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INVESTMENT FUNDS IFRS[®] ACCOUNTING STANDARDS TOOLKIT



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Introduction

Canadian investment funds most commonly are required to issue annual and semi-annual financial statements prepared in accordance with IFRS Accounting Standards, as issued by the International Accounting Standards Board (IASB). To assist Members, SIMA's Accounting Advisory Working Group has developed this Toolkit, which is updated periodically as standards evolve. The Toolkit addresses several of the most pertinent issues in applying IFRS Accounting Standards to open-ended funds in Canada.

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These commentaries highlight the key considerations, offer application guidance and provide reference tools. They do not constitute official accounting standards, nor are they definitive in their recommendations, as the facts and circumstances for each entity may vary. However, we expect that these papers should be useful to assist Members in navigating the issues and arriving at their own conclusions. The Toolkit does not address specific issues where consolidated financial statements are prepared by an investment fund nor does it address any specific issues for closed-end investment funds.

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1. Presentation and Disclosure

IFRS 18, Presentation and Disclosure, replaces IAS 1, Presentation and Disclosure, effective for financial years commencing on or after January 1, 2027. Retrospective application, with restatement of comparatives, is required, so Members will need to prepare in advance to ensure that comparative information is ready to be updated in the first post-implementation financial statements.

IFRS 18 is the first major change to the basic form and structure of financial statements in many years. It does not alter the measurement of any individual asset, liability, income or expense item. While many of the concepts from IAS 1 are carried forward in IFRS 18 and some others moved to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and IFRS 7, Financial Instruments: Disclosures, the changes are nonetheless significant.

The IASB's stated aim for IFRS 18 is to improve financial reporting by:

- a) requiring an entity to include two new defined subtotals in the statement of profit or loss, being "operating profit" and "profit before financing and income taxes";
- b) requiring an entity to disclose management-defined performance measures (MPM), which are subtotals of income and expenses not specified by IFRS Accounting Standards, and that are not already required to be presented in the financial statements pursuant to an IFRS Accounting Standard, that are used in public communications outside financial statements and which communicate to users management's views of an aspect of the entity's financial performance as a whole; and
- c) updating principles for aggregation and disaggregation of items.

IFRS 18 is accompanied by certain corresponding and narrowly-focused changes to IAS 7 – Statement of Cash Flows. Please also note that the IASB has a separate and more comprehensive ongoing project pertaining to the statement of cash flows and related matters, which has advanced to inclusion on the standard-setting agenda. At the time of writing this Toolkit, it is unclear as to what the final changes may be and when they will apply.

The CSA Modernization Proposals issued in late 2024 include elimination of the requirement to present certain series-level information, including the elimination of the need to present a statement of changes in net assets by series. This, while not necessarily an IFRS 18 item, has been considered in respect of the overall presentation and disclosure in financial statements in this paper. Workstream three of these proposals, which covers the changes to the financial statement requirements, took effect April 22, 2026.

NI 81-106 Amendments	IFRS Assessment
<p>Delete the requirement in items 18 and 19 of section 3.2 of NI 81-106 to provide class or series-level disclosure of the increase or decrease in total equity from operations or net assets attributable to securityholders from operations, in total and on a per security basis, in the Statement of Comprehensive Income</p>	<p>For puttable instruments, IFRS Accounting Standards currently do not require separate disclosure of the earnings on either a gross dollar or per share basis to be presented by class or series.</p> <p>When a puttable instrument meets the narrow scope exemption in IAS 32 and is classified as equity, it is not considered equity for purposes of IAS 33 and therefore per security disclosure would not be required.</p> <p>For genuine equity instruments (i.e. those not relying on the IAS 32 scope exemption for puttable instruments), evaluation of the applicability of IAS 33 should be done.</p> <p>Including disclosure of earnings per series or unit also would remain permissible should a fund manager determine that it is useful information.</p>
<p>Delete the requirement in section 3.3 of NI 81-106 to provide a breakdown of each line item in the Statement of Changes in Financial Position, by each class or series</p>	<p>IFRS 7, para 6 states that an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. A fund will need to consider the level of aggregation of subscription, redemption and distribution activity and the related disclosures. However, an investment fund that issues mutual fund series of units that primarily differ based on fees and intended distribution channel should be able to aggregate its statement of changes in net assets activity for those series with highly common characteristics.</p> <p>Additionally, certain additional disclosure considerations still apply based on how these units/shares are classified under IFRS Accounting Standards.</p> <p>For example, for puttable financial instruments classified as equity under IAS 32, relevant provisions would include IAS 1, paras 136A, 79 and 106, which still require disclosures of certain quantitative and qualitative information about those units.</p>
<p>Delete the requirement in paragraph (c) of item 2 of subsection 3.6(1) of NI 81-106 to provide disclosure in the notes to the financial statements identifying the differences between classes or series, including differences in sales charges and management fees</p>	<p>The extent of related disclosures will largely be driven by IAS 24, Related Party Disclosures. According to para 18, an entity shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances.</p> <p>Differences between classes or series of an investment fund should be disclosed to the extent these</p>

NI 81-106 Amendments	IFRS Assessment
	<p>disclosures are considered material to the entity. According to IFRS 18, para 32, the role of the notes is to provide material financial information necessary to:</p> <ul style="list-style-type: none">a. help users understand the line items presented in the primary financial statements; andb. fulfil the objective of the financial statements by supplementing the primary financial statements with additional information. <p>Investment funds that pay different management fees for each of their several series of units wouldn't automatically need to include detailed disclosures of rates by series to satisfy the requirements of IAS 24. However, disclosures for special fee arrangements for entities related to the fund or other non-routine factors should be evaluated on a case-by-case basis.</p>

Statement of Profit and Loss Categories Post Implementation of IFRS 18

There are now five categories of profit and loss to be reported in the statement of profit and loss, three of which are new: operating, investing and financing being newly introduced, with income taxes and discontinued operations carried forward. The standard also sets out required subtotals that are to be presented in the statement of profit or loss. IFRS 18 includes a concept of a specified main business activity, which impacts the categorization of income and expenses from certain sources. When an entity has a specified main business activity of investing in particular types of assets or providing financing to customers, income and expenses relating to those activities would be included in the operating category. Paragraph B31 includes investment entities as defined in IFRS 10 Consolidated Financial Statements as an example of an entity that might invest in assets as a specified main business activity.

Below is a summary of what may typically fall into each category for an investment fund.

Category	Summary	Fund
Operating category	Represents all income and expenses that are not classified in one of the other four categories below. For most investment funds, the majority of investment income and related expenses will be presented within this category under the concepts of a specified main business activity outlined in the standard.	IFRS 18, para 52-58
Investing category	<p>Except when in respect of a specified main business activity, this category contains income and expenses pertaining to investments in associates, joint ventures and unconsolidated subsidiaries, cash & cash equivalents (except when an entity has investing as a main business activity), and any other assets that generate a return individually and largely independent of the entity's other resources.</p> <p>This category is expected to be used seldomly by conventional funds but may apply in more complex fund structures not addressed in this Toolkit.</p>	IFRS 18, para 53-54 and 56(a)
Financing category	<p>To determine what income and expenses to classify in this category, an entity shall distinguish between:</p> <ul style="list-style-type: none"> (a) Liabilities that arise from transactions only involving the raising of finance, which would be included in the Financing category; and (b) Liabilities other than those described in (a) that arise from transactions that do not involve only the raising of finance, which would typically not be included in the Financing category. <p>Examples of items related to (a) include:</p> <ul style="list-style-type: none"> - Interest expenses on debt instruments issued by the entity - Fair value gains/losses on a liability designated at Fair Value Through Profit and Loss ("FVTPL") - Dividends on issued shares classified as liabilities - Income and expenses from the derecognition of a liability <p>Examples of items related to (b) that would also pertain to the financing category include:</p>	IFRS 18, paras 59, B52 and B54

Category	Summary	Fund
	<ul style="list-style-type: none"> - Interest expenses on payables arising on the purchase of goods/services - Interest on a contract liability with a significant financing component - Net interest expense (income) on a net defined benefit plan liability - The increase in the discounted amount of a provision arising from the passage of time and the effect of any change in the discount rate. 	
Income taxes	<p>Income tax expense (or income) that is included in the statement of profit or loss accounted for under IAS 12 <i>Income Taxes</i>. This includes any foreign exchange differences relating to the income tax balances.</p> <p>Income taxes accounted for under IAS 12 differ from other taxes that may be accounted for under IAS 37. The Toolkit does not address all forms of taxes that a fund may incur and whether they are accounted for under IAS 12 or IAS 37. However, the general principle is that taxes imposed by a taxation authority on profits of an entity are accounted for under IAS 12. For funds that incur taxes, either in Canada or in other jurisdictions, that are determined to be taxes on profits, the expense may fall into this category.</p>	IFRS 18, para 67
Discontinued operations	Applies to income and expenses associated with a discontinued operation as required by IFRS 5. IFRS 5 seldomly applies to dispositions of assets by a conventional investment fund and accordingly, this topic is not addressed further in this Toolkit.	IFRS 18, para 68
Required subtotals	<p>Subtotals to be presented in the statement of profit or loss include:</p> <ul style="list-style-type: none"> - Operating profit or loss - Profit or loss before financing and income taxes - Profit or loss 	IFRS 18, para 69

Below is a summary of common accounts impacting the primary financial statements of Canadian investment funds and how they may be categorized post implementation of IFRS 18.

