

Disclaimer: This document is intended for general guidance and does not constitute specific accounting advice. The written statements and examples outlined in this document only intend to outline the likely recording of investments, interest and net capital gains that may be earned through purchase or redemption of a unitized pooled investment fund. Your Auditor is the prime resource for advice and may determine the appropriateness of using this general guidance.

Pooled Investment Fund Accounting: General Guidance: Cost Method

Accounting Standards

Current standards for Canadian local government investment accounting practices are outlined in the Canadian Public Account Board's *Public Sector Accounting (PSA) Handbook* Section PS 3040, *Portfolio Investments*. However, new standards are set to replace those outlined in PS 3040. As of June 2019, the mandatory implementation date for the newest financial instruments suite of standards is fiscal years beginning on or after April 1, 2022 (i.e. fiscal year ending December 31, 2023 for calendar year ends). The new guidance will be provided in *PSA Handbook* Sections PS 3450, *Financial Instruments*, PS 1201, *Financial Statement Presentation*, PS 2601, *Foreign Currency Translation*, and PS 3041, *Portfolio Investments*. A local government may adopt these standards prior to the mandatory timeframe.

General guidance for investments prior to the implementation of the new suite of standards (PS 3450) are based on the cost method. The new standards allow local governments to elect to record Pooled Investment Funds (PIFs) using either the cost method **or** the fair market value method as PIFs do not fall into the two categories that must be recorded at fair market value (derivatives & equity instruments).

Pooled Investment Funds & Cost Method Accounting

If the cost method is employed to record Pooled Investment Fund transactions, the accounting will remain the same after the mandatory implementation of PS 3450.

Holdings of Pooled Investment Funds will increase due to two activities: (1) acquisition of units, (2) distributions (or "interest", if in the Money Market Fund). Conversely, holdings of Pooled Investment Funds will decrease when: (1) units are redeemed (sold), (2) a capital loss is realized. In other words, temporary (or "paper") gains or losses are not recognized.

Sample Pooled Investment Fund Activity

To demonstrate the likely accounting transactions necessary for cost accounting of Pooled Investment Funds, first consider the following Simplified Investment Register:

Table #1: Simplified Investment Register

Activity	Date	# of Units Acquired (Divested)	Value Per Unit	Amount (\$)	Cumulative Investment Value (Cost Method)	Cumulative Units
(#1) Purchase Pooled Investment Fund Units	02-Dec-19	512,163.892	\$9.7625	\$5,000,000.00	\$5,000,000.00	512,163.892
(#2) Pooled Investment Fund Distribution	31-Dec-19	1,049.341	\$9.7343	\$10,214.60	\$5,010,214.60	513,213.233
(#3) Year-end	31-Dec-19	---	---	---	\$5,010,214.60	513,213.233
(#4) Redemption (sale) of Pooled Investment Fund Units	06-May-20	-504,725.934	\$9.7625	-\$4,927,386.93	\$82,827.67	8,487.299

NOTES:

- (#2) Pooled Investment Fund Distribution

Income or net capital gains earned by a pooled investment fund are distributed to Unitholders, generally, at months-end. The income or net capital gains earned are provided to the Unitholder in the form of additional units of the Fund.

- (#3) Year-end

Year-end adjustments do not affect the investment register as there is no change to the number of units held or the cost-base of investments. In other words, there are no adjustments necessary using the cost method.


- (#4) Redemption (sale) of Pooled Investment Fund Units

504,725.934 units are sold. Using the first-in-first-out method, the cost base of those units equals \$9.7625. This redemption results in 7,437.958 units remaining at a purchase cost of \$9.7625 and the balance, 1,049.341 units, which at the time of acquisition were worth \$9.7343 per unit.

- The Municipal Finance Authority can help you develop a more advanced Investment Register that can assist in appropriate tracking of first-in-first-out transactions.
- Table 1 shows the activity of just one fund. Activity related to multiple Funds should be tracked separately.

Sample Pooled Investment Fund Activity & MFA Monthly Pooled Investment Fund Statements

The Sample Pooled Investment Fund Activity listed in the previous section was based on excerpts from representative monthly MFA Pooled Investment Fund Statements. The following transactions illustrate the Activity listed in the previous section in the format that would be presented to a MFA Pooled Investment Fund Client.



