

Tenacious accountant on guard against trusts

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It's already been a busy month for Diane Urquhart, an independent consulting analyst from Mississauga, Ont., who has taken on the Canadian Institute of Chartered Accountants, and then CARP, Canada's Association for the Fifty-Plus.

At issue in both cases has been -- what else -- income trusts.

For years now, investor advocates like Toronto forensic accountant Al Rosen have blasted the way income trusts are allowed to use a variety of methods to determine distributable cash, the money that is available to be flowed back to unitholders through distributions.

"The accounting issue is very important," said Cecelia Mo, portfolio manager with Fidelity Investments. "There are a lot of misleading things. They play with their maintenance capex (capital expenditure). And a lot of companies overstate their cash-flow generation capability."

Last month, Bank of Canada governor David Dodge told the Senate committee on banking, trade and commerce that "there are basically no standards for distributable cash," echoing a Standard and Poor's study that showed 40 income trusts used 19 different methods of calculating distributable cash.

Then earlier this month, after the federal government announced its plan to tax trusts four years from now, Canada's chartered accountants said that practices determining distributable cash should be standardized and transparent.

"The lack of consistent disclosure practices across the industry make it difficult for investors to know what they are buying, to compare one income trust to another and to assess whether or not current cash distributions from the trusts are sustainable," said CICA president Kevin Dancy.

But Urquhart issued a news release, saying new CICA guidelines are "not the solution for the income trusts accounting mess and the inaccurate, inflated and misleading cash-yield being marketed to seniors and other unsophisticated retail investors buying income trusts." She argued that most trusts have three sets of accounting books, two of which are not prepared using generally accepted accounting principles.





Rosen, for his part, said the guidelines of the CICA's Canadian Performance Reporting Board were "a blessing and a curse."

He said rules calling for distributable cash to be clearly separated as coming from operating, investing and financial activities would be helpful in letting investors know if their distributions were merely coming from borrowed money, and therefore unsustainable. But he worried that some trusts would talk their way around the rules.

Meanwhile, Urquhart was just getting warmed up. She is with the National Pensioners

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& Senior Citizens Federation, which claims a million members. And it is clearly at odds with CARP, which has 400,000 members, over the issue of income trusts.

A year ago when then-finance minister Ralph Goodale temporarily abolished advance tax rulings on trusts, CARP wrote that "Ottawa must lay the Income Trust issue to rest immediately" because seniors were outraged about losing retirement savings.

Conversely, last month, the NPSCF held a news conference asking Ottawa to put an end to trust conversions in the wake of announced intentions by Telus and BCE.

When the federal government did announce intentions to tax trusts, NPSCF applauded the move, saying the growing conversion of companies into trusts would "potentially deplete government revenues necessary to fund public health care and social security programs for all Canadians."

On the other hand, CARP urged people to write their MP expressing outrage about the taxation of trusts.

Urquhart responded with a news release saying CARP is in a conflict of interest because its subsidiary, Internet media company Fifty-Plus Net International Inc., obtains substantial advertising and exclusivity contract revenue from the financial industry, which in turn makes hundreds of millions of dollars marketing income trusts to seniors.

This week Urquhart was at a meeting in Montreal of a number of investor protection advocates, working on a plan to unify their efforts through a national saving and investing policy to protect investors in pension funds and mutual funds.

She has been a busy woman this month indeed.

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