

## Income Funds

August 30, 2005

### The Canadian Securities Administrators Provide Guidance to Income Trust Issuers on Prospectus Disclosure of Estimated Distributable Cash

The Canadian Securities Administrators (the “CSA”) have issued CSA Staff Notice 41-304 *Income Trusts: Prospectus Disclosure of Distributable Cash* (the “Notice”), which provides guidance to income trust issuers regarding prospectus disclosure of estimated distributable cash. The Notice describes staff’s expectations about the nature and extent of disclosure necessary to ensure transparency when information about estimated distributable cash, a non-GAAP financial measure, is presented in a prospectus.

Where estimated distributable cash is presented in a prospectus, CSA Staff Notice 52-306 *Non-GAAP Financial Measures* directs issuers to also provide a quantitative reconciliation of this figure to the most directly comparable GAAP measure. The CSA notes that it is often difficult to assess the sufficiency and transparency of the estimated distributable cash information that is typically disclosed by income trust issuers in these reconciliations.

#### Staff Expectations

The Notice stipulates that issuers should provide sufficient prospectus disclosure to enable investors to deter-

mine whether reconciling adjustments represent a balanced and complete assessment of all factors affecting estimated distributable cash. In this regard, the CSA provides the following guidance:

- The reconciliation of estimated distributable cash should be accompanied by detailed disclosure that, among other things, (i) explains the purpose and relevance of the information, (ii) describes the extent to which actual financial results are incorporated into the reconciliation, and (iii) explicitly states that the reconciliation has been prepared using reasonable and supportable assumptions, all of which reflect the trust’s planned courses of action given management’s judgment about the most probable set of economic conditions.
- In addition, adjustments made in the reconciliation of estimated distributable cash should be supported by disclosure that includes (i) a detailed discussion of the nature of the adjustments, (ii) a description of the underlying assumptions used, including how those assumptions are supported, and (iii) a discussion of the specific risks and uncertainties that may affect each individual assumption.
- The CSA also notes that reconciling adjustments based on the expected economic effects of anticipated future events raise many of the same concerns that apply to other forms of future-oriented financial information (“FOFI”). Generally, under National Policy 48 *Future-Oriented Financial Information*, issuers must present FOFI in a prospectus in the format of historical financial statements prepared in accordance with CICA Handbook Section 4250 *Future-Oriented Financial Information* (a “S.4250 forecast”). In the CSA’s view, if estimated distributable cash information includes forward-looking adjustments that are based on significant assumptions, and such adjustments materially affect estimated distributable cash, the reconciliation should begin with a GAAP measure that is derived from a S.4250 forecast, subject to certain exceptions. A S.4250 forecast may not be necessary, however, if the adjustments are derived from historical amounts

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or recent contracts and those amounts or contracts can be adequately explained by alternative disclosures.

The CSA advises issuers that these expectations will be reflected in their prospectus review comments, and will be considered by staff when analyzing similar issues. The CSA invites feedback on the Notice and plans to continue monitoring developments with respect to these issues.

For further information or assistance in providing feedback on the Notice, please contact any member of Goodmans' Income Funds Group, who would be pleased to discuss compliance with these guidelines, including alternative approaches to disclosure within the framework of the Notice.

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