

## The sum of the yield question

### ASB won't take lead in setting a standard

**Barry Critchley**

Financial Post

Thursday, June 29, 2006

Don't look here for a solution. That sums up the attitude of the Accounting Standards Board -- the body with the authority "to develop and establish standards and guidance governing financial accounting and reporting in Canada" -- as to how yield, as it relates to income trusts, should be calculated.

And that not-here attitude is adopted even though the ASB has numerous reservations about the way yield is used in the selling of income trusts, especially in initial public offerings. "How the marketing people ever persuaded investors that the notion of income should be any different for a trust than it is for anything else that they might invest, just baffles me," said Paul Cherry, chair of the ASB, which according to its Web site is "committed to serve the public interest."

"The income trust sector has somehow convinced people that the cheque they get is a measure of economic performance. That's just drivel," Cherry said, adding "the notion of yield has been distorted from a marketing point of view. It's never been part of financial statements."

Asked whether there is a problem with the way yields on income funds are presented and marketed, Cherry was direct: "I think some of the yields are overstated. [The way things are done at present], it's not the way I would view a return on investment."

The question of yield is core to income trusts because of the distinction between return on capital and return of capital. The former is associated with how much income is paid out to a unitholder over a given period, and in what form. Return of capital relates to the amount of the original investment returned each year. Return on capital also includes an amount for return of capital.

Diane Urquhart, an investor advocate, calculates the real yield on the recently priced \$700-million offering by Teranet Income Fund was 4.7% and not the 7.5% advertised. "The difference of 2.8% is investors' return of capital," she said, noting that at 4.7%, the real yield is less than 50 basis points higher than the yield on 10-year Canada bonds.

Yellow Pages Income Fund (market cap of \$7.9-billion) unitholders received 95.64 cents unit last year, of which 96% was either dividend income or other investment income. The rest (4.19 cents) was return of capital. In 2004, unitholders received 92.65 cents a unit of which 7% (6.06 cents) was return of capital.

For Enerplus Resources Fund (market cap of \$7.4-billion) unitholders received \$4.47 a unit in distributions last year, of which 42.47 cents, or 9.5%, was return of capital.

#### MORE COLUMNS BY THIS WRITER

- :: [Ethnic TV jumps to the fore with IPO](#) 
- :: [Stock offering no Xcellence as to timing](#) 
- :: ['ABX' strategy pays off](#) 
- :: [BMO must thank its lucky stars](#) 
- :: [Dexit's new exec team gets busy](#) 
- :: [Raymond James goes slow and steady](#) 
- :: [Not board's finest hour](#) 
- :: [Claret IPO marks a first for CIBC](#) 
- :: ['Yield' has yet to be defined adequately](#) 
- :: [CIBC tries CMBSs with a little Claret](#) 
- :: [New firm emerges: Evergreen is in regulatory process](#) 
- :: [Traders worry about disclosure](#) 
- :: [Winalta to stay public, Kos says](#) 
- :: [China deals lucrative for venture caps](#) 
- :: [Institutional pension funds go wanting for execs](#) 
- :: [Winalta conflict has happy ending](#) 
- :: [Transparency not too clear in Teranet IPO](#) 
- :: [Cockwell finally gets his share](#) 
- :: [Getting what you pay for](#) 
- :: [HudBay gets its cash early](#) 
- :: [Latest REIT offers premium](#) 
- :: [Thanks for your money, but ...](#) 

Before income funds became all-embracing, an income trust was typically used for businesses that were slow growth, threw off lots of cash, didn't need much capital spending and, in some cases, had a finite life. Now there is no typical income trust.

"To the extent that return of capital is involved, [the way in which yield is calculated] doesn't seem appropriate." Cherry said.

He chose not to respond when asked whether people have been conned by the way an income trust's yield has been presented. "People have to apply common sense. When you see investment products that appear to offer yields substantially higher than what you can get on most other investments, your guard has to be up," he said.

Cherry said the ASB adopted its stance because it doesn't see the matter of yield as a financial statement issue. "There is no reluctance on the part of the board to do what we can to improve financial reporting. But we have worried about trying to use an accounting standard [for something] that isn't really a financial statement reporting problem," he said. Furthermore, financial statements "tell people" what's going on. "You can see on the face of the financial statements, the distributions for the year. But I am not convinced investors even look at the financial statements when they make their decision."

It's clear that distributions include an element of capital "because the unitholder's equity is shrinking each year. In 99 times out of 100, the distributions are going to be substantially higher than the earnings," he said.

"We have failed to find any meaningful difference between this type of structure and a general corporate structure in terms of the relevance of GAAP earnings and the notion of distributions," Cherry said. He said, "the message is as clear as we think it needs to be," when referring to the accounting standards, as they relate to reported earnings and the amount distributed.

But there is pressure to find a solution. Marc Tellier, CEO of Yellow Pages Income Fund, said earlier this year that the industry needs "to have a common terminology and framework for distributable cash. We don't feel GAAP is necessarily the way to go; there are other ways to do it." In his speech, he said "the time has come to raise the bar and establish best practices for plain full disclosure on distributable cash across the income trust sector."

The ASB's approach hasn't met with universal approval. For instance, Urquhart argued the board "is just making an excuse of not having jurisdiction to define yield."

The former analyst contends the problem could be solved by adding two definitions to the Handbook of Accounting Standards: Income distributions and return of capital distributions, while banning the use of the term distributions as the sum of these two components.

So if the ASB won't provide leadership, who will? Cherry said others, including regulators and the Canadian Association of Income Funds, must take the lead. He said CAIF is working on an approach, as is the Canadian Securities Administrators. "We have been in consultations. It's moving in the right direction. We have been urging people to get on with it and to have something in place for 2006."

Urquhart says: "It is almost absurd that the CAIF thinks it can proceed to define its own financial reporting rules that are not Canadian GAAP, with the likely blessing of provincial securities commissions."

© National Post 2006

[CLOSE WINDOW](#)

---

Copyright © 2006 CanWest Interactive, a division of [CanWest MediaWorks Publications, Inc.](#) All rights reserved.