

**BUSINESS POLICIES:**  
APPENDIX B (2013-2014)

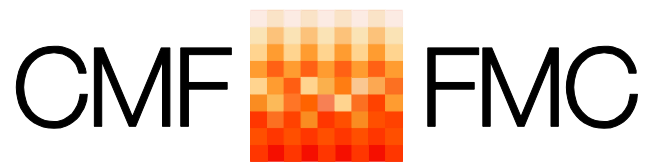
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The table below outlines which Business Policies apply to each funding program.

Business Policy	Development	Performance Envelope	Francophone Minority	Aboriginal	English Production Incentive	Diverse Languages	English POV	Versioning
Default Policy	♦	♦	♦	♦	♦	♦	♦	♦
Accounting and Reporting Requirements	♦	♦	♦	♦	♦	♦	♦	♦
PFCO	♦	♦	♦	♦	♦	♦	♦	-
Completion Protection	-	♦	♦	♦	♦	♦	♦	-
Production Insurance	-	♦	♦	♦	♦	♦	♦	-
Standard Recoupment	-	♦	♦	♦	♦	♦	♦	-
Treatment of Tax Credits	-	♦	♦	♦	♦	♦	♦	-



CHAPTER 1

## **DEFAULT POLICY**

IN EFFECT AS OF APRIL 1, 2013

## 1. COMPANY IN DEFAULT

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An applicant company ("Applicant") that has committed an event of default under a financing agreement ("Financing Agreement")<sup>1</sup> entered into with the Canada Media Fund (the "CMF"), including under its former legal name, the Canadian Television Fund, or with Telefilm Canada ("Telefilm") (prior to an asset transfer agreement between the CMF and Telefilm, effective July 1, 2007, whereby all Financing Agreements for television projects entered into Telefilm have been transferred to the CMF), will be considered to be in default with the CMF.

An Applicant that is in default under a Financing Agreement for one project is automatically deemed to be in default with respect to all of the Applicant's other projects receiving CMF funding. Further, the CMF shall deem all related parties (as defined in Chapter 3840 of the Canadian Institute of Chartered Accountants Handbook) ("Related Party") to be in default vis-à-vis the CMF.

## 2. EVENTS OF DEFAULT

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Financing Agreements include a section entitled "Events of Default". Following is a summary of common Events of Default that arise:

- (a) The Applicant's project fails to meet the CMF's Guideline eligibility requirements, including without limitation, the Essential Requirements, genre requirements and minimum threshold requirements;
- (b) The Applicant fails to report on or pay revenues owed to the CMF;
- (c) The Applicant fails to complete and/or deliver the project to the triggering broadcaster(s), or in the case of digital media projects, fails to make the project available to the Canadian public;
- (d) The Applicant fails to deliver all required reports and documentation to the CMF, or fulfill the requirements by the deadline or expiry date set out in the Financing Agreement; or
- (e) Following a request from the CMF for information or documentation that is directly within the Applicant's control to provide to CMF, the Applicant fails to fulfill such request within thirty (30) days;
- (f) The Applicant fails to repay in full any amounts (including interest) owing to the CMF in connection with any Financing Agreement;
- (g) Fraud and/or misrepresentation by the Applicant or a Related Party;
- (h) Insolvency or bankruptcy of the Applicant or a Related Party;
- (i) The Applicant ceases to carry on business; and/or
- (j) Any action is taken to remove control of the project from the Applicant or to seize any elements of the project (subject to the rights of a bona fide completion guarantor).

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<sup>1</sup> Financing Agreement also means a Deal Memo entered into with the CMF in the year 2002-2003 or 2003-2004. All references herein to a Financing Agreement shall be deemed to include a Deal Memo, where applicable. Failure to repay any amount owing under a Deal Memo is considered an Event of Default for the purposes of this policy.

A Financing Agreement includes agreements entered into to provide production, development, or versioning financing.

## **CONVERGENT PROJECTS:**

As of 2010-2011, all projects funded by the CMF are required to be convergent, having a television component and one or more digital media components or be made available via a CRTC-licensed video-on-demand service or via non-simulcast digital distribution via a Canadian entity, except for projects funded in the Versioning Program and Experimental Stream. It is an Event of Default if any of the components of the convergent project are not completed, delivered to the broadcaster or made available to the Canadian public as applicable. A separate Financing Agreement will be entered into by the CMF for each component of the convergent project that is funded by the CMF. If an Event of Default occurs under a Financing Agreement for one of the components of the convergent project, it will trigger an Event of Default under each of the Financing Agreements for all of the related components of the convergent project. This will apply in all cases, even if there are separate applicants for each component. However, only Related Parties to the applicant that committed the initial event of default will also be deemed to be in default. Related Parties to the applicant(s) for the related component(s) will not be deemed to be in default.

