Chartered accountants decide how to calculate income trust distributable cash

Published: Wednesday, July 18, 2007 | 1:36 PM ET
Canadian Press: GARY NORRIS

TORONTO (CP) - With the income-trust horse long gone from the barn, critics say the accounting profession has just completed its design for a stable door.

The Canadian Institute of Chartered Accountants said Wednesday it is issuing recommendations to standardize reporting of distributable cash - a key measure of income funds which until now has been subject to a wide latitude of interpretations.

"Inconsistencies in how income trusts calculate distributable cash and other measures have made it difficult for investors to evaluate income trust financial results over time and compare them across entities," the CICA said in a statement.

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

"The focus of our guidance is to give investors information to answer two specific questions: Where did the cash come from that funded their cash distributions and, in arriving at the amount available for distribution, has the income trust made the investments necessary to maintain its operations?"

But the chartered accountants' promise of new clarity for retirees 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 accounting guidance won't help seniors who have lost billions of dollars on income trusts, said independent investor advocate Diane Urquhart, who contends that a criminal investigation is warranted into what she characterizes as deceptive trust reporting and marketing.

According to her tally, 90 of the 174 income trusts that have issued units since the start of 2001 now trade below their offering prices, representing a cumulative loss to investors of $10 billion.

Urquhart said 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.

"Retail buyers and most financial advisers do not read management's discussion and analysis reports - they rely on the marketing materials that focus on the cash yields."

Urquhart and Rosen see the real issue as the annualized yields quoted by trusts, which typically include a return of investors' original capital along with distributable cash.

"If the yield includes you getting your own money back or somebody else in a pyramid scheme having their money used to pay you, that's not a yield because it's a very basic Ponzi fraud," Rosen said.

He said the accountants' guidelines "partly" address this problem but are "just years late . . . they sat on their backsides for all this period of time when people were being fleeced."

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."

Distributable cash - for which S&P counted 19 different names in a study last year - is intended to define the cash that an income trust could potentially distribute to unitholders.

The CICA guidance recommends that trusts compile a new measure, to be known as standardized distributable cash. It is defined as cash from operating activities after adjusting for capital spending, restrictions on distributions under financial covenants, and minority interests.

© The Canadian Press, 2007