Account/Financial Statement Line Item	Discussion on Categorization
Fair value movements on investments measured at FVTPL, dividend income, and interest income.	As noted above, the standard contemplates that a main business activity of an investment entity is investing in assets (except in a case where a determination has been made that not all fund assets are managed as part of a main business activity, IFRS 18 B.40), and therefore these items would ordinarily be expected to be presented in the operating category. This includes investments that would otherwise meet the definition of an associate or an unconsolidated subsidiary and which are accounted for at FVTPL by the fund.

Account/Financial Statement Line Item	Discussion on Categorization
Fair value movements on investments sold short measured at FVTPL, including related interest and dividend expense.	<p>In a typical short sale transaction, an entity borrows a security from the lender, sells it in the open market, then later buys the security in the open market and returns it to the lender.</p> <p>Classification of fair value changes from short sales would depend on whether the liability to return a security to the lender meets the definition of a “liability that arises from a transaction that involves only the raising of finance” and could be classified in the operating or financing category. An entity should develop a framework to assess criteria specified in IFRS 18, paras 59-61, B50-B55 to conclude on respective treatment.</p> <p>Interest/dividend expense (amounts payable to the purchaser for interest or dividends of the underlying security) on a short position and fair value changes from a short-sale liability are expected to be classified in the same category in the income statement.</p>
Fair value movements on derivatives	IFRS does not explicitly require presentation of fair value movements on derivatives separately from other investments classified at FVTPL. IFRS 18 disaggregation requirements would apply to presentation of these FV movements. However, NI 81-106 prescribes the individual line items that are required to be disclosed which includes separate disclosure for derivatives.
Fair value movements including income/loss relating to derivatives used in the investment strategy of the fund	Derivative fair value movements, unless the derivatives are specifically used to manage risk items that are categorized as financing or investing, would generally be included in the operating category.
Fair value movements including income/expenses related to derivatives used to hedge foreign currency risk for specific series of units/shares of the fund.	When the foreign currency hedges are intended to manage the market risk (i.e. changes in the fair value of the investment portfolio) it is expected that fair value movements as well as associated income/expense will be included in the operating category.
Interest on cash and cash equivalents	An investment fund’s main business activity is typically investing and income from cash and cash equivalents (IFRS 18.53) is classified in Operating category (IFRS 18.56(a)).
Fund administration expenses, management fees, and other ordinary expenses incurred to operate the fund, excluding those pertaining to financing activities.	Overhead, administrative and management costs associated with a fund are most commonly expected to be included in the operating category.
Costs associated with the filing of a prospectus	An investment fund that is in continuous distribution may incur expenses associated with filing its renewal prospectus. These are expensed for units that are classified as liabilities. If these costs are determined to be incremental expenses directly attributable to the issue and extinguishment of liabilities (IFRS 18.60b), they would likely be classified in the financing category.

Account/Financial Statement Line Item	Discussion on Categorization
Performance/incentive fees and allocations	Expected in the vast majority of cases to be included in the operating category.
Withholding taxes on foreign dividends and interest (and similar proceeds)	An investment fund that has concluded that taxes withheld at source on interest and dividends or similar proceeds are levies and accounted for under IAS 37 would be expected to include such taxes in the operating category. If the fund has determined that these taxes meet the definition of an income tax under IAS 12, then they would be included in the income taxes category. Most investment funds have historically treated such withholdings as levies and not income taxes, as they pertain to single distributions of income from other entities and not based on a computation of taxable profits at the fund level.
Taxes on capital gains	Some funds may file income tax returns or similar forms with non-Canadian jurisdictions (e.g. India) where taxes are computed on the net capital gains realized on securities issued by companies in that jurisdiction and held by the fund. In many cases, these are often taxes on profits in that jurisdiction and would be presented in the income tax category, and this would include any accruals made each period on unrealized gains on affected securities.
Interest and fees associated with borrowings	Interest and borrowing fees generally meet the definition of arising from raising of finance transactions and therefore would be classified in the financing category. It is important that an entity carefully consider and document its categorization assessment for interest associated with instruments such as repos, margin balances, or the like.
Foreign exchange gains and losses	Foreign exchange gains and losses typically are presented in the same category as the income and expenses associated with the assets and liabilities on which the foreign currency gains and losses were experienced.
Dividends and distributions paid on the units/shares issued by the fund	Dividends/distributions made by the fund to holders of units/shares are included in the financing category, when units/shares are classified as financial liabilities under IAS 32. Common practice in Canada is that these distributions are included in the statement of changes in net assets attributable to holders of redeemable units/shares for both units classified as equity or financial liabilities. IFRS 18 does not negate this practice.
Increase (decrease) in net assets attributable to holders of redeemable units for the year	This term, or variations thereof, is commonly the “bottom line” of a fund’s statement of profit and loss. This generally would be the equivalent to the required “net profit” total prescribed in IFRS 18 and is expected to continue being used post adoption of IFRS 18.

Aggregation and Disaggregation Under IFRS 18

Basic Principles

The aggregation and disaggregation principles in IAS 1 are largely carried forward in IFRS 18, with some refinement. A line item is an item that is presented separately in the primary financial statements, while other material information is presented in the notes. Assets, liabilities, equity, income, expenses or cash flows are classified and aggregated based on shared characteristics and disaggregated based on characteristics that are not shared. Furthermore, entities must aggregate or disaggregate items in the primary financial statements and notes that enables: the primary financial statements to fulfil their role of providing a useful structured summary; sufficiently detailed information is provided in the notes to enable users to understand the line items presented in the primary financial statements and to supplement the primary financial statements with additional information to achieve the objectives of the financial statements; and that material information is not obscured. An example would be that portfolio securities measured at FVTPL would be included in a single investments line in the statement of financial position, but dividends receivable would not be included in that total.

An entity would disaggregate items whenever the resulting information is material, and when this information is not presented in the primary statements, it would be disclosed in the notes.

IFRS 18 B25 reminds preparers that labelling items as simply “other” within each category should only be done if a more informative label cannot be found. When an item for which material information is aggregated with information that is not material, using a label that more faithfully describes the material item should be selected. When items are aggregated for which information is not material and where the items share common characteristics, a more descriptive term that represents the shared characteristics should be used (e.g. “other operating expenses”). When items are aggregated for which information is not material and where they do not share common characteristics, use a term that more faithfully represents the dissimilar characteristics of the items. Always consider the size of any items aggregated in an “other” line item, particularly with a view to assessing if a user may reasonably question whether it includes items for which information could be material.

Presentation of the Components of the Movements in Fair Value of Financial Instruments Carried At FVTPL

Investment funds that report pursuant to NI 81-106 are currently required to present minimum prescribed line items in the statement of profit or loss, including interest, dividends, income from derivatives, both realized gains (losses) and the net change unrealized gains (losses) on investments. Under refined guidance in IFRS 18, generally, an entity can disaggregate below the unit of account set out by IFRS Accounting standards provided 1) the components meet the criteria for disaggregation, and 2) reference is made to those components in IFRS Accounting Standards.

Interest – Generally, there is no expected change for most investment funds from current practice and therefore it can be disaggregated in the statement of profit and loss.

Dividends – Dividends earned on portfolio investments are expected to continue to be permitted to be separated in the statement of profit and loss.

Realized and unrealized gains (losses) - IFRS Accounting Standards do not specifically require disaggregation of realized and unrealized fair value movement but the refined disaggregation criteria makes it clearer that items may only be disaggregated on the face of a primary financial statement when the disaggregated item conforms to an IFRS Accounting Standard, and if not, that level of disaggregation could be moved to the notes. There is some debate as to whether or not the separation of realized gains and losses from the change in unrealized gains and losses conforms to IFRS Accounting Standards. This separation though is a requirement under Part 3.2 of NI 81-106. Investment funds should develop an accounting policy and presentation framework for these items.