## **3. THE CMF'S DEFAULT RIGHTS**

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If the CMF determines that an Event of Default has occurred under a Financing Agreement, the CMF may do any or all of the following (without limiting or precluding any other rights and remedies that the CMF may have at law or in equity):

- (a) Reduce the contribution amount and require the Applicant to immediately repay any portion of the reduced amount previously advanced to the Applicant, plus interest;
- (b) Withhold any payment due to the Applicant or to any Related Party under any Financing Agreement;
- (c) Refuse to accept any future application or enter into a new Financing Agreement for CMF funding from the Applicant or a Related Party; and/or
- (d) Terminate the Financing Agreement by giving the Applicant ten (10) business days written notice, and if the default is not cured within the ten (10) business day period, require the Applicant to immediately repay all amounts received by the Applicant under the Financing Agreement, plus interest.

## **4. INTEREST**

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The CMF charges interest on all repayment amounts at the rate of prime (as set by the Bank of Canada) plus 1% per annum, compounded monthly, calculated and payable from the date of advance both before and after demand, default or judgment.

## **5. CMF APPLICATIONS FROM APPLICANTS IN DEFAULT**

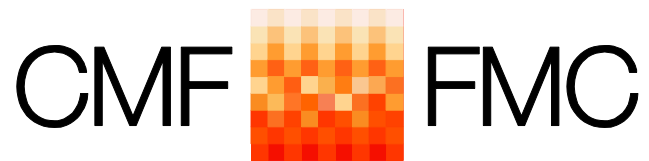
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Following receipt of a complete application for CMF funding from an Applicant in default with the CMF, the CMF, will notify the Applicant in writing that it has thirty (30) days to resolve the default. An assessment of the application will not be completed until the default with the CMF is resolved. If the default with the CMF is not resolved within the thirty (30) day period, the application will be rejected.

## **6. DISCLAIMER**

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This policy is for informational purposes only. The CMF reserves the right to modify this policy at any time. The policy does not limit in any way the rights and remedies that the CMF has under its Financing Agreements or otherwise.



## CHAPTER 2

# **ACCOUNTING AND REPORTING REQUIREMENTS**

IN EFFECT AS OF APRIL 1, 2012

## 1. INTRODUCTION

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This document presents the guidelines established by the CANADA MEDIA FUND (CMF) with respect to the accounting and reporting of Production costs ("Reporting Requirements").

These revised Reporting Requirements amend and replace the Accounting and Reporting Requirements published on January 1, 2006.

These Reporting Requirements are intended for all television program, feature film and digital media producers receiving funding from the CMF. They aim to convey the specific requirements and rules of the CMF concerning the accounting and reporting of Production costs, with particular regard to the preparation of final cost reports ("FCR") and final certified activity cost statements ("FCACS").

**For the purposes of these Reporting Requirements: (a) "Production" refers to television programs or series, feature film, digital media, development, marketing and production activities. "Production" also applies to any other financed activity for which a final cost report is required; and (b) "Production Company(ies)" means an applicant(s) to the CMF funding programs, including where applicable, distribution companies and broadcasters.**

Please see [Appendix 6](#) attached for a detailed list of the definition of terms and associated acronyms utilized within these Reporting Requirements (Glossary of Terms).

In order to ensure that the contributions received by the approved applicants are used in conformity with the objectives of the CMF, the CMF requires that Production Companies provide certain financial reports including statements of Production costs. The CMF is entitled to examine the books of account and related records of these companies to ensure that they are in compliance with these Reporting Requirements as set out in our standard contractual agreements between the CMF and the Production Company (the "Contractual Agreements", as defined in the [Glossary of Terms](#)).

## 2. PRODUCTION COMPANY

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The CMF's Reporting Requirements with respect to Production Companies include:

- A. The maintenance of proper books of account and related records throughout the Production for which financing has been provided including:
  - Separate books of account and related records for each Production.
  - The maintenance of separate and distinct bank account(s) for each Production into which all Production financing must be deposited, and from which all Production costs should be paid.
- B. Subject to [section 2.1](#), a final cost report (FCR) and a final certified activity cost statement (FCACS) for each Production financed by the CMF must be submitted with the applications for final drawdown or payment (Final Payment Application) to be filed by the Production in accordance with the dates set out in the applicable Contractual Agreement. The FCR must be prepared in the standard industry format and be accompanied by explanatory notes for substantive variances from the Budget, and any other non-standard entries. The FCACS must be prepared in accordance with the CMF Accounting and Reporting Requirements.
- C. The Production Company must ensure that its accounting personnel, both permanent and contractual, fully comprehend GAAP and these Reporting Requirements.
- D. The Production Company must also ensure that its management and senior finance personnel have:
  - Familiarized themselves with the CMF required documentation dealing with the accounting and reporting of financial information. Such documentation, among others, includes:
    - i. Contracts and letters of agreement entered into with the CMF (accompanied by any subsequent amendments);
    - ii. Correspondence exchanged between the CMF and the Production Company or its representatives (legal advisors and independent accountants/auditors);

- iii. The Budget;
  - iv. These Reporting Requirements;
  - v. The Contractual Agreements;
  - vi. The CMF Application Form for the Production;
  - vii. The applicable CMF Guidelines and Policies (e.g. Producer fees and corporate overhead Policy);
  - viii. Other contractual agreements, broadcast licence agreements and distribution agreements should they exist.
- Taken all necessary steps, when in doubt, to obtain clarification from the CMF as to the interpretation of these Reporting Requirements and any other of the CMF's official documentation and its binding clauses.

