

A photograph of two women sitting at a table in a modern office setting. The woman on the left has long red hair and is looking at a laptop. The woman on the right has dark curly hair and is looking at the laptop while holding a pen. There are glasses of water and papers on the table. The background shows a bright office with large windows.

ASPE AT A GLANCE

AcG-18 - Investment Companies

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Effective Date
Fiscal years beginning on or after January 1, 2011¹

DETERMINATION OF WHETHER AN ENTITY IS AN INVESTMENT COMPANY

- An investment company is a separate legal entity whose primary business activity for the period is investing.
- All of the following must apply for an entity's primary business activity to be investing:
 - The expressed business purpose is to be an investment company that holds investments for current income, capital appreciation, or both.
 - The entity 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.
 - The entity does not obtain, or have the objective of obtaining, benefits from its investments that are unavailable to unrelated non-investor entities 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.
 - The entity 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 entity 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.
 - For each investment, the entity has an exit strategy that involves the transfer of the entity'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.

ACCOUNTING FOR INVESTMENTS

- An investment company measures all of its investments at fair value² and presents them on this basis in its financial statements, except as follows:
 - A controlling interest in another investment company, when it is determined that the parent investment company's primary business activity is not investing; and
 - An investment in an operating entity that provides services to the investment company (e.g. an investment advisor).
- Such investments shall be consolidated in accordance with Section 1601, *Consolidated Financial Statements*, or accounted for in accordance with Section 3056, *Interests in Joint Arrangements*, as appropriate.
- 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.

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

- The parent company of, or equity method investor in (the "investors"), an investment company accounts for the investment company's investments at fair value, consistent with the accounting by the investment company, only if each of the following apply:
 - The investment company is either:
 - A separate legal entity whose primary business activity for the period is investing; or
 - An individual class of securities of a mutual fund corporation.
 - The investors 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 investors or 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.
 - The investors or their related parties do not obtain, or have the objective of obtaining, benefits that are unavailable to unrelated non-investor entities and that are not normal benefits attributable to an ownership interest, such as dividends.
 - 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:
 - The degree of influence held by the investment company and related parties over the investees;
 - The extent to which investees are in the same line of business as the parent company or its related parties; and
 - The level of ownership interest in the investment company held by the consolidated group.

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

² The fair value measurement considerations of Section 3856, Appendix A, *Financial Instruments* apply to investments held by an investment company that are accounted for at fair value.



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