accounting guideline
AcG-18
investment companies

PURPOSE AND SCOPE

1 This Guideline presents the views of the Accounting Standards Board on:

(a) the measurement by an investment company of its investments;

(b) the determination of whether an enterprise is an investment company; and

(c) when the parent company of, or equity method investor in, an investment company shall account for the investment company's investments in a manner consistent with the accounting by the investment company.

2 An investment company's primary business activity is buying, holding and selling investments. Fair values and changes in fair values of investments held by investment companies are as important to investors as the investment income earned. Transactions to buy and sell shares in an investment company are typically based on the fair value of the investment company's investments. An investment company may be open-ended or closed-ended. Open-ended investment companies issue shares (or units) on an ongoing basis, and investors are also able to redeem them on an ongoing basis, at a price based on the fair value of the investment company's investments (commonly called net asset value). Closed-ended investment companies do not issue shares (or units), nor do investors redeem them, on an ongoing basis.

3 Some enterprises are involved in the operations of their investees. Their primary activity is not limited to buying, holding and selling investments, and so they are not investment companies. For example, when a single investor has the ability to exercise significant influence or control over an enterprise, that investor may have the ability and intent to manage the enterprise's investments for operating purposes. Accordingly, it is necessary to determine whether the enterprise is involved in the operations of the investee, and so does not qualify as an investment company.

4 The fair value measurement considerations of FINANCIAL INSTRUMENTS, Section 3856, Appendix A, apply to investments held by an investment company that are accounted for at fair value in accordance with this Guideline.

ACCOUNTING BY AN INVESTMENT COMPANY FOR ITS INVESTMENTS

5 An investment company shall measure all of its investments at fair value and present them on this basis in its financial statements. This includes investments that meet the definition of a subsidiary (see SUBSIDIARIES, Section 1591) or joint arrangement (see INTERESTS IN JOINT ARRANGEMENTS, Section 3056), or over which the investment company exercises significant influence without control or joint control (see INVESTMENTS, Section 3051). The only exceptions are:

(a) a controlling interest in another investment company, when the parent investment company does not meet the requirements in paragraph 10 to account for the investment company subsidiary's investments at fair value; and

(b) an investment in an operating enterprise that provides services to the investment company (for example, an investment advisor).

Such investments shall be consolidated, or accounted for in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section 3056, as appropriate.

6 Changes in the fair value of investments shall be included in the investment company's net income for the period in which the change occurred.

7 Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

DETERMINATION OF WHETHER AN ENTERPRISE IS AN INVESTMENT COMPANY

8 An investment company is a separate legal entity whose primary business activity for the period is investing.

9 All of the following must apply for an enterprise's primary business activity to be investing:

(a) The enterprise's expressed business purpose is to be an investment company that holds investments for current income, capital appreciation, or both.

(b) The enterprise has no substantive activities other than its investment activities and no significant assets or liabilities other than those related to its investment activities, except for operating activities related to services provided to investment companies.

(c) The enterprise does not obtain, or have the objective of obtaining, benefits from its investments that are unavailable to unrelated non-investor enterprises and that are not normal benefits attributable to an ownership interest (such as dividends). Such benefits might include, for example: access to processes, intangible assets or technology of the investee; guarantees provided by an investee to benefit the investor; or other transactions that are not at fair value.

(d) The enterprise or its affiliates are not involved in the day-to-day management of investees, affiliates of investees, or other investment assets. However, that requirement may be met if management of the enterprise or its affiliates is represented on the boards of directors of investees or affiliates of investees, or provides limited assistance to management of investees or affiliates of investees for a short period.

(e) For each investment, the enterprise has an exit strategy that involves the transfer of the enterprise's ownership interest to unrelated third parties. An exit strategy includes methods of exiting the investment and the time when this is expected to occur. For example, this might be expressed as a time period or when certain conditions or targets have been met.