## **2.1 CERTIFICATION OF FINAL ACTIVITY COST STATEMENTS BY INDEPENDENT PUBLIC ACCOUNTANTS**

For Productions with a budget that totals \$500,000 or greater, the CMF requires a FCACS accompanied by an Independent Auditor's Report. For Productions with a budget that totals \$200,000 or greater but less than \$500,000, the CMF requires a FCACS accompanied by an Independent Public Accountant's Review Engagement Report. For Productions with a budget that totals less than \$200,000, the Production may submit an uncertified FCR, supported by an Affidavit (as set out in [Appendix 3](#)). However, CMF reserves the right that an audit or review engagement be performed, regardless of the budget level.

- In cases of an audit or review mandate, the Independent Public Accountant selected by the Production Company must be a member in good standing with a professional organisation authorized for this type of work and with its provincial institute (the "Independent Public Accountant").
- In addition to carrying out its work in accordance with generally accepted auditing standards, the Independent Public Accountant must be familiar with the industry and its practices and with these Reporting Requirements.
- The Production Company is required to provide to its Independent Public Accountant, a copy of all documents regarding the production, including the present Accounting and Reporting Requirements (see following section).

## **2.2 DOCUMENTS RELATED TO THE PRODUCTION**

The Production Company is required to retain all documents related to the Production at its place of business or in an archival facility for a period of five years from the year in which the Production was completed (as per the auditor's report, the review engagement report or the affidavit). Among others, these documents include the following:

- All agreements entered into with financiers of the Production;
- Correspondence exchanged between financiers and the Production Company or its representatives;
- Standard books of account (detailed general ledger, general journal, revenue and disbursement journal, accounting entries, payroll register, etc.);
- Exploitation reports and their relative supporting documents;
- Bank reconciliation and monthly bank statements;
- Statement of cash flow, including cash received from all sources of financing, cash outflows in respect of Production costs, reconciling to the cash balance in the general ledger at the end of each month;
- Cancelled cheques and/or disbursement vouchers and bank debit notes;
- Bank deposit slips;
- Purchase invoices and/or supplier statements;



- Purchase orders or similar authorization for expenditures, signed by authorized personnel of the Production Company;
- Expense accounts and petty cash reports with corresponding receipts;
- Duly executed employee contracts; and
- A list of all affiliated, associated or related companies or entities.

The Production Company and the individual producer(s) must take all necessary precautions to ensure that all financial records related to the Production including clerical or computerized records are retained and made accessible over the five-year period. Care must be taken to ensure records held by terminated personnel are recovered prior to their departure.

### 3. BUDGETS

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All Production financing applications submitted to the CMF must be accompanied by a detailed estimate of the total costs (the “Budget” as defined in the [Glossary of Terms](#) attached).

The following should be considered when preparing the Budget and submitting it to the CMF:

- The participation of the CMF is based in part on its assessment of the costs provided for in the Budget;
- Any costs that the CMF deems excessive, inflated or unreasonable may cause the CMF to adjust the amount of its participation;
- The Budget is evaluated and approved by the CMF;
- Approval of the Budget signifies the CMF's provisional acceptance of the estimated Production expenses provided therein. Final approval of the actual expenses is only given once the following steps have been performed by the CMF:
  - Analysis of the FCACS;
  - Analysis of the documentation submitted with the Final Payment Application;
  - Any subsequent audit or examination performed by CMF if required, provided that the documents noted above fulfill all contractual requirements and are in accordance with these Reporting Requirements;
- Approval of the Budget by the CMF must not be interpreted as final acceptance of the expense items provided for therein. In no case may the Budget serve as the sole justification for expense items.

### 4. ACTIVITY COST ACCOUNTING AND REPORTING RULES

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These Reporting Requirements were developed to take into account the requirements and responsibilities incumbent on the CMF and the Production.

#### 4.1 GENERAL RULES

##### 4.1.1 Supporting Documentation for Expenses

Production expenses must be directly related to the Production and be supported by appropriate invoices or other similar relevant documentation which, to the extent possible, provide a detailed description of the expenses charged, the date paid, the title of the Production and the name of the Production Company.

Any expense, for which there is no adequate supporting document, will be considered inadmissible.

To the extent possible, all supporting documentation must correspond to the original document provided by sources external to the Production Company and be corroborated by the relevant Production account bank statements and cancelled cheques.

#### **4.1.2 Accounts Payable, Accruals**

Certain financing partners do not release their final payment(s) until receipt of applicable final documentation (including the FCACS), resulting in a temporary deficient cash flow. Therefore, some accrued expenses and any estimated costs to complete will continue to be payable at the time of submission of the Final Payment Application (the Unpaid Costs).

As a general rule, the total of these Unpaid Costs should correspond to the total of funds to be received from the underlying financing sources for which no related interim financing was provided.

The Production Company must indicate, by way of notes to the FCR, the current total of all Unpaid Costs at the time of the preparation of the FCR allocated to the applicable budget code and set out in the applicable column of the FCR.

In addition to the above requirements, the Independent Public Accountant must certify the note disclosure in the FCACS of the accrued Unpaid Costs in the form described in [Appendix 5](#).

