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New accounting guidelines under fire

CA institute to close gap in distribution reporting; critic says move too little, at least five years too late

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BUSINESS REPORTER

After big changes to income trusts last fall, the Canadian Institute of Chartered Accountants has finally carved out a framework to standardize reporting of distributions in what it says is an effort to provide some clarity for retirees and other investors.

The announcement comes as yet another income trust, Paramount Energy Trust, slashed its monthly distribution for July by 29 per cent citing "precipitous declines in Canadian natural gas prices."

The hot summer everyone expected hasn't materialized, so the U.S. spot Nymex natural gas prices have fallen about 20 per cent from around $8 (U.S.) per million British thermal units in February to about $6.40, the trust noted.

Meanwhile, the new guidance for Canada's 70,000-plus chartered accountants is geared toward "filling this gap in financial reporting that has put investors in income trusts at undue risk," said institute president Kevin Dancey.

"The idea is to assist investors in getting a grasp on where the cash flow is coming from and is it sustainable, which is very important information in terms of making that investment and comparing investments," he said in an interview.

Distributable cash is a key measure of income funds that is intended to define the cash that an income trust could potentially distribute to unit-holders. Until now it has been subject to a wide latitude of interpretations, he added.

But the CICA's promise of new reporting guidelines to help retired and other investors is too little and far too late, critics of the trust sector said.

"It's ugly," declared Al Rosen of forensic accountants Rosen and Associates.

"When you needed this – and in a tougher form – would have been at least five years ago.

``To put it out now, and to try to delude seniors, I'm really outraged."

The new accounting guidance won't help individuals who have lost billions of dollars on income trusts, said independent investor advocate Diane Urquhart, who contends a criminal investigation is warranted into what she characterizes as deceptive trust reporting and marketing.

She noted that the new CICA measure of distributable cash is not an addition to generally accepted accounting principles and will appear only as part of management's discussion and analysis.

But Kevin Hibbert, chief accountant at Standard and Poor's Canada, said the new policy gives income trusts "much-needed direction in how to improve comparability, clarity and consistency in the reporting of distributable cash."

Dancey noted CICA did not come up with a "cookie cutter" formula but different approaches for sectors from real estate to oil and gas.

Chris Hicks, principal of the institute's knowledge development group, said the new recommendation will help accountants provide comparable numbers on different trusts' productive capacity and finance strategy over time.

With files from Canadian Press

----- Original Message -----

From: Urquhart

To: 'Joe Killoran'

Sent: Wednesday, July 18, 2007 5:12 PM

Subject: **New CICA Distributable Cash Definition**
-- Too Late for $8 Billion Losses:
Disclosure & Audit Committee Approvals Are Not A Criminal Defense

I have the following comments on the CICA Canadian Performance Reporting Board's new Guidelines for "Standardized Distributable Cash," to be included in public income trust's Management Discussion and Analysis, released on July 18, 2007:

(1) This new standardized measure is not a new Canadian generally accepted accounting standard, but a guideline for the calculation and explanation of this non-GAAP financial measure to be included in the public income trust's Management Discussion and Analysis.

(a) Why does the Canadian Accounting Standards Board, controlled by the CICA and corporate/income trust industries, accept that the income trust industry was/continues to be permitted to publish a second set of financial reports, outside of Canadian generally accepted accounting principles? The new Guidelines assist investment experts, while still enabling a bifurcated market between professional investors and unsophisticated retail investors. [bifurcated: two-pronged, forked]

(b) Retail buyers, and most of their financial advisors, do not read Management Discussion and Analysis Reports, and they rely upon marketing materials that focus them on the cash yield measure. The cash yield exceeds the income yield in more than two thirds of the income trusts in the market, and this overstatement will not likely be reduced much by the new standardized distributable cash definition. The new so-called standardized measure provides no definition of productive capacity, so there is still wide latitude on the part of income trust managers and the investment banking/mutual fund industries to understate the long-term capital costs in the business and to market income trusts at inflated prices due to this deceit.

(c) There is no new accounting standard to specify income distributions and return of capital distributions necessary for seniors and other unsophisticated buyers of income trusts to determine the income yield of these securities bought for income purposes. This public disclosure is needed for seniors to be safeguarded from paying excessive and unsustainable prices for income trusts. Fifty-one (51) or 26% of all business income trusts have suspended or materially reduced their cash distributions.

(2) This new measure is too late to mitigate the $ 8 billion of capital losses borne by seniors in 50 business income trusts that have dropped more than 20% since their latest public offerings. These 50 business trusts are a quarter of the business income trust market and had average decline of 47%.

(3) This new measure does not mitigate the call for a criminal investigation, by the National Pensioners and Senior Citizens Federation, United Senior Citizens of Ontario and the Small Investors Protection Association, of the marketing materials containing the inaccurate and misleading cash yield measures that today's CICA Canadian Performance Reporting Board is attempting to correct.

- The Canadian standard for criminal conduct under S. 380 of the Criminal Code is whether there is an intent to affect the market price of stocks or anything that is marketed to the public through deceit. The absence of an accounting standard or MD & A guidelines for financial reporting of non-GAAP financial measures does not make deceitful financial reporting and marketing permissible.