Corresponding Amendments to IAS 7 – Statement of Cash Flows

The statement of cash flows will continue to present three categories of cash activity: operating, investing and financing. Either the direct or indirect methods may continue to be used. The amendments are designed to provide greater consistency of categorization between the statement of profit and loss and the statement of cash flows, but as each statement serves a different purpose, perfect alignment is not required.

Notable amendments to IAS 7 that apply concurrently with the adoption of IFRS 18 include:

- Interest paid must be classified as a financing activity (except for banks and similar entities with a main business activity of providing financing to customers, wherein the standard differs somewhat)
- Interest and dividends received by an investment fund, with a main business activity of investing, will be presented as an operating activity. Otherwise, interest and dividends received default to the investing category.
- Dividends/distributions paid must be classified in financing
- When the indirect method is used, the starting point is “operating profit” as reported in the statement of profit and loss, which is adjusted for:
 - Effects of transactions that are non-cash in nature
 - Deferrals or accruals of past or future operating cash receipts and payments
 - Income and expenses included in the operating category of the statement of profit and loss for which the associated cash flows are classified as either investing or financing in the statement of cash flows.

Management-defined Performance Measures

The objective of the disclosures of MPMs is for an entity to provide information to help a user of financial statements understand:

- The aspect of financial performance that, in management’s view, is communicated by an MPM, and
- How the MPM measure compares with the measures defined by IFRS Accounting Standards

IFRS 18 introduces a presumption that a subtotal of income and expenses that is used in public communications outside of the financial statements communicates to users of the financial statements management’s view of an aspect of the financial performance of the entity as a whole. This presumption may be rebutted and an entity may assert that a subtotal does not communicate management’s view of an aspect of the financial performance of the entity as a whole but only if has reasonable and supportable information that demonstrates the basis for this assertion.

Note that financial ratios are generally not MPMs because they are not themselves subtotals of income and expenses. However, a subtotal that is either the numerator or denominator in a financial ratio is an MPM if the subtotal itself would meet the definition of an MPM on its own (i.e. if it were not part of the ratio). In such cases, the disclosure requirements for MPMs would apply to the numerator or denominator.

An entity may conclude that it has no MPMs, one MPM, or more than one MPM.

The standard further outlines that MPMs that are disclosed be done so in a single note that includes a statement that the MPMs provide management’s view of an aspect of the financial performance of an entity as a whole and that they are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities. Furthermore, each MPM must be labelled and described in a clear and understandable manner that does not mislead users. Paragraph 123 of IFRS 18 contains specified disclosures that must be made for each MPM, including a reconciliation of the MPM to the nearest IFRS measure.

It is worth noting that term *financial performance* in the context of IFRS Accounting Standards, and specifically the presentation and disclosures in financial statements, refers to measures of profit or loss.

Measures commonly communicated by funds outside the financial statements can include both items required or otherwise included in the management report of fund performance, or other communications issued by the fund to the users of the financial statements (websites for example). Examples of commonly used measures and views on whether they might constitute an MPM for purposes of inclusion in financial statement note disclosures are discussed below.

Measure	Discussion
NAV per unit	This is not itself a measure of performance, and neither the numerator (net assets, a point-in-time measure of financial position) or the denominator (units/shares outstanding on the date) would constitute an MPM on its own.
Distributions per unit	A distribution made by a fund is made in accordance with the requirements of its constating documents, often to ensure that all taxable income is flowed through to investors such that the fund itself avoids incurring a Canadian income tax expense. As distributions are based either on contractual amounts and/or the computation of taxable income, they do not communicate performance of the fund, particularly since unrealized gains and losses are generally not distributable.
Management expense ratio (MER)	The MER is the cost of operating a fund, expressed as a percentage of the fund's net assets. There is no component of income included in MER, only expenses. MER only presents an expense metric and therefore may not be viewed as communicating an aspect of financial performance.
Trading expense ratio (TER)	The TER presents the transaction expenses of a fund as a percentage of its net assets. Similar to the MER noted above, it only presents an expense metric and therefore may not be viewed as communicating an aspect of financial performance.
Fund expense ratio (FER)	The fund expense ratio is the sum of the MER and TER, and the conclusions on those would drive the conclusion on whether FER is a MPM.
Rates of return	<p>Rates of return included in an MRFP include both annual returns for each series of units, as well as multi-period compound returns. The computation of an annual return is typically done on a per unit/share level and is based on the general formula of “(NAV end of period minus NAV beginning of period) divided by NAV beginning of period, with distributions made in the year assumed reinvested”. Compound returns are the geometrically linked returns over the specified number of years expressed in an annual percentage that if achieved each year would equal the cumulative return achieved over those years.</p> <p>While a return itself is a form of ratio and therefore not an MPM, a fund would consider if the numerator is itself an MPM. Multi-series funds present returns for</p>

Measure	Discussion
	<p>each series, and therefore would not be a measure for the fund as a whole. A single series fund might conclude that the numerator for the current year's annual return is the net profit from the statement of profit and loss. However, as that measure is IFRS defined, it is by default not an MPM.</p> <p>Returns for periods longer than the period presented in the financial statements also would not likely conform to the definition.</p>
Portfolio turnover rate	The numerator is either the total purchases or sales of investments as defined in securities law and not a measure incorporating subtotals of income and expenses and therefore not an MPM.

Transition from IAS 1 to IFRS 18

IFRS 18 will apply to the first interim financial statements in the financial year commencing on or after January 1, 2027 (e.g. June 30, 2027, for funds with a December 31 year end). The comparative information will need to be accumulated in a manner consistent with the presentation adopted for 2027 onwards.

In the 2025 and 2026 annual financial statements, disclosures of the potential impacts of adopting IFRS 18 will be made, as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Consider expected subtotals that will be used, MPMs that may be added and changes to aggregation and disaggregation policies.

In the first interim financial statements post adoption of IFRS 18, funds will need to ensure that they have fully considered:

- The useful structured summary of the financial statements
- Aggregation and disaggregation of financial statement line items
- Accounting policy disclosures where policy choices have been made
- The transition disclosures required by IAS 8 and IFRS 18
- A reconciliation between each line item in the statement of profit or loss by applying IAS 1 and IFRS 18 for the comparative period preceding the current and cumulative current periods.

2. Fair Value Measurement under IFRS 13

IFRS 13 *Fair Value Measurement* defines fair value, sets out a single framework for measuring fair value, and requires disclosures about fair value measurements. Other standards in IFRS Accounting Standards, notably IFRS 9 for investment funds, define when an asset or liability should be measured at fair value and are discussed in Section 3 of this Toolkit.

Below is a summary of fair value measurement considerations that are commonly relevant to investment funds in Canada.

Topic	Application	Considerations	Reference
Fair value defined	<p>Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).</p> <p>A fair value measurement relates to a particular asset or liability and therefore should incorporate the asset's or liability's specific characteristics if market participants would consider these characteristics when pricing that asset or liability. These characteristics could include condition, location, and restrictions, if any, on sale or use as of the measurement date.</p>	Consider how fair value is defined in your accounting policies and your internal policies and procedures.	IFRS 13.9 IFRS 13.11
The "market"	<p>Management determines fair value based on a hypothetical transaction that would take place in the principal market, or in its absence, the most advantageous market. The principal market is the market that the investment fund has access to that which has the greatest volume and level of activity for the asset or liability, even if prices in other markets are more advantageous. It is not necessary to undertake an exhaustive search of all possible markets in order to identify the principal or most advantageous market, however, management should account for all information that is readily available. In the absence of evidence to the contrary, the market in which an entity normally transacts is presumed to be the principal market, or most advantageous market in the absence of a principal market.</p>	<p>Securities may trade on several markets that the investment fund has access to. They also may trade in markets where the fund does not have access to on the measurement date, including access that is restricted by government action (e.g. sanctions).</p> <p>Investment funds will need to determine the principal market for investments that they hold. The principal market is the market that the fund has access to that which has the greatest volume and level of activity for the asset or liability, even if the prices in other markets are more advantageous. [IFRS 13.18]. In addition, investment funds, particularly those which invest in non-financial</p>	IFRS 13.16-18