### **4.2 SPECIFIC BUDGET ALLOCATIONS AND LOCKED ITEMS**

#### **4.2.1 Producer fees (for production activities only)**

Producer fees (summary code 4 of section A of the Budget) include remuneration payable (but exclude travel & living -- [see 4.2.1.1](#) below) from pre-production, including development, through delivery and final cost reporting. These fees constitute a contractual fixed amount that the CMF allows without additional justification. Amounts charged as producer fees must not, however, exceed the amounts specified in the applicable Policies<sup>2</sup>, Guidelines and/or Contractual Agreements. The CMF reserves the right to audit the Producer fees at its sole option.

##### **4.2.1.1 Producer expenses**

A producer may incur expenses other than producer fees which may be charged to the Production. These expenses are usually for travel or entertainment. Such costs are eligible outside the cap, as per the Policies, only if substantiated by supporting documentation, were incurred in the course of the Production and are not subject to special conditions stipulated in the Policies, Guidelines and/or Contractual Agreements. Under no circumstances will expenses incurred for attendance or other participation at Festivals, Markets, or awards be considered eligible.

#### **4.2.2 Overhead allocation**

This item in the Budget (item code 72.01 within section D of the Budget) is an umbrella allocation for an apportionment of corporate overhead expenses (e.g. rental of corporate office space, maintenance and repair expenses, office equipment, supplies, administrative staff salaries, industry association fees that are not specifically related to the Production), and is a fixed amount that the CMF allows without supporting justification ("Fixed Corporate Overhead"). Amounts charged as Fixed Corporate Overhead must not, however, exceed the amounts specified in the Policies, Guidelines and/or Contractual Agreements.

The Production Company must justify any administrative expenses(s) charged to other Budget items of the Production in addition to the Fixed Corporate Overhead and such additional administrative expense(s) are subject to the CMF's prior written approval. Administrative expenses specific to the Production are typically allowed outside of the Fixed Corporate Overhead (e.g. rental of temporary production office space, salaries paid to Production Company staff for time spent working on the Production, CAVCO user fees providing tax credits are included in the Production financing).

The CMF reserves the right to audit the Fixed Corporate Overhead expenses at its sole option.

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<sup>2</sup> For more information, please refer to the «Producer fee and Corporate Overhead» policy.

### 4.2.3 Other locked items

The CMF may identify within the applicable Contractual Agreement other locked Budget items (e.g. script rights, related party transactions, unit publicity etc.) for which the final costs in these categories may not exceed the allowances originally allocated within the Budget unless otherwise pre approved by the CMF. Production Companies and Independent Public Accountants must take particular care to ensure that these limitations are respected and properly reported. Example note disclosure for the FCACS is set out in [Appendix 5](#).

## 4.3 DISCOUNTS AND CREDIT NOTES

During the course of a Production, the Production Company or a related entity may receive discounts or rebates from suppliers (e.g. volume rebate, early payment rebate), which are not reflected in the Budget. Credit notes may also be issued pursuant to adjustments related to services rendered, goods purchased or billing errors. Such discounts, rebates and credits whether from third party suppliers or related entities must be applied against the applicable Production expense.

## 4.4 COMPLETION GUARANTEE REBATES

The Production Company must indicate by way of notes to the FCACS certified by the Independent Public Accountant the total amount received as a rebate or no-claims bonus from a completion guarantor and the note should indicate the manner in which the amount was calculated and accounted for.

## 4.5 COST OF INTERIM FINANCING (FOR PRODUCTION ACTIVITIES ONLY)

Interim production financing may be obtained from a variety of lending sources, either related or unrelated to the Production Company. Accounting methods will vary according to the source. Estimates of these costs must be included as a separate line item in code 72 of section D of the Budget. Information on the sources of interim financing should be included in Note 10 of the FCACS.

### 4.5.1 Interim Financing obtained from third parties not related to the Production

Normally, a loan agreement is established between the Production Company and the Interim Financing source (the “lender”) specifying the fees, costs, time frame and the applicable interest rate. The cost of Interim Financing reported in the FCACS must correspond to the amount of fees, costs and interest billed by the lender plus an estimate of the future cost of interim financing based on the lender’s borrowing rate, through to the date of receipt of final financing (e.g.: tax credits, licences, etc.).

### 4.5.2 Financing obtained from an entity related to the Production Company

The Production Company may elect to interim-finance the Production from its own cash resources, other liquid assets, or its line of credit, or those of a related party.

- In such cases, the financing cost charged to the Production must be equivalent to the cost of borrowing of the Production Company or its related party providing such financing. For greater certainty, the cost of borrowing may not exceed that of its related party’s external borrowing rate.
- The cost of interim financing must be calculated as interest accruing on the monthly cash outflow for Production costs, less monthly financing in cash received from other sources up to the date the final financing is received. The Production Company may be asked to provide a copy of its cash flow statement including interim amounts received and disbursements made against the loan balance to support such charges.
- The period for which interest is charged must be reasonable, and should correspond to the period over which the Production Company or its related party has provided the interim financing for the Production plus an estimate of the future cost of interim financing up to the date the final financing is received.
- In order to recognise an opportunity cost to the related parties providing the interim financing through their equity (savings), the CMF will allow such related parties to charge a rate equal to prime + 1%.

