced below)	No	No

## 1.6 Accounting treatments and disclosures

The following items must be included in the annual financial statements

	Required by law	Required by GAAP (Canadian)	Complied with for Best Practice
Futures are shown on balance sheet using the grossed up notional amount	No	No	No
Futures are shown on the balance sheet based on the margin outstanding	No	No	Yes

	Required by law	Required by GAAP (Canadian)	Complied with for Best Practice
Futures are shown on the balance sheet based on the margin outstanding and the margin paid to date	No	No	No
Organization costs are written off immediately	No	Yes	Yes
Organization costs are amortized over one year	No	No	No
Organization costs are amortized over more than one year	No	No	No
Issue costs are netted off against creation proceeds	No	Yes	Yes
Issue costs are charged to the statement of operations	No	No	No
Contingent deferred sales charges are recorded as income	No	No	No
Contingent deferred sales charges are netted off against redemption proceeds	No	Yes	Yes
Holdings in other collective investment funds are consolidated if the fund holds > 50% of the underlying collective investment fund's shares	No	No	No

## Appendix 1: Annual Report Requirements

### Annual report requirements

- A statement of net assets showing, each shown at current value:
  - cash, term deposits and, if not included in the statement of investment portfolio, short term debt instruments;
  - investments;
  - accounts receivable related to securities issued;
  - accounts receivable related to portfolio assets sold;
  - accounts receivable related to margin paid or deposited on futures or forward contracts;

- o amounts receivable or payable in respect of derivative transactions, including premiums or discounts received or paid;
  - o deposits with brokers for portfolio securities sold short;
  - o accrued expenses;
  - o accrued incentive arrangements or performance compensation;
  - o portfolio securities sold short;
  - o liabilities for securities redeemed;
  - o liabilities for portfolio assets purchased;
  - o income tax payable;
  - o total net assets and security holders' equity and if applicable, for each class or series; and
  - o net assets per security, or if applicable, per security of each class.
- A statement of investment operations showing:
    - o dividend revenue;
    - o interest revenue;
    - o income from derivatives;
    - o revenue from securities lending;
    - o management fees, excluding incentive or performance fees;
    - o incentive or performance fees;
    - o audit fees;
    - o directors' or trustees' fees;
    - o independent review committee fees;
    - o custodial fees;
    - o legal fees;
    - o commissions and other portfolio transaction costs;

- o security holder reporting costs;
  - o capital tax;
  - o amounts that would otherwise have been payable by the investment fund that were waived or paid by the manager or a portfolio adviser of the investment fund;
  - o provision for income tax;
  - o net investment income or loss;
  - o realized gains or losses;
  - o unrealized gains or losses;
  - o increase or decrease in net assets from operations and, if applicable, for each class or series; and
  - o increase or decrease in net assets from operations per security and, if applicable, per security of each class or series.
- A statement of changes in net assets which must disclose, for each class or series, the following:
  - o net assets at the beginning of the period;
  - o increase or decrease in net assets from operations;
  - o proceeds from issuance of securities;
  - o aggregate amounts paid on redemptions;
  - o securities issued on reinvestment of distributions;
  - o distributions, showing separately the amount distributed out of net investment income and out of realized gains, and return on capital; and
  - o net assets at the end of the period.
- A statement of investment portfolio which must disclose the following for each portfolio asset or security sold short:
  - o the name of the issuer;
  - o a description including specific requirements for debt securities;
  - o proceeds from issuance of securities;

- o the number or aggregate face value;
  - o the cost; and
  - o the current value.
- The notes to the financial statements of an investment fund must disclose various items including the basis for determining current value and cost of portfolio assets, differences between classes or series and costs of distribution of the investment fund's securities and the fund's progress in adopting IFRS. In addition, there are disclosure requirements regarding securities lending transactions, repo and reverse repo transactions, borrowing by the fund, and soft dollar costs. Last, the notes must disclose the net asset value (that is, pricing or transactional NAV) per security as at the date of the financial statements compared to the net assets per security as shown on the statement of net assets, and an explanation of each of the differences between these amounts (such as actively-traded investment assets priced at closing bid prices for accounting and priced at closing prices for pricing NAV)
- An auditors' report is also required.

Reporting issuer investment funds are also required to file a management report of fund performance with their annual and semi annual financial statements and the requirements for these reports are contained in NI 81-106F1.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.