Topic	Application	Considerations	Reference
		<p>assets, may need to identify potential markets and the 'highest and best use' of their specific investments in order to determine the most advantageous market for the purpose of measuring fair value.</p>	
<p>Measurement for securities traded in active markets</p>	<p>The entity shall use fair valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</p> <p>When valuing an asset or liability using quoted prices in an active market for identical assets or liabilities, a single valuation technique will be appropriate.</p>	<p>Consider the accounting policy for investments that are quoted in active exchange markets. They must be valued at the point within the bid-ask spread that is most representative of fair value. If using closing prices, management will need to consider valuation processes to identify circumstances where the close price falls outside the bid-ask spread.</p> <p>For investments subject to restrictions on resale, considerations shall be given as to whether the restriction arises as a result of the instrument itself or through separate agreements apart from the instrument, and the impact, if any, on fair value. Fair value adjustments for such instruments would most often be either a level 2 or level 3 input, which would often result in that instrument being classified in either level 2 or 3 as appropriate.</p> <p>Other adjustments on securities traded in foreign markets (that close before the end of the fund's local market does) are commonly made by investment funds to account for the movements in markets occurring between the closing of the foreign market and the</p>	<p>IFRS 13.61, 13.70</p>

Topic	Application	Considerations	Reference
		<p>valuation time of the fund. These price adjustments are often provided by third party vendors and are sometimes referred to as fair value factoring. Accounting policies should define the use of these techniques, and they should be applied consistently. Consideration must also be given if the adjusted value would result in the transfer of the measurement to level 2.</p>	
<p>Measurement of investments involving unobservable inputs that are significant to the valuation estimate</p>	<p>Widely used valuation techniques include the market approach, cost approach and income approach. Valuation techniques shall be applied consistently unless a change is deemed appropriate when circumstances have changed.</p>	<p>Consider accounting policies for investments not quoted in active markets and for which a valuation technique that incorporates unobservable input is used.</p> <p>The market approach uses prices and other relevant information generated by market transactions involving either identical or comparable assets or liabilities. An example would be a valuation technique that uses market multiples derived from a set of comparables. Prices for recent transactions in the securities entered into by the fund or other parties also may be relevant inputs to the market approach. Another example may be the use of the reported NAV to value an interest in another investment fund where that NAV is deemed to be representative of an exit price.</p> <p>The cost approach reflects the amount that would be required to replace the service capacity of an asset at the measurement date. It is often referred to as the current replacement</p>	<p>IFRS 13.62-.65 and B5-B11</p>

Topic	Application	Considerations	Reference
		<p>cost approach. This is not to be confused with using cost as a proxy for fair value of unquoted assets or liabilities, when cost is deemed most representative of an exit price at the measurement date.</p> <p>The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (discounted) amount. The fair value measurement reflects current market expectations for those future amounts. These techniques include present valuation models (e.g. a discounted cash flow analysis) or option pricing models (e.g. Black-Scholes-Merton or binomial/lattice models).</p> <p>Consideration must be given to the ongoing appropriateness of the valuation technique used. Changes in circumstances, including when new markets for the asset or liability develop, new information becomes available or when information previously used is no longer available, improvements to valuation techniques are identified, or when market conditions change, all may result in a modification to the technique employed.</p>	
Fair value disclosures	IFRS 13 establishes a fair value hierarchy that categorizes fair value measurements into three levels. The hierarchy gives the highest priority to unadjusted quoted prices for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The level at which the asset or liability is classified is based	<p>Consideration of an investment fund's disclosure policies and procedures for level 3 instruments is of particular importance.</p> <p>Level 3 fair value measurements bring</p>	IFRS 13.72-.73. IFRS 13.91-.99

Topic	Application	Considerations	Reference
	<p>on the lowest level input that is significant to the entire measurement.</p> <p>An entity discloses the categorization of its fair value measurements within the three levels, transfers between levels, descriptions of techniques used and other relevant information.</p>	<p>additional disclosure requirements that are both qualitative and quantitative. These include:</p> <ul style="list-style-type: none"> - A reconciliation of the level 3 measurements from the beginning to end of the period - The approach is used to estimate the fair value of these investments. - The significant unobservable inputs used in the valuation technique - A sensitivity analysis for these inputs. - The fair value movement on level 3 investments still held at period end. 	

3. Financial Instruments Classification under IFRS 9

IFRS 9 establishes the principles for recognizing and derecognizing, and classifying within defined measurement categories, financial instruments, financial liabilities and certain contracts to buy non-financial items. Investment funds have various considerations in classifying and measuring their financial instruments, which include using methods other than FVTPL in certain instances. It is also important to recognize that certain investments of a fund are not financial instruments but have been traditionally classified and measured at FVTPL. The following summarizes areas for consideration for financial instruments often held by investment funds. It excludes the implications of holding interests in subsidiaries, associates or affiliates, and joint arrangements that are covered by IFRS 10 (Consolidated Financial Statements), IAS 28 (Investments in Associates and Joint Ventures) and IFRS 11 (Joint Arrangements).

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, most notably, how they are measured on an ongoing basis. IFRS 9 outlines a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, removing a source of complexity associated with previous accounting requirements.

Business Model Test for Investment Funds

Under IFRS 9, financial assets and financial liabilities are classified into the following three categories:

- i. Amortized cost
- ii. Fair value through other comprehensive income ("FVOCI")
- iii. Fair value through profit or loss ("FVTPL")

The basis of classification focuses on two elements:

- a) The entity's business model for managing the financial assets and financial liabilities; and
- b) The contractual cash flow characteristics of the financial assets and financial liabilities.

When to use Amortized Cost?

Financial assets shall be measured at amortized cost if both of the following conditions are met:

- (a) The financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or an entity has opted to measure a liability at FVTPL.

When to Use FVOCI?

Financial assets shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) The financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income.

When to use FVTPL?

Financial assets shall be measured at fair value through profit or loss unless measured at amortized cost or at fair value through other comprehensive income. Accordingly, if an instrument does not meet the first two criteria it will automatically be classified as FVTPL. Under the IFRS 9 model, FVTPL is the residual category. Financial assets should be classified as FVTPL if they do not meet the criteria of FVOCI or amortized cost.

Certain liabilities are required to be measured at FVTPL. These include all derivatives (such as foreign currency forwards or interest rate swaps) and an entity's own liabilities that it classifies as 'held for trading'. Under IFRS 9, an entity can, at initial recognition, irrevocably designate a financial liability as measured at FVTPL where doing so results in more relevant information (IFRS 9 para 4.2.2). A common reason why entities might elect to use the fair value option is where they would otherwise have an accounting mismatch between a financial liability and an asset that is required to be held at FVTPL.

Business Model Assessment for Investment Funds

IFRS 9 requires that all financial assets are initially, and subsequently, measured at amortized cost, FVOCI or FVTPL based on the business model for managing the financial assets and their contractual cash flow characteristics.

IFRS 9 states that identifying business models is a matter of fact that is typically observable through an entity's activities, not merely an assertion. Relevant evidence that entities should consider include:

- How information about financial assets and their performance is evaluated by the entity's key management personnel.
- The risks that affect the performance of the group and the way which those risks are managed.
- How managers are compensated (e.g., whether the compensation is based on the fair value of the assets or the contractual cash flows that are collected).

The business model is determined by the entity's key management personnel in the way that assets are managed and their performance is reported to them. The business model applied in managing the assets in investment funds does not typically meet the criteria for classification at amortized cost or fair value through other comprehensive income. An investment fund's main objective in its buying and selling of investments is to realize their fair values. The sales are integral in managing the assets in the portfolio, collecting cash flows is incidental.

B4.1.5 Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (but see also paragraph 5.7.5).

One business model that results in measurement at fair value through profit or loss is one in which an entity:

- Manages the financial assets with the objective of realizing cash flows through the sale of the assets.
- Makes decisions based on the assets' fair values and manages the assets to realize those fair values.

In this case, the entity's objective will typically result in active buying and selling. Even though the entity will collect contractual cash flows while it holds the financial assets, the objective of such a business model is not achieved by both collecting contractual cash flows and selling financial assets. This is because the collection of contractual cash flows is not integral to achieving the business model's objective; instead, it is incidental to it.

B4.1.6 A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis (as described in paragraph 4.2.2(b)) is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The entity is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. In addition, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets. For such portfolios, the collection of contractual cash flows is only incidental to achieving the business model's objective. Consequently, such portfolios of financial assets must be measured at fair value through profit or loss.

The activities applied in managing financial assets within investments funds closely match with the last category of business model noted below (other business models). It is expected that most Canadian investment funds will fall within this business model.

Example¹

IFRS 9 business model classifications – key considerations			
	Holding to collect contractual cash flows	Holding to collect contractual cash flows and sell	Other
Over-arching objective	Collecting cash flows is integral, sales are incidental	Collecting cash flows and selling assets are both integral	Sales are integral, collecting cash flows is incidental
Examples of why sales happen in each category	Sales are made in response to increase in asset's credit risk or to manage credit concentration risk	Sales are made as part of managing everyday liquidity needs, maintaining a particular interest yield profile or matching the duration of financial assets and liabilities	Sales are made within a program of active buying and selling to realize fair values
Illustrative examples in IFRS 9	IFRS 9, B4.1.4	IFRS 9, B4.1.4C	IFRS 9, B4.1.5

Resulting Treatment	Amortized cost	FVOCI	FVTPL
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Investment funds generally manage financial assets and financial liabilities as a group. The performance is evaluated on a fair value basis in adherence to a documented investment objective and risk profile. The information about the investment fund's performance is provided both internally on that basis to the entity's key management personnel and externally.