Please refer to the example calculation attached as [Appendix 7](#).

## **4.6 ASSETS ACQUIRED IN THE COURSE OF THE PRODUCTION (FOR PRODUCTION ACTIVITIES ONLY)**

The CMF recognize 2 categories of assets for production activities:

- Assets acquired by the Parent company or a related Service Company and rented to the Production Company (e.g. off-camera transport vehicles, camera, lighting, sound, editing and post production equipment, etc);
- Assets acquired by the Production Company as on-camera elements (e.g. sets, set decorations, props, picture vehicles, wardrobe items, etc.)

### **4.6.1 Assets acquired by the Parent Company or related Service Company**

These assets are recorded as an asset on the balance sheet of the related company and can be rented for production needs to the Production Company. The accounting and reporting of such asset rental must be in accordance with [section 4.10.3](#) of the present document.

### **4.6.2 Assets acquired by the Production Company**

This section is for assets acquired for production needs only that are an integral part of the on-camera requirements of the Production.

- The cost of assets must correspond to their actual purchase or construction cost and supported by contracts, invoices, payroll records, etc.
- The asset must be directly related to the Production.
- When the same assets are used in several productions (notably in renewed series in the case of a television activity), the CMF will permit the total cost to be charged in the first series of episodes. In this case, if there is a subsequent series of episodes utilizing the assets, the cost of such assets must be zero (except for reasonable costs for storage, repair and maintenance, insurance and other operating costs directly related to the asset).

However, for absolute clarity, the CMF will permit the cost of an asset to be charged only once and must not exceed the actual purchase cost.

- If the acquired assets are disposed of at the end of the production, proceeds from the sale must be applied as a credit to the production budget line item to which the cost was initially recorded.
- When the acquired assets are not disposed of at the end of the production and have a residual value other than zero, this value must be credited to the production budget line item to which it was initially recorded.
- When submitting the FCACS, the Production Company must provide the following information certified by the Independent Public Accountant with respect to assets acquired in the course of the Production:
  - If no assets were acquired, a note to this effect must be included in the FCACS.
  - If any assets have been acquired at a value equal to or exceeding the greater of \$5,000 or 0.5% of the total final Production cost as reported in the FCACS, a description of the asset and its acquisition cost must appear in a note to the FCACS. Example of a note disclosure is set out in Appendix 5, item 3.
  - The value of assets presented by way of note should include details of any direct and indirect labour costs capitalized to fixed assets where labour is provided by persons employed by the Production Company and the appropriate portion of indirect costs.
  - If the Production company disposes of the acquired assets at a cost equal to or exceeding the greater of \$5,000 or 0.5% of the total final Production cost, a description of each asset, its acquisition cost, the amount of the proceeds of disposition and the accounting for such disposition(s) must appear in the note to the FCACS.
- The CMF reserves the right to refuse certain costs and/or proceeds if in their sole opinion such costs and/or proceeds are deemed unreasonable.

## 4.7 NON-CANADIAN COSTS

All non-Canadian costs (costs paid in foreign currency, either to Canadian or non-Canadian Companies, that represent a risk of gain or loss on exchange) incurred by either Canadian or non-Canadian Production Companies must be identified separately from Canadian costs for all Productions, whether audiovisual treaty co-Productions or otherwise.

If any non-Canadian performers appear in the Production, please complete section 8 of [Appendix 5](#) and provide the information requested for (i) the non-Canadian performers and (ii) the two Canadian performers who have been awarded the CAVCO points for first and second highest paid performers.

## 4.8 FOREIGN CURRENCY TRANSACTIONS

With respect to Production costs, gains or losses on foreign currency exchanges whether realized or not must be applied against the relevant Production cost line item. Accounting for such amounts must be specified in the notes to the FCACS as set out in [Appendix 5](#).

In the case of an audiovisual treaty co-production, all gains or losses on foreign currency exchanges, whether realized or not, must be recorded in a separate line item in section D.

With respect to Production financing, gains or losses on foreign currency exchanges, whether realized or not, must be applied as described in the relevant Contractual Agreement and disclosed within the FCACS in the manner presented in [Appendix 5](#).

## 4.9 PRODUCTION COSTS PAID TO BROADCASTERS AND DISTRIBUTORS

Any amounts paid to broadcasters licensing the Production and/or distributors acquiring distribution rights to the Production as Production costs (whether in the form of cash or services) must be reported as an actual cost and specified in the notes to the FCACS as set out in [Appendix 5](#).

## 4.10 RELATED-PARTY TRANSACTIONS (RPT)

The value of any estimated RPT included within the Budget must be separately disclosed to the CMF at the time of application, followed by the actual cost of the RPT, which must be disclosed within the FCACS in the manner presented in [Appendix 5](#). Actual RPTs and related balances are to be determined in accordance with Canadian generally accepted accounting principles and also following established complementary rules adapted to the film, television and digital media industries established by the CMF, which are described below in sections 4.10.1 to 4.10.3.

### 4.10.1 Definitions

CICA Handbook includes the following pertinent definitions of related parties and related party transaction, control and significant influence:

- “**Related parties** exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.”
- “A **related party transaction** is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.”
- “**Control** of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the cooperation of others.”
- “**Significant influence** over an enterprise is the ability to affect the strategic operating, investing and financing policies of the enterprise.”