	All Offerings		
July 18, 2007	**All**	**In Capital Loss**	**In Capital Loss > -20%**
# Trusts	174	90	50
# Offerings	289	128	73
Offerings $ Millions	$35,749	$15,087	$7,956
% of All Offerings	100%	44%	25%
Offerings Gain (Loss) Average %	11%	-29%	-47%
Offerings Gain (Loss) $Millions	$4,073	-$4,372	-$3,746
Market Cap Gain (Loss) * $ Mil	$4,176	-$10,200	-$7,946
Investment Banking Fees $ Mil	$1,892	$811	$437
Other Offering Expenses $ Mil	$622	$277	$150
Total Offering Fees $ Mil	$2,514	$1,088	$586

* Market Cap Gain/Loss
= Estimate based on % gain/loss relative to last offering price in period X current market cap.

(4) Institutionalized public disclosure and audit committee approval of documents showing excess cash distributions being funded from such sources as, debt, prior period equity financings and the intended understatement of corporate expenses, is not a defense for deceit in marketing materials whose purpose is to entice seniors to purchase securities at inflated prices.

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http://www.cica.ca/index.cfm?ci_id=38781&la_id=1

CA Chartered Accountants of Canada

Media Release / Communiqué

Chartered Accountants Recommend Better Disclosure To Help Income Trust Investors

TORONTO, July 18, 2007 – Retirees and other investors in income trusts could see a clearer picture of their investment risk as a result of recommendations for reporting of income trusts' distributable cash issued today by the Canadian Institute of Chartered Accountants (CICA).

Inconsistencies in how income trusts calculate distributable cash and other measures have made it difficult for investors to evaluate income trus results over time and compare them across entities. Canada's Chartered Accountants are taking a lead role in resolving this issue with recomme developed by the Canadian Performance Reporting Board (CPRB) for improved disclosure, transparency and standardization in the reporting of distributable cash in Management's Discussion and Analysis (MD&A).

This new guidance complements a recently published Canadian Securities Administrators (CSA) policy statement by providing a standardized m reporting distributable cash and a disclosure framework that will assist preparers in meeting the objectives of the CSA policy.

"Up until now, the lack of consistent distributable cash calculations and disclosures among income trusts has led to significant confusion about w term distributable cash represents," said Kevin Hibbert, Director and Chief Accountant, Standard and Poor's Canada. "The CICA's new guidance combination with the new CSA policy, provides income trusts with much needed direction in how to improve comparability, clarity and consistenc reporting of distributable cash."

For Kevin Dancey, FCA, president and CEO of the CICA, the main issue is safeguarding investors. "As a leader in establishing best practices in and disclosure, the CICA is filling this gap in financial reporting that has put investors in income trusts at undue risk. The focus of our guidance is investors information to answer two specific questions: Where did the cash come from that funded their cash distributions and, in arriving at the available for distribution, has the income trust made the investments necessary to maintain its operations."

The term 'distributable cash' generally refers to the cash that an income trust could potentially distribute to unit holders. Investors use this inform assessing the entity's ability to fund future distributions and to help value their investments. A standardized measure accompanied by disclosure productive capacity and finance strategy will assist investors when making these assessments.

The CICA guidance recommends that income trusts report a new measure called "Standardized Distributable Cash" to improve consistency of re and comparability between entities. Together with other disclosures recommended in the framework, the new measure gives the industry a com methodology for providing investors with information to answer four key questions:

- How much cash was generated in the period and where did it come from?
- What is the entity's strategy for managing productive capacity and to what extent has that capacity been maintained?
- What is the entity's strategy for managing debt (including long-term unfunded operational liabilities such as pension plans) and how does t distributions?
- What financial covenants exist that might restrict future distributions and to what extent is the entity in compliance with those covenants?

Investors need this kind of information to properly understand and interpret what is meant by distributable cash – and to assess and compare inv Indeed, with the passing of legislation to implement last fall's decision to tax income trusts' distributions – commencing in 2011 for existing trusts disclosures of productive capacity management and finance strategies take on additional significance for investors as these entities make plans deal with the post 2011 environment.

"By following this guidance, income trusts will provide their investors with transparent and comparable information on how their cash distributions funded, as well as other related disclosures, such as the entity's productive capacity history," Dancey added. "CEOs and CFOs may also wish to this guidance when determining whether or not financial information in the regulatory filings is fairly presented for certification purposes and it ma be of assistance to audit committees making similar assessments."

The CICA developed the recommendations after considering the comments of the income trust community and investors to draft guidance issue

Copies of this guidance (PDF) can be obtained from CICA's Performance Reporting Resource Centre at www.cica.ca/cpr.

The Canadian Institute of Chartered Accountants (CICA), together with the provincial, territorial and Bermuda Institutes/Ordre of Chartered Accountants, represents a membership of approximately 72,000 CAs and 10,000 students in Canada and Bermuda. The CICA conducts researc current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and repre CA profession nationally and internationally. CICA is a founding member of the International Federation of Accountants (IFAC) and the Global A Alliance (GAA).

For more information, or to arrange an interview, contact:

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