Therefore, in most cases assets held in investment funds with the characteristics mentioned are generally classified and measured at fair value through profit or loss in accordance with IFRS 9.

Assets held as part of a group that are managed and their performance is evaluated on a fair value basis are required to be classified at FVTPL. For most investment funds the business model is to achieve overall performance, which may include an income component that is only incidental.

¹ Courtesy PricewaterhouseCoopers LLP

Business Model Assessment - Money Market Funds

Most money market funds' investment objective is to provide maximum income while preserving capital and liquidity by primarily investing in short term debt instruments. Money market funds typically provide investors with very high levels of liquidity and therefore often experience much higher levels of subscription and redemption activity when compared to other types of funds. In addition, trading may also occur to actively manage the yield, credit risk and liquidity. Based on the trading activity of the fund and other relevant considerations as noted above it may be categorized under any of the three business models:

1. A business model whose objective is to hold assets in order to collect contractual cash flows
2. A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
3. Other Business Model - Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair Value Designation to Eliminate Accounting Mismatch

If the business model of the money market fund is 1 or 2 above resulting in either amortized cost or FVOCI for investments held but the fund's units are classified as financial liabilities in accordance with IAS 32 and measured at FVTPL, the fund may be able to use the Fair value designation option under IFRS 9 and have these financial assets classified as FVTPL.

This option is available to eliminate or significantly reduce a measurement or recognition inconsistency, sometimes known as an 'accounting mismatch', that otherwise would arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

Designation Eliminates or Significantly Reduces an Accounting Mismatch

B4.1.29 Measurement of a financial asset or financial liability and classification of recognized changes in its value are determined by the item's classification and whether the item is part of a designated hedging relationship. Those requirements can create a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') when, for example, in the absence of designation as at fair value through profit or loss, a financial asset would be classified as subsequently measured at fair value through profit or loss and a liability the entity considers related would be subsequently measured at amortized cost (with changes in fair value not recognized). In such circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were measured as at fair value through profit or loss.

For money market funds with units classified as equity, there is no ability to designate by eliminating the accounting mismatch. In such cases, such funds would need to fall into Business Model 3 to get to FVTPL classification.

Other Considerations

The situations presented in this paper may not be applicable to all fund types. Management should consider their particular circumstances and determine other factors they may need to take into consideration before determining the applicability of the positions here to each of their funds.

Additional Considerations

Topic	Application	Considerations	Reference
Recognition and derecognition	An entity shall remove a financial liability from its statement of financial position only when it is extinguished, which is when the obligation specified in the contract is discharged, cancelled or expires.	Investment funds have applied trade date accounting consistently. Care must be taken when acquiring or disposing of private securities, interests in other funds, or other similar situations where the determination of the date on which the fund is committed to purchase or sell an asset may be more complex than with organized exchange or brokered markets.	IFRS 9.3.1, IFRS 9.3.3
Classification of financial assets	<p>Unless an irrevocable designation is made (as further described below), an entity classifies financial assets, after initial acquisition, as subsequently measured at amortized cost, fair value through other comprehensive income, or fair value through profit and loss on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.</p> <p>Despite the above, an entity may, at initial recognition, irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition consistency (aka accounting mismatch) that would otherwise arise from measuring asset or liabilities or the gains and losses on them on different bases.</p>	It is uncommon for a conventional investment fund in Canada to measure investments at anything other than FVPL. However, for certain fixed-income funds, care has to be taken in assessing the business model considerations with respect to the fixed-income securities held.	
Derecognition - Narrow scope amendments to IFRS 9	<p>Effective January 1, 2026, amendments to IFRS 9 impacting the timing of the derecognition of cash and related financial liabilities take effect.</p> <p>The amendments clarify the derecognition criteria such that all payments be recorded on settlement date, except for certain electronic payments where specific conditions are</p>	<p>Historically, many preparers have derecognized cash and the related financial liability when a cheque was mailed rather than when cashed by the recipient. The associated outstanding cheques were identified as bank reconciling items.</p> <p>Cheques are seldomly used by funds today with the vast</p>	

Topic	Application	Considerations	Reference
	<p>met. An entity may deem that a financial liability that will be settled using an electronic payment system to be discharged before settlement only when all of the following conditions are met:</p> <ul style="list-style-type: none"> - The entity has no practical ability to withdraw, stop or cancel the payment instruction; - The entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and - The settlement risk associated with the electronic payment system is insignificant. <p>Note that the election would apply to all payments made using the electronic payment system that was determined to have met the conditions. The election is made on a system-by-system basis.</p>	<p>majority of payments settled via electronic payment mechanisms.</p> <p>An entity must consider its existing practices and determine if current practices conform to the requirements of the amendments.</p> <p>In addition, the new standard adds in a requirement to disclose the amount of cash included in the statement of financial position that is in transit at the reporting date.</p>	
Interest income	<p>IFRS 9 requires that interest income on financial assets measured at amortized cost and FVOCI be computed using the effective interest method. Interest income on financial assets that are measured at FVTPL may be presented separately from the net movement in fair value of the underlying instruments and the use of the EIR method is not required.</p>	<p>NI 81-106 3.2(2) requires disclosure of interest revenue in the statement of profit and loss.</p> <p>Investment funds will need to consider their accounting policies including measurement techniques for interest income for both financial assets measured at FVTPL and amortized cost/FVOCI. It is uncommon for an investment fund to classify and measure a debt instrument held at amortized cost, although for certain high-grade short-term instruments, amortized cost may be used to approximate fair value. However, investment funds must consider their particular circumstances when forming their policies and procedures.</p>	IFRS 9.5.4

4. Puttable Instruments – Classification as Equity or Financial Liabilities

Overview

Canadian investment funds issue shares or units (referred to as “units” or “shares” interchangeably in this document) with unique, entity-specific characteristics which represent the investors’ ownership interest. Under IFRS Accounting Standards, a puttable instrument is classified as a financial liability unless it meets the narrowly defined criteria for treatment as an equity instrument outlined in IAS 32 paragraphs 16A-16D.

The focus of this portion of the Toolkit is to discuss certain issues with regard to classification and presentation of units as financial liabilities or equity. Specifically, the focus of this section of the document is the exception in IAS 32 paragraphs 16A and 16B that requires puttable units that are financial liabilities by definition to be presented as equity if each of the criteria in these paragraphs are met. This section of the toolkit does not address any of the other aspects of IAS 32 that may bear on the classification of fund units (for example, those provisions of IAS 32 that would bear on limited life entities).

Approach to Initial Classification

For Canadian investment funds, applying IAS 32 to puttable units is a multistep process that in general considers the puttable units of a fund in the following manner:

1. Do the units meet the general definitions to qualify as a “financial liability” or as “equity” under IAS 32?
2. Do the units include contractual obligations for the fund to repurchase or redeem the units for cash (or another financial asset) upon exercise by the unitholder? (i.e. do the units qualify as “puttable instruments” under IAS 32)
3. If it is determined that the units qualify as puttable instruments, do the units meet all the criteria under IAS 32 requiring the units to be presented as equity by exception?

Given the diversity of characteristics from fund to fund and between fund managers, analysis is required to determine how each fund should classify and present its units under IAS 32.

Are The Units of the Investment Fund a “Financial Liability” or “Equity”?

Determining whether the units of the fund meet the general definitions to qualify as a “financial liability” or as “equity” requires consideration of the features of the fund’s units against the general definitions contained in IAS 32.11, and the other guidance contained within IAS 32. One of the key features in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder), or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer. Investment funds typically issue units that are redeemable at the option of the holder for cash as per the contractual terms of the instrument (for example as may be set out in the fund’s Declaration of Trust (DOT) or other relevant documents). These fund units will meet the definition of a financial liability as they contain a contractual obligation of the issuer of the financial instruments to deliver cash to the holder.

It is important to note that the IAS 32 definition of a financial liability focuses on contractual obligations. The language in the documents that establish the contractual features of the units (for example, the DOT or other relevant documents) must be assessed to determine whether the units are financial liabilities. Economic compulsion or fiduciary obligations are not contractual obligations and generally do not impact the determination of whether an instrument is a financial liability.

Do the Units Qualify as “Puttable Instruments” Under IAS 32?