The foregoing definitions are not exhaustive and further details may be found in the CICA Handbook. The Independent Public Accountant should be consulted in these matters.

**Two categories of related party transactions are recognized by the CMF:**

- Related party personnel
- Goods and services supplied by related parties

**4.10.2 Related party personnel**

The cost of services (i.e. salaries or fees) rendered by individuals hired by a related entity and allocated in whole or in part to the Production Company must correspond to the actual amount paid to the individual and be in accordance with the employment or engagement contract signed with the employer. Such amounts must be supported by corresponding disbursements. Salary expenses must also correspond to the period of time worked by the employees for the Production. Related costs and employee benefits may be included with these expenses.

The allocation of time devoted to the Production must be reasonable and appropriate and must be supported by documents such as T4, employment contracts, time sheets specifying the production title, etc.

In order for labour expenditures to be admissible they must meet the following 5 criteria<sup>3</sup>:

- Be reasonable in the circumstances;
- Be included in the cost of the Production;
- Be incurred for the production stages of the Production, from the final script stage to the completion and delivery of the Production;
- Be directly attributable to the Production (there must be a clear link to specific work performed on the Production), and;
- Be paid in the fiscal year or no later than 120 days after the Production Company's year end.<sup>4</sup>

The Producer is responsible for providing sufficient and adequate documentation to support the above stated amounts.

**4.10.3 Goods and services supplied by related parties**

Productions frequently use various goods, services and other assets owned by a related company, including but not limited to space in a building, camera and sound equipment, postproduction services and facilities, computers and related material, vehicles, office equipment and furniture, etc.

The accounting of these transactions will conform to one of the following two methods:

- i. When the goods and services provider is a related entity, such transactions may be accounted for at the exchange value. However, to be admissible, the expense must meet the 5 criteria stated in the previous section, i.e. 4.10.2, and if the goods or services are provided by the Parent company, the latter must correspond to the CRA's definition as stated in its policy on Administration Fees.<sup>5</sup> The CMF reserves the right to revise the admission criteria in cases of abuse of application or if certain amounts are unsubstantiated or deemed unreasonable.
- ii. When the goods and services provider is the same legal entity as the Production Company, such transactions must be accounted for at the actual cost as defined hereunder.

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<sup>3</sup> Please note that such criteria are the same as those included in the CRA's Claiming a Canadian Film or Video Production Tax Credit Guide.

<sup>4</sup> The CTF will take into account in their analysis, the delayed payments due to the tax credits and other fund lenders in the Production.

<sup>5</sup> Canadian Film or Video Production Tax Credit (CPTC) – Corporate Overhead

Actual cost must be calculated based on the actual operating costs<sup>6</sup> incurred by the Production company including but not limited to, acquisition costs or depreciation, electricity, rent, insurance, maintenance costs and repairs, cost of financing<sup>7</sup> such goods, property taxes, required permits, etc. that have been incurred directly for the production. The CMF may use the annual financial statements of the Production Company to validate the actual operating costs.

When a related company charges a Production Company for goods or services supplied by a third party (e.g. utilities, etc.), the value of the goods or services must be equal to the cost paid by the related party to the third party. No profit margin can be charged on these goods or services. They are to be charged at a rate equal to actual cost.

The Producer is responsible for providing sufficient and adequate documentation to support the above-stated amounts.

#### 4.11 VERSIONING

In accordance with the Guidelines, when versioning into English or French for Canadian broadcast, the entity providing such service must be a Canadian owned and controlled company. Exceptions may be made in the case of an audiovisual treaty co-production. Accordingly, the nationality of the versioning entity must be identified in section 13 of [Appendix 5](#).

## 5. INDEPENDENT PUBLIC ACCOUNTANT RESPONSIBILITIES

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The Independent Public Accountant engaged to conduct the certification of the final Production cost statement of a given Production must be independent of the Production Company and the Producer(s), within the definition of independence as defined by the provincial institute with whom the Independent Public Accountant is a member.

When providing an audit engagement or review engagement, Independent Public Accountants must carry out their work in accordance with Canadian generally accepted standards for audit or review engagements, and be familiar with the industry and its practices.

In addition to certifying the FCACS or FCR of a given Production, the Independent Public Accountant must be familiar with these Reporting Requirements. If clarification is required, the Independent Public Accountant is encouraged to contact the CMF.

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<sup>6</sup> Operating expenses as per financial statements must be calculated according to the amount of time used and/or space required for the Production. The producer must be able to justify the operating costs associated to the asset rented in the Production.

<sup>7</sup> Asset financing costs must be based on actual interest charges appearing on statements issued by the financing institution when an actual financing contract exists. When the Production Company finances the acquisition of assets through its liquid assets or line of credit, the CMF allows estimated interest charges to be included. However, two criteria must be met:

- The rate used must not exceed the external lender's borrowing rate for the period during which the asset is used for the Production;
- The amortization period of the estimated loan must be reasonable and must not exceed the length of the useful life of the acquired asset or the usual depreciation rate employed by the lessor or owner of the assets.