An enterprise with an interest in a joint arrangement (see INTERESTS IN JOINT ARRANGEMENTS, Section 3056), other than when the joint arrangement is itself an investment company, normally cannot meet these criteria to qualify as an investment company. Real estate investment trusts (REITs) and income trusts will normally not meet the criteria. When an enterprise has an investment company subsidiary, the fact that the enterprise does not meet the criteria in this paragraph with respect to its investment in the investment company subsidiary (for example, if it does not have an exit strategy) does not preclude the enterprise from qualifying as an investment company.

ACCOUNTING BY PARENT COMPANIES AND EQUITY METHOD INVESTORS FOR INVESTMENTS IN INVESTMENT COMPANIES

10 The parent company of, or equity method investor in, an investment company shall account for the investment company's investments at fair value, consistent with the accounting by the investment company (investment company accounting), only if each of the following apply:

(a) The investment company is either:

(i) a separate legal entity whose primary business activity for the period is investing (see paragraph 9); or

(ii) an individual class of securities of a mutual fund corporation.

(b) The parent company, equity method investor or their related parties are not involved in the day-to-day management of investees, affiliates of investees, or other investment assets. However, that requirement may be met if management of the enterprise or its affiliates is represented on the boards of directors of investees or affiliates of investees, or provides limited assistance to management of investees or affiliates of investees for a short period.

(c) The parent company, equity method investor or their related parties do not obtain, or have the objective of obtaining, benefits that are unavailable to unrelated non-investor enterprises and that are not normal benefits attributable to an ownership interest, such as dividends.

(d) For a parent company of an investment company, the consolidated group (the parent company and its consolidated subsidiaries) follows established policies that effectively distinguish the nature and type of investments made by investment companies in the consolidated group from those made by non-investment companies. These policies address, at a minimum:

(i) the degree of influence held by the investment company and related parties over the investees;

(ii) the extent to which investees are in the same line of business as the parent company or its related parties; and

(iii) the level of ownership interest in the investment company held by the consolidated group.

These policies prohibit investment company subsidiaries from making investments that are similar to investments held by a non-investment company, parent company, or another non-investment company member of the consolidated group, and that are accounted for by the equity method, by consolidation, or at cost.

(e) For a parent company, paragraphs 10(a)-(d) are met for all investment company subsidiaries.

(f) For an equity method investor, paragraphs 10(a)-(c) are met for all other investment companies over which it is able to exercise significant influence and that are related parties to the investment company.

DISCLOSURE

11 In addition to the disclosure requirements in FINANCIAL INSTRUMENTS, paragraphs 3856.37-.54, an investment company shall disclose that its investments are measured and reported at fair value, including those that meet the definition of a subsidiary and those over which the investment company exercises significant influence (identifying any exceptions as permitted by paragraph 5).

12 When the maximum exposure to loss for any investment is greater than the carrying amount of the investment, the enterprise shall disclose the maximum exposure to loss and the nature of the exposure, including the risks that could give rise to that loss. When an investment company consolidates a subsidiary in accordance with SUBSIDIARIES, Section 1591, it discloses information about that interest in accordance with Section 1591.

13 When investment company accounting is retained in the financial statements of the parent company or equity method investor, those statements shall disclose information necessary to understand the extent to which enterprises that are controlled by the reporting entity or over which it is able to exercise significant influence are reported using investment company accounting, including, at a minimum:

(a) that investments held by an investment company subsidiary or an investment company over which the reporting entity is able to exercise significant influence are measured at fair value;

(b) the parent company's percentage ownership in the investee; and

(c) the disclosure required in paragraph 12.

14 When investment company accounting is retained in the financial statements of the parent company, those statements shall disclose information necessary to understand the impact on the parent company financial statements, including, at a minimum:

(a) the net realized gains and losses and the net unrealized gains and losses for each year; and

(b) the policy for distinguishing the nature and type of investments made by the investment company from investments made by other members of the consolidated group.

EFFECTIVE DATE AND TRANSITION

15 Except as specified in paragraph 16, this Guideline applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

16 Amendments to paragraphs 5, 9 and 12, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.