As these fund units give the holder the right to put the instrument back to the issuer for cash, they are puttable instruments as defined in IAS 32 and may qualify for and require presentation as equity by exception if certain specific criteria are all satisfied. It is important to note that the application of the guidance in IAS 32 is not always straightforward, especially for financial instruments that contain multiple features, therefore each fund must refer back to the guidance in IAS 32 and develop its own analysis.

In general, it is expected that most funds will begin the analysis by identifying that the units that are redeemable at the option of the holder for cash as per the contractual terms of the instrument constitute financial liabilities. The balance of the discussion in this toolkit assumes this is the case.

However, as these units are puttable instruments since they can be redeemed at the option of the unitholders, it is necessary to consider the following question - **Do the units meet all the criteria under IAS 32.16A and .16B which would require the units to be classified as equity by exception?** The balance of the discussion in this toolkit focuses primarily on this question.

IAS 32.16A and .16B state that:

*16A. A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. **As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all the following features:***

(a) It entitles the holder to a pro rata share of the entity’s net assets in the event of the entity’s liquidation. The entity’s net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:

- (i) dividing the entity’s net assets on liquidation into units of equal amount; and*
- (ii) multiplying that amount by the number of the units held by the financial instrument holder.*

(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:

- (i) has no priority over other claims to the assets of the entity on liquidation, and*
- (ii) does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.*

(c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.

(d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity’s own equity instruments as set out in subparagraph (b) of the definition of a financial liability.

(e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

16B. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:

(a) *total cash flows based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract) and*

(b) *the effect of substantially restricting or fixing the residual return to the puttable instrument holders.*

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 16A that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the puttable instrument as an equity instrument.

It is important to note that it is not an option to present a puttable unit as either a financial liability or equity. If a puttable unit has **all** the features noted in paragraph 16A and 16B above, even though it meets the definition of a financial liability it must be presented as equity. Therefore, the contractual features of the puttable units issued by each fund must be assessed against the criteria noted in paragraphs 16A and 16B above for the purpose of determining the required financial statement presentation on the transition date as well as on an ongoing basis.

It is important to note that the presentation of puttable units as equity is required when all of the criteria in paragraphs 16A and 16B are met. As a result, if one of the criteria is violated puttable instruments will not be presented as equity. The features in paragraphs 16A and 16B above that are most likely to not be met in the case of the more typical puttable units issued by a typical investment fund in Canada are those in paragraphs 16A (b), (c) and (d) above.

The following are some, but by no means all, factors to consider in analyzing the criteria in paragraphs 16A and 16B when determining how to present puttable units. As this list of factors is not exhaustive, a detailed analysis will need to be done on a fund by fund basis or fund group by fund group basis to determine whether each specific class of units are financial liabilities or equity by definition and for puttable units that are financial liabilities, whether all criteria under IAS 32.16A and .16B are met for such puttable instruments to be presented as equity.

Funds with Multiple Series of Units

For a fund with more than one issued and outstanding series of units and where those series of units are all equally subordinate and together represent the most subordinate of all classes of instruments, it is very often the case that the features of each series will be different (for example, fee rates for expenses charged directly by a fund for each series may be different under the contractual terms of the units). In this case, this would appear to violate the criterion under paragraph 16A (c) as the features of each fund unit in the class of instruments that is the most subordinate of all classes of instruments are not identical. In this case, the puttable units which are financial liabilities by definition will be presented as such even when they are in the most subordinate class of instruments because the criterion in paragraph 16A(c) is not met. It should be noted that in some cases there may be separate agreements which in substance form additional contractual terms of the units themselves. Judgment will need to be applied to determine whether or how these outside agreements are factored into the analysis and legal interpretation may be necessary.

It is important to note that it is not appropriate to assume that the puttable units of a fund with multiple series of units will automatically violate the identical features criterion under paragraph 16A(c) resulting in those series of puttable units that are equally subordinate and together represent the most subordinate of all classes of instruments issued by the fund being presented as liabilities. An analysis must be performed to assess whether all features attached to each unit in the most subordinate class of instruments are identical or not. If identical, the other criteria in paragraph 16A and 16B must still be analyzed.

In addition, the fund may have other units that are more subordinate than its puttable units which may need to be presented as equity. An analysis of each class of units against the definitions of financial liability and equity and the criteria for presentation as equity by exception in IAS 32 is required.

Funds that are Share Classes of a Mutual Fund Corporation

For funds that are structured as share classes of a mutual fund corporation, financial statements are often prepared for each separate share class within the mutual fund corporation and the classification and presentation of shares as financial liabilities or equity in each of these financial statements is necessary. In making this assessment, one might first consider the nature of the reporting entity. Specifically, is the specific share class an entity in its own right or is it more akin to a carve out from the larger mutual fund corporation entity? While there is limited guidance within IFRS Accounting Standards as to what constitutes an entity, one reference point to consider is the deemed separate entity or “silo” concept within IFRS 10.

Under paragraph B77 of IFRS 10:

An investor shall treat a portion of an investee as a deemed separate entity if and only if the following condition is satisfied:

Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the investee. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the returns from the specified assets can be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee. Thus, in substance, all the assets, liabilities and equity of that deemed separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a ‘silo’.

While each share class within a mutual fund corporation has its own portfolio of assets, all share classes within a mutual fund corporation in Canada typically are legally responsible for the liabilities of the mutual fund corporation as a whole, which means that if one share class is in a negative net assets position, the other share classes are responsible for the liabilities of that share class. If one were to draw an analogy to paragraph B77 of IFRS 10 above, the assets and liabilities of each share class are not ring-fenced from the overall mutual fund corporation and therefore would not be considered a deemed separate entity or “silo” per IFRS 10. As such, one might take the view that each share class is not its own entity, but instead a carve-out from the mutual fund corporation. If at the mutual fund corporation level the share classes otherwise meet the definition of financial liability and do not satisfy all the criteria for presentation as equity under paragraphs 16A and 16B of IAS 32 (perhaps for the reasons noted above in the discussion of funds with multiple series of units), one might take the view that this presentation is appropriately reflected in the separate class financial statements on the basis that they are a carve out from the larger mutual fund corporation rather than being a separate entity in their own right.

Under this view, to the extent that the assets and liabilities within each share class are fully ring-fenced from the overall mutual fund corporation and may therefore be considered a deemed separate entity by analogy to IFRS 10, the classification and presentation of shares as financial liabilities or equity under IAS 32 may need to be assessed separately at the share class deemed separate entity level which could result in a different classification and presentation.

As the legal structure of each mutual fund corporation may be different, each fund must carefully consider its own specific facts and circumstances and conduct a thorough analysis against the definitions and criteria in IAS 32.

Funds with Founders’ Shares or Units

If a fund has a separate share or unit class from the puttable shares or units of the fund, for example, founders’ shares, that are more subordinate than the puttable shares or units (see paragraph 16A(b) for a description of what constitutes a share or unit class that is subordinate to all other classes of instruments), then the puttable shares or units of the fund are not considered the most subordinate class, which violates the criteria under paragraph 16A(b). As a result, the classification of the puttable shares or units will remain as financial liabilities. Note: an assessment will need to be made as to whether the founders’ shares meet the definition of a financial liability or equity under IAS 32 and if a financial liability, whether they are required to be presented as equity by exception.

Distribution Requirements

If under the contractual terms of a fund's puttable units a fund has a contractual obligation to distribute cash or another financial asset to the holders of such units, this will violate paragraph 16A (d). As a result, these puttable units that are financial liabilities by definition will be presented as such.

The language in the documents that establish the contractual features of the units (for example, the Declaration of Trust ("DOT") or other relevant documents) must be assessed to determine whether the language constitutes a "contractual obligation". Economic compulsion or a fiduciary obligation to distribute cash or another financial asset is not a contractual obligation. It is important to consider the totality of the contractual features of the units in order to determine whether a contractual obligation to distribute exists or not. It may be necessary to consult with legal counsel on whether the contractual features of the units establish such a "contractual obligation".

For investment funds in Canada, it is very common for distributions to be reinvested in units of the fund. Consider a fund with a single class of units that represents the most subordinate interest in the fund. A distribution pro-rata to unitholders in additional units rather than cash or other financial assets does not result in an outflow of resources from the fund and should not substantively effect the economic position of the unitholders in the fund. The unitholders will be in substantively the same position before and after distributions are paid in units similar to a stock dividend or stock split. In this circumstance, if it is at the sole and absolute discretion of the fund to distribute in cash or in additional units of the fund in any and all circumstances, it may be that the fund does not have a contractual obligation to distribute cash or other financial assets as contemplated by paragraph 16A(d) and the criterion in paragraph 16A(d) may not be violated.

The contractual terms of fund units as they relate to distributions can vary significantly for each fund or for each fund group and for each class of units within a fund, therefore a careful reading of the all of the contractual terms in totality is a necessity to assess whether the fund does in fact have the absolute discretion to distribute in additional units in any and all circumstances. Again, it may be necessary to consult with legal counsel to determine whether this is the case.

Some other factors to consider as they relate to distribution include but are not limited to:

- Is the option to distribute in units or in cash with the fund or with the unitholders? If the fund has a contractual obligation to make distributions of future earnings to puttable unitholders but the holders of a fund unit may choose whether his or her distributions were to be paid in cash or additional units and this discretion does not reside with the fund, then paragraph 16A(d) is violated.
- If the fund has the discretion to pay contractually required distributions in additional units, are there any circumstances where unit holders have the right to demand that such distributions be paid in cash? If the fund does not have the right to pay contractually required distributions in additional units in any and all circumstances, paragraph 16A(d) is violated.
- Is there an overriding clause within the contractual terms of the units that give unitholders the legal right to enforce payment of any amount to be distributed or payable at the time such amount is due and payable? Legal advice may need to be sought as to whether the enforcement of payment means cash payment or if it can be payment in units at the fund's discretion. If the unitholders have the legal right to enforce payment in cash, then paragraph 16A(d) would appear to be violated.
- Is there an overriding clause within the contractual terms of the units that give the fund discretion to distribute or discretion to distribute in kind in any and all circumstances? It is important to consider all the contractual terms of the units in totality when assessing the paragraph 16A(d) criterion. It is also important to distinguish contractual terms from economic compulsion or a fiduciary obligation as it is only contractual terms that are relevant for purposes of the paragraph 16A(d) criterion.

Certain Other Features

There may be other characteristics of fund units that require analysis as to whether they violate the identical features requirement in paragraph 16A(c). Some of these include:

- Management fee or other fee rebates
- Different redemption features or terms that result in participation in the entity's net assets on a basis other than pro rata (e.g. in the case of ETFs where the option to redeem at 100% of NAV may only be available to units held by designated brokers while all other unitholders can only redeem their units at 95% of the last traded price)
- Different voting rights

It is important to determine whether these features represent features of the instrument and if so whether the features of all of the units in the most subordinate class of units are identical. As it is not clear whether some of the above characteristics will result in different features for each unit of a fund that is in a class of instruments that is subordinate to all other classes of instruments, further analysis will need to be made as to whether the identical features requirement in paragraph 16A(c) is met or not based on the specific facts and circumstances.

Puttable Shares or Units Presented as Equity

If the fund's puttable units meet all criteria under IAS 32.16A and .16B, then the fund units are presented as equity in accordance with IAS 32. Therefore, a fund that is required to classify or present its units as equity will be required to present a statement of changes in equity and a reconciliation of the different components of equity in accordance with IAS 1. This implies that equity will need to be bifurcated between cost and retained earnings at a minimum on an ongoing basis, as well as retroactively for the purpose of

the opening statement of financial position. Some of the challenges that this may pose for investment funds on conversion to IFRS Accounting Standards include:

- The information required to bifurcate equity into the different components is generally not readily available for most investment funds in
- Having both equity and liability classification for funds within a fund group and across different fund groups will decrease the comparability of financial statements as the presentation will be different under each classification.

Funds are also reminded of paragraph 96C of IAS 32 which indicates that although puttable units may be presented as equity by exception when the criteria in paragraphs 16A and 16B are met, they are not considered equity for purposes of applying certain other IFRS Accounting Standards (for example, IFRS 2 Share-based Payment and IAS 33 Earnings Per Share). Funds are encouraged to carefully look at this guidance and consider additional note disclosure explanations in the financial statements when EPS is disclosed in the financial statements (because of NI 81-106 requirements). For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

- (a) summary quantitative data about the amount classified as equity;
- (b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
- (c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and
- (d) information about how the expected cash outflow on redemption or repurchase was determined.

Funds are encouraged to refer to the illustrative examples that accompany IAS 32 that illustrate certain approaches to financial statement presentation for mutual funds whose share capital is not equity. In addition, your qualified professional advisor may have illustrative fund financial statements for both the circumstance where fund units are liabilities and the circumstance where fund units are presented as equity. Such illustrative financial statements may be available from your qualified professional advisor either on their website or by request.

5. Consolidation for Investment Funds

Overview

Under IFRS 10 *Consolidated Financial Statements*, most Canadian investment funds should be able to account for subsidiaries at fair value. It should be noted that, for most retail investment funds, it is unlikely that there will be subsidiary investments, except potentially in fund of funds structures. As a result, IFRS 10 only applies to those funds that have subsidiaries. However, it may be important to make a determination that the fund is an investment entity even if it has no subsidiaries in order to be eligible for the IFRS 12 paragraph 21A exemption from providing summarized financial information for associates and joint ventures (refer also to the presentation and disclosure section).

These amendments are summarized below:

Considerations	Guidance
<p>Canadian investment funds first need to determine if they have control over an investment. This determination can be quite complicated and is not as simple as owning more than 50% of the equity instruments of an entity.</p>	<p>The IASB, in 2011, issued an effect analysis on IFRS10 which introduces the possibility that fund of fund structures, where a top fund owns a majority interest in an underlying fund, still would not have control of the underlying fund. Similarly, the Manager of the underlying fund would not be determined to have control and thus and situation arises where a controlling party is actually absent.</p> <p>The premise for concluding that the top fund investor would not control the underlying investment fund is based on the voting rights being simply protective in nature and would not provide the top fund with the ability to make investment decisions and drive the activity of the fund.</p> <p>In regards to the Manager, they are acting as an agent for the investors of the underlying fund and receive market-based remuneration that is in line with the services rendered.</p> <p>In absence of similar facts and circumstances, an investment fund controls an investee if and only if the fund has all the following:</p> <ul style="list-style-type: none"> (a) power over the investee (see paragraphs 10–14 of IFRS 10); (b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and (c) the ability to use its power over the investee to affect the amount of the investor's returns (see paragraphs 17 and 18). <p>Power arises from existing rights that give the current ability to direct relevant activities (IFRS 10.10)</p>
<p>Once the investment fund determines that it controls an investment (whether the investment is an operating enterprise or another fund that holds investments) it will then look to the criteria in IFRS 10 to determine if it is an “investment entity”.</p>	<p>IFRS 10.27 states that an investment entity is an entity that:</p> <ul style="list-style-type: none"> a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services. b) Commits to is investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and c) Measures and evaluates the performance of substantially all of its investments on a fair value basis. <p>Paragraphs B85A-B85M provide related application guidance.</p> <p>In addition, IFRS 10.28 states that an entity shall consider whether it has the typical characteristics of an investment entity:</p> <ul style="list-style-type: none"> a) it has more than one investment (see paras B85O-B85P);

Considerations	Guidance
	<p>b) it has more than one investor (see paras B85Q-B85S); c) it has investors that are not related parties of entity (see paras B85T-B85U); d) it has ownership interests in the form of equity or similar interests (see paras B85V-B85W)</p> <p>The standard further states that the absence of any of the typical characteristics above does not necessarily disqualify an entity from being classified as an investment entity. However, it is unlikely that an entity could be considered an investment entity without possessing any of the typical characteristics.</p> <p>It is also important to note that these characteristics are not expressed as criteria to be recognize practical considerations over the investment entity lifecycle (e.g. a private equity fund may start with one investment) and to accommodate different structures (e.g. Canadian segregated and pension funds may have different forms of ownership interests).</p> <p>Note: disclosures are required generally regarding the judgments made in this determination.</p>
<p>If the investment fund determines that it is an investment entity under IFRS 10, then it does not consolidate its subsidiary(ies) (unless it is an entity providing investment related services) but rather accounts for its investment in that subsidiary at fair value through profit or loss in accordance with IFRS 9. Thus, the consolidation exception is mandatory.</p>	<p>Paragraph B85L also requires an investment entity to measure all of its other investment assets at fair value. Non-investment assets and liabilities can be measured at other than fair value.</p> <p>There is one type of subsidiary that an investment entity is required to consolidate (“service entities”) (IFRS 10.32). It is our suggestion that if you think you have this situation, you consult your advisors as this is a complicated and a number of different scenarios have evolved globally. Another matter that can be complex is what constitutes a “blocker company” (as described in BC272) so we would suggest you also consult with your advisors if you employ these entities.</p> <p>In addition, the consolidation exception doesn’t apply to a non-investment entity parent of an investment entity. This is one of the differences between IFRS 10 and the U.S. standard for investment entities. We expect that this scenario will have the most impact in Canada on large banks and insurance companies but could also be an issue for private equity and hedge fund managers. This scenario isn’t discussed further in this document as it likely does not impact retail investment funds.</p>
<p>The application guidance contained in paragraphs B85A to M is important to assessing whether an investment fund would be considered an investment entity.</p>	<p>IFRS 10 allows an investment entity to provide management services and strategic advice to an investee as well as provide financial support to an investee, such as a loan, capital commitment or guarantee (discussed in B85D). The investment services cannot represent a separate substantial business activity or a separate substantial source of income.</p>
<p>Investment entities will be required to make certain disclosures under IFRS 12 Disclosure of interests in other entities.</p>	<p>In addition to the requirements of IFRS 12 applicable to all entities, there are also investment entities specific requirements contained in paragraphs 9A-B, 19A-G for interests in unconsolidated subsidiaries and 24-31 for interests in unconsolidated structured entities, such as securitization vehicles, asset-backed financings and some investment funds (including ETFs).</p>