## APPENDIX 1- STANDARD AUDIT REPORT

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### AUDIT ENGAGEMENT REPORT

#### To the shareholders of the production company

We have audited the final certified activity cost statement, as provided for in the contractual agreement with The Canada Media Fund (CMF), for the production of the feature film (or television program, or series, or digital media project) entitled \_\_\_\_\_ for the period from \_\_\_\_\_ to \_\_\_\_\_. The final certified activity cost statement has been prepared in compliance with the CMF Accounting and Reporting Requirements. The final certified activity cost statement and its compliance with the requirements of the contractual agreements are the responsibility of the Production Company. Our responsibility is to express an opinion, based on our audit, on the compliance with the CMF Accounting and Reporting Requirements as set out in the contractual agreement and defined in Note 2.

We conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance that the final certified activity cost statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the final certified activity cost statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall final certified activity cost statement presentation.

In our opinion, the final certified activity cost statement presents fairly, in all material respects, the accumulated statement of costs for the production of the feature film (or television program, or series, or digital media project) entitled for the period from \_\_\_\_\_ to \_\_\_\_\_, consistent with the accounting standards defined in Note 2 and in compliance with the CMF's Accounting and Reporting Requirements.

The final certified activity cost statement, which has not been and was not intended to be prepared in accordance with Canadian generally accepted accounting principles, is provided solely for information purposes to be used by the Directors of \_\_\_\_\_ and the CMF in order to comply with the contractual agreement with the CMF. The final certified activity cost statement is not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Chartered Accountants: \_\_\_\_\_

City: \_\_\_\_\_



## APPENDIX 2- STANDARD REPORT ON REVIEW PROCEDURES

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### REVIEW ENGAGEMENT REPORT

#### To the shareholders of the production company

We have reviewed the final certified activity cost statement applicable to the film (television program/series or digital media product) entitled \_\_\_\_\_ (the "Production") for the period from \_\_\_\_\_ to \_\_\_\_\_. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on this final certified activity cost statement.

Based on our review, nothing has come to our attention that causes us to believe that this final certified activity cost statement is not, in all material respects, the cumulative costs of the Production from \_\_\_\_\_ to \_\_\_\_\_, consistent with the accounting standards defined in Note 2 and in compliance with the Canada Media Fund Accounting and Reporting Requirements.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
(company)

City: \_\_\_\_\_

## APPENDIX 3- PRODUCTION AFFIDAVIT

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### AFFIDAVIT

I the undersigned, being the Authorized representative of the production, \_\_\_\_\_, having completed and delivered the film (or television program/series or digital media product) entitled \_\_\_\_\_ (the "Production"), hereby certify that the final production costs, as reported in this Final Cost Report for the period from \_\_\_\_\_ to \_\_\_\_\_, and submitted to the Canada Media Fund, are a true and fair representation of all costs of the Production and in accordance with the CMF Accounting and Reporting Requirements.

Signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Declared before me \_\_\_\_\_  
(Notary Public or Commissioner for taking Oaths)

In \_\_\_\_\_  
(city, town)

In \_\_\_\_\_  
(province)

This \_\_\_\_\_  
(day of the month)

day of \_\_\_\_\_  
(month, year)

## APPENDIX 4- DEVELOPMENT AFFIDAVIT

---

### DEVELOPMENT AFFIDAVIT

I the undersigned, being the Authorized representative of the production company \_\_\_\_\_, having taken to term the development of the film (or television program/series or digital media product) entitled \_\_\_\_\_ (the "Project"), hereby certify that the final development costs, as reported in this Final Cost Report for the period from \_\_\_\_\_ to \_\_\_\_\_, and submitted to the Canada Media Fund, are a true and fair representation of all costs of the Project and in accordance with the CMF Accounting and Reporting Requirements.

Signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Declared before me \_\_\_\_\_  
(Notary Public or Commissioner for taking Oaths)

In \_\_\_\_\_  
(city, town)

In \_\_\_\_\_  
(province)

This \_\_\_\_\_  
(day of the month)

day of \_\_\_\_\_

## APPENDIX 5 - EXAMPLE NOTES TO THE FINAL CERTIFIED ACTIVITY COST STATEMENT

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### NOTES TO THE FINAL CERTIFIED ACTIVITY COST STATEMENT (FCACS)

#### 1. Content

The Final Certified Activity Cost Statement applicable to the \_\_\_\_\_ (identify as one of the following formats: feature film or television program/series or digital media product) entitled \_\_\_\_\_ (the "Production") for the period from \_\_\_\_\_ to \_\_\_\_\_ includes all costs incurred by \_\_\_\_\_ (the production) with respect to this Production, including costs incurred but unpaid at the time this FCACS was prepared.

The production, \_\_\_\_\_, is responsible for the production of the above-referenced Production. The individual producer(s) of the Production is (are): \_\_\_\_\_

All amounts reported in this FCACS are stated in Canadian dollars, unless otherwise indicated.

#### 2. Summary of significant accounting policies

In the following cases, information must be provided on the accounting policies applied, along with a brief description of the application of any specific CMF rule on accounting and reporting if:

- the accounting policy was chosen from among several acceptable accounting policies;
- accounting principles and methods specific to the film, television and digital media industry have been applied;
- Canadian generally accepted accounting principles (GAAP) were applied in a new or unusual way;
- specific accounting methods are not consistent with GAAP. Example disclosure of accounting policies

##### *Example disclosure of accounting policies*

The costs incurred relative to the Production have been accounted for according to Canadian generally accepted accounting principles and the Accounting and Reporting Requirements established by the CMF.

The specific rules that differ from Canadian generally accepted accounting principles include the following:

- a) General: The costs compiled in this report do not take into account any reimbursable tax credit applicable to certified productions.
- b) Production activity costs: The production activity costs include the direct production expenses as well as the Producer Fees and Fixed Corporate Overhead, the latter two of which are equal to % of the aggregate of the "B" + "C" sections of the approved production budget for this Production.
- c) Completion Guarantee: The completion guarantee rebate amount has been applied so as to reduce the cost of the completion guarantee OR the completion guarantee rebate amount has not been calculated in this cost report.
- d) Interim Financing costs:
  - i. from third party lenders are charged to the Production at rates set by that third party;
  - ii. from related-parties correspond to the difference between the monthly cash outflow and monthly cash investments multiplied by the related parties' external lender's borrowing rate;
  - iii. includes estimated borrowing costs up to the date of receipt of the final financing.
- e) Assets: All assets acquired for the Production are reported as Production costs. All proceeds resulting from the disposition of such assets during the period covered by the FCR have been applied so as to reduce the Production cost items against which they were originally charged. Assets transferred to another Production are considered to be disposed of by the Production for the fair value of that asset at the time of disposal.

Related-party transactions are measured either at the exchange amount or actual cost. The exchange amount is determined in reference to the lowest rates charged for the same or similar goods or services rendered within the period of Production.

f) Other significant accounting policies.

### 3. Assets acquired and disposed of during the Production

- ☐ No assets were acquired during the Production.
- ☐ The total value of all assets acquired during the Production is \$\_\_\_\_\_.
- ☐ The list of all assets acquired or disposed of whereby the original unit cost was the greater of \$5,000 or 0.5% of total Production costs appears in the table below;

Description	Acquisition cost Disposition proceeds (actual or planned) (if applicable)

### 4. Related-party transactions

The Production costs include the following related party transactions and amounts:

Budget line item & Code	Description	Related party name and description of relationship	Measurement (actual cost or exchange amount)	Amount

The transactions related to the services rendered by employees of the related company were measured at actual cost.

The measurement basis used for each of the other related-party transactions was the exchange amount.

### 5. Unpaid Costs

The Production costs include unpaid costs. As at \_\_\_\_\_ (date of final cost report), the Final Certified Activity Cost Statement includes the following unpaid balances:

Accounts payable       \$ \_\_\_\_\_

Accrued liabilities     \$ \_\_\_\_\_

Deferred costs         \$ \_\_\_\_\_

Total                     \$ \_\_\_\_\_

The components of accounts payable and accrued liabilities are as follows:

Deferred costs:

Description	Budget code	Amount

## 6. Locked Budget Items

The Budget dated \_\_\_\_\_ and approved by the CMF locks certain specific costs, as included in the table below:

Description	Budget code	Allowable maximum or minimum amount	Total charged in final cost report

## 7. Non-Canadian costs

The Production costs include the following non-Canadian costs:

Budget line item & code	Description	Amount

## 8. Point performers and non-Canadian performers

As certain non-Canadian performers were engaged for the Production, in accordance with section 4.7 of these Reporting Requirements, the following information is with respect to (i) the non-Canadian performers and (ii) the two Canadian performers who fulfilled the highest and second highest paid CAVCO point categories:

Role	Name of Performer	Nationality	Fees paid	Travel and Living (paid or provided)	Other costs

## 9. Foreign currency exchange (Production cost transactions)

The gains (losses) from foreign exchange transactions amounted to \$ \_\_\_\_\_, and were applied against (included in) the cost of the following items, in the following amounts.

Budget line item & code \_\_\_\_\_ Amount \_\_\_\_\_

## 10. Sources and structure of financing

The following table sets out the final and interim sources of financing for the Production.

Name of funding source (including interim financing)	Total amount received as at date of FCACS	Total amount receivable from/payable to interim lender(s) as at date of FCACS	Total financing
Name of third party lender			
Name of related party lender			
<b>Total Financing</b>			
<b>Total Costs</b>			

Foreign currency exchange generated pursuant to the sources of financing resulted in a gain (or loss) of \$ \_\_\_\_\_.

## 11. Completion guarantee rebate

The Production Company received a rebate (or no claims bonus) of \$ \_\_\_\_\_ from the completion guarantor.

This rebate was accounted for as:

\_\_\_\_\_ Amount \_\_\_\_\_  
Budget line item & code

## 12. Amounts paid to broadcasters

Budget line item & code	Payee	Description	Amount

## 13. Versioning

The entity which provided the (English or French) (subtitled or dubbed) version of the Production was a \_\_\_\_\_ (enter country) corporation.

## APPENDIX 6- GLOSSARY OF TERMS<sup>8</sup>

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**Accounