

'Yield' has yet to be defined adequately

Barry Critchley

Financial Post

Monday, June 19, 2006

For the second time in the past month, Canada's Accounting Standards Board has refused to take a stance on a clear definition of yield -- the key factor in the sale of new income trusts.

Instead, the organization -- "an independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada" -- believes the matter is better handled by others, including the provincial securities commissions. "Defining the term yield was something that we decided not to take on," said Peter Martin, director of accounting standards at the Accounting Standards Board, when referring to the discussion at a meeting held last Wednesday.

"But that's not to say others might not be taking it on. The OSC is one such body," added Martin, a non-voting member of the AcSB. In effect the AcSB punted the problem to others.

"It's a question of what can a standard setter that deals with financial statements, GAAP [generally accepted accounting principles] measures do when it's not a GAAP measure being dealt with," said Martin, who argues yield is an analytical measure.

But it is also much more. Yield is a number that allows new income trust offerings to be priced and sold to retail investors and allows investors to compare that number with other income trusts. In a typical income trust, return on capital is defined as the distributions, an amount that includes regular income (a mix of interest and dividends) plus the return of capital, relative to the price of the units.

But the argument runs that the latter element should not be included in determining yield, but instead, yield should reflect the amount of income, excluding the return of capital, received by the investor. If that definition was used, then the yield would be lower -- as would be the attractiveness of income trusts.














The controversy has attracted the interest of the politicians. NDP finance critic Judy Wasylycia-Leis has called on Ottawa to tighten income trust accounting requirements to protect consumers from exaggerated claims of future investment returns.

"Alarm bells have been ringing about the fuzzy numbers used in marketing income trusts," said Wasylycia-Leis, "but our self-regulating system has been slow to react to protect Canadians," she said in a release. Wasylycia-Leis offered a solution: Change the Income Tax Act to require disclosure of income and return of capital.

Martin said the AcSB has been asked by "a variety of people" to come up with a proper definition of yield that would become the standard for the trust sector. And the AcSB has refused every time.

Those people were no doubt encouraged by the AcSB's decision a few years back to define

MORE COLUMNS BY THIS WRITER

- :: [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 ...](#) 
- :: [FMF defendants want Toronto venue](#) 
- :: [FMF saga moves to next chapter](#) 
- :: [Yes, there is life outside Bay Street](#) 
- :: [Equity isn't the same as equality](#) 
- :: [Getting the for and against right](#) 

earnings per share -- another key measure used by the financial markets. That's a decision the AcSB regrets. "The fact is we probably wished we hadn't tried to define earnings per share years ago," said Martin.

In early May the AcSB held a similar meeting to the one held last week. The AcSB Web site says it "continues to believe that concerns about certain practices relating to the determination and reporting of distributable cash and the failure to distinguish adequately between return on capital and return of capital when reporting yields "cannot be addressed by accounting standards."

The May meeting reiterated the view the AcSB doesn't provide standards for financial information, such as yields. "Such disclosures are subject to securities regulation," it said.

But, like a good politician, the AcSB noted it was "concerned that the failure to distinguish clearly between returns on capital and returns of capital is inaccurate and potentially misleading, particularly when terms such as 'yield' are used to describe the amount distributed."

The AcSB said it "will continue to monitor the initiatives and financial reporting issues of the income fund sector."

But like a good politician, the AcSB said it won't take any action.

BlackRock's deal Some shareholders of BlackRock Ventures Inc. should be mighty upset at their brokers in the wake of the takeover of their company by Shell Canada.

That offer was announced in the middle of May: Shell was offering \$24 a share for all the shares. The offer was set to expire last Friday.

The deal was assured of success given some key insiders -- led by Seymour Schulich -- and some other owners agreed to tender their holdings. That group had a 23% stake.

But one day before the offer expired, BlackRock traded through Shell's offer price: They hit a high of \$24.40 before closing at \$24.03. In all, 1,000 shares were involved: According to Bloomberg, Credit Suisse and Anonymous were the buyers. (A similar, though not as bad situation, prevailed Friday.)

One explanation is a party engaged in so-called merger arbitrage. A few weeks back, the party bought Shell Canada shares and shorted BlackRock's shares. But the short sale had to be closed out prior to the deadline to tender. And the party must have forgotten its obligation until the last minute.

Shell announced Friday it had acquired almost 93% of BlackRock's shares.

bcritchley@nationalpost.com

© National Post 2006

[CLOSE WINDOW](#)

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