6. Accounting for Interests in Crypto Assets

Crypto-assets have diverse terms and conditions, and the purpose for holding them also differs among holders. Hence, investment funds that hold crypto-assets will need to evaluate their own facts and circumstances in order to determine which accounting classification and measurement under current IFRS Accounting Standards should be applied. Depending on the standard, the investment fund's business model may also need to be assessed in order to determine the appropriate classification and measurement. We have considered the accounting treatment under the following IFRSs in this publication:

- IAS 2 Inventories
- IFRS 9 Financial instruments
- IAS 38 Intangible Assets
- Cash and cash equivalents

Classification as Inventory

Although it is often assumed to be the case, IAS 2 does not require inventory to be tangible. The standard defines inventory as an asset:

- Held for sale in the ordinary course of business;
- In the process of production for such sale; or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services.

Crypto-assets could be held for sale in the ordinary course of business, for example, by a commodity broker-trader. Whether crypto-assets are held for sale in the ordinary course of business would depend on the specific facts and circumstances of the holder. In practice, crypto-assets are generally not used in the production of inventory and, thus, would not be considered materials and supplies to be consumed in the production process. IAS 2 does not apply to financial instruments. Thus, where a crypto-asset meets the definition of a financial instrument (see discussion below), it should be accounted for as such under IFRS 9, rather than as inventory under IAS 2. Normally, IAS 2 requires measurement at the lower of cost and net realisable value. However, commodity broker-traders who acquire and sell crypto-assets principally to generate profit from fluctuations in price or broker-traders' margin have the choice to measure their crypto-asset inventories at fair value less costs to sell.

An investment fund's investment strategy may be to invest directly in crypto-assets for purposes of earning a profit. Redemptions and expenses of the fund would likely be paid through the sale of the crypto-asset. In such situations, it would likely be concluded that the crypto-asset is held for sale in the ordinary course of business of holding crypto-assets for investment purposes and would meet the definition of inventory under IAS 2 Inventories. When making this assessment, consideration should also be given to whether the investment fund's crypto-assets held are considered a commodity, and if the investment fund meets the definition of a commodity broker-trader as per IAS 2.5. If such criteria are met, accounting for the crypto-assets under IAS 2 would require crypto-asset inventory to be held at fair value less costs to sell, in accordance with the standard. Changes in the amount of crypto-asset inventory based on fair value would be included in profit or loss for the year.

Classification as a Financial Instrument

IAS 32 defines a financial instrument as any contract that gives rise to a financial asset (further defined below) of one entity and a financial liability or equity instrument of another entity. Crypto-assets that are not contractual themselves could still be the subject of a contract, for example, a binding agreement to buy bitcoin from a certain counterparty would constitute a contract, even though the bitcoin itself does not represent a contractual relationship. Therefore, agreements entered into 'off the chain' to buy or sell crypto-assets could be contracts as defined above and need to carefully be considered and analysed. In the absence of a contract, a crypto-asset itself would generally not meet the definition of a financial instrument.

The second part of the definition of a financial instrument requires that a financial instrument gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. So in order to be a financial instrument, a crypto-asset will need to represent a financial asset for the holder. In the context of crypto-assets, a financial asset could be: cash; an equity instrument of another entity; a contractual right to cash or other financial assets; or a right to trade financial instruments on potentially favourable terms (e.g., a derivative). Consideration must be given and an analyses performed as to whether the crypto-assets meet the definition of a financial asset, giving consideration to each of the above mentioned options.

An entity will also need to evaluate a contractual right to buy or sell crypto-assets that can be settled net or where the underlying crypto-asset is readily convertible into cash, to determine whether the contract is within the scope of IFRS 9 and, therefore, should be accounted for as a derivative. However, a gross-settled contract to buy or sell a non-financial crypto-asset, which is not traded in an active market, would not be in the scope of IFRS 9 as the crypto-asset would not be readily convertible into cash.

If it is concluded that the crypto-asset meets the definition of a financial instrument, then it will be subject to the IFRS 9 classification and measurement requirements. All financial assets are initially recorded at fair value plus attributable transaction costs, apart from those subsequently measured at fair value through profit or loss, in which case, the transaction costs should be expensed as incurred. Subsequent measurement depends on the cash flow characteristics of the asset and the business model in which it is held. Financial assets, aside from equity instruments, which fail the sole payment of principal and interest (SPPI) cash flow characteristics test, as well as those held for trading, are measured at fair value through profit or loss. The business model in which they are held drives the measurement of financial assets that do meet the SPPI test. Those in a 'held to collect' business model are measured at amortised cost under IFRS 9. While those in a 'held to collect and sell' business model are measured at fair value through other comprehensive income, with subsequent recycling to profit or loss on derecognition. IFRS 9, however, allows a holder to designate a financial asset, despite meeting the SPPI cash flow characteristics test, as at fair value through profit or loss, on initial recognition, if doing so reduces or eliminates an accounting mismatch.

Classification as an Intangible Asset

Intangible assets should be accounted for under IAS 38, except when they are within the scope of another standard (e.g., crypto-assets that meet the definition of a financial asset under IAS 32 or crypto-assets held for sale in the ordinary course of business under IAS 2).

If the investment fund holds the crypto-asset for purposes other than trading, such as for long-term strategic investments or as part of a broader investment strategy, it is more likely to be classified as an intangible asset under IAS 38. Upon initial recognition under IAS 38, the crypto-asset would be measured at cost. Thereafter, the investment fund may elect to use the cost model (carrying the asset at cost less accumulated amortization and impairment) or the revaluation model (revaluing the asset to its fair value at each reporting date, with changes in fair value above its cost value recognized in other comprehensive income, and below cost value in profit or loss). To elect the revaluation model, fair value must be measurable by reference to an active market, which is often present with many but not all crypto assets. If applying IAS 38, cryptocurrencies should be treated as having an indefinite life, which means that they are not amortized but are subject to annual impairment testing. Of note, classifying crypto-assets as intangible assets would require applying the cost method to crypto-assets held, or the asset to be recorded in the revaluation reserve via other comprehensive income for gains (and decrease below cost to be recorded in the profit or loss). This accounting model is generally inconsistent with the expectation that such investments in investment funds should be fair valued through profit or loss to reflect the information needs of the users of the financial statements.

Classification as Cash and Cash Equivalents

IAS 7 Statement of Cash Flows defines cash as 'cash on hand and demand deposits' but IFRS Accounting Standards do not define these terms in any further detail. IAS 32 Financial Instruments: Presentation notes that 'cash' is a financial asset that represents the medium of exchange. Therefore, it is the basis on which all transactions are measured and recognized in financial statements, while demand deposits generally represent deposits that can be withdrawn on demand, without prior notice or penalty.

Currently, it is unlikely that any crypto-asset would be considered a suitable basis for measuring and recognizing all the items in an entity's financial statements similar to currency. Furthermore, crypto-assets cannot be considered cash equivalents unless they are held for meeting short-term cash commitments, have a short maturity, are subject to an insignificant risk in change of value, and the amount of cash that will be received on maturity is already known when the crypto-asset is initially acquired. In addition, if the investment fund's objective is to invest directly in digital assets to provide unitholders with exposure to the cryptocurrency itself, the assets themselves would not be accounted for as cash or cash equivalents.

Disclosure Considerations

Investment funds holding crypto-assets will need to comply with the disclosure requirements of the corresponding IFRS Accounting Standard, as appropriate. Given that crypto-assets do not fit easily within the IFRS Accounting Standards framework, entities may need to consider additional disclosures in order to comply with the overall objective in IAS 1 'Presentation of Financial Statements'. Consideration should be given to disclosing factors such as the nature of the crypto-assets held, the accounting policy applied, and how fair value has been determined with appropriate reference to the disclosure requirements of IFRS 13 'Fair Value Measurement'.