**Municipal Finance
Authority of BC**

c/o Recordkeeping, CIBC Mellon GSS
1 York Street, Suite 900
Toronto, Ontario, M5J 0B6

Your Account Summary
Statement Date December 1, 2019 to December 31, 2019

Summary of Your Account

Your Total Canadian \$ Investment on December 1, 2019 **MARKET VALUE**

Investment Advisor or Dealer:
HOUSE REP
3680 UPTOWN BLVD
UNIT 217
VICTORIA BC V8Z 0B9

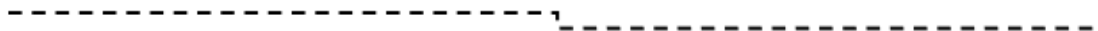
Transaction Summary
MFABC SHORT TRM BOND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
12/01/19	Opening Balance					
12/02/19	SWITCH IN	5,000,000.00	5,000,000.00	9.7625	512,163.892	
12/31/19	INCOME DISTRIBUTION	10,214.60	10,214.60	9.7343	1,049.341	

"Activity #3"

"Activity #1"

"Activity #2"



Transaction Summary
MFABC SHORT TRM BOND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
05/06/20	SWITCH OUT	-5,049,581.08	-5,049,581.08	10.0046	-504,725.934	

"Activity #4"

MFA Pooled Investment Fund Statement Transaction Terminology

In order to provide clarity on some of the terminology used within a MFA Pooled Investment Fund Statement, the following outlines some transactions that may occur and what they mean.

Transaction	Notes
Purchase	Client acquires units of a Fund using cash.
Switch In	Client purchases units of 'Fund A' by using the proceeds from selling units of 'Fund B.'
Redemption	Client sells units of a Fund to receive cash.
Switch Out	Client sells units of 'Fund B' to acquire units of 'Fund A.'
Income Distribution	Client receives additional units of a Fund due to coupons received and/or sale of appreciated assets sold at a gain.
Interest	Client receives additional units of the Money Market Fund due to coupons received from investments held.

Sample Pooled Investment Fund Cost Accounting Entries

Based on the Sample Pooled Investment Fund Activity and the representative MFA Pooled Investment Fund Statements, the following may suffice as appropriate cost accounting entries:

(#1) Purchase Pooled Investment Fund Units			
02-Dec-19	Dr. Investment	5,000,000.00	
	Cr. Cash		5,000,000.00
<i>Investments are recorded at cost.</i>			
(#2) Pooled Investment Fund Distribution			
31-Dec-19	Dr. Investment	10,214.60	
	Cr. Investment earnings		10,214.60
<i>Distributions are 'paid' to the investor in the form of additional units, thereby increasing "Investments." The additional units are 'purchased' using "Investment Earnings." There is no cash exchanged in this transaction. Distributions (or "Income", a similar term used in reference to the Money Market Fund) are generally provided monthly, which would necessitate repeating this entry.</i>			
(#3) Year-end			
31-Dec-19	No Entry Required		
<i>At year-end, there are no adjustments required as the cost method does not value investments at market value.</i>			
(#4) Redemption (sale) of Pooled Investment Fund Units			
06-May-20	Dr. Cash	5,049,581.08	
	Cr. Investment (principal)		4,927,386.93
	Cr. Investment earnings		122,194.15
<i>The units were sold for proceeds of \$5,049,831.08 (per unit price at time of sale = \$10.0046) resulting in a gain on disposal of \$122,444.15. The gain is calculated as the difference between proceeds and the original cost of units sold (\$4,927,386.93).</i>			

MFA Pooled Investment Fund General Characteristics

The table below provides some general characteristics of MFA's Pooled Investment Funds. You may note the Money Market Fund is unique as it is the only Fund with a fixed NAV. The Money Market Fund is always priced and valued at \$10.00 per unit.

Fund	Net Asset Value (NAV)	Distribution Basis
Mortgage Fund	Floating	Quarterly
FFF Short-term Bond Fund	Floating	Quarterly
Money Market Fund	Fixed	Monthly
Gov't Focused Ultra ST Bond Fund	Floating	Monthly
Short-term Bond Fund	Floating	Monthly

Note to 'Legacy' MFA Pooled Investment Fund Unitholders

Prior to the beginning of May 2016, all MFA Pooled Investment Funds' NAVs were fixed at \$10.00. Clients who still hold units purchased prior to May 2016 should have an investment register so they may employ the first-in first-out method to accurately calculate gains or losses on disposal of units. If an investment register is not being used, and you require assistance in establishing one, please let us know. All MFA Pooled Investment Fund Statements are available in a Clients' Portal accessed through MFA's website so an accurate Pooled Investment Fund investment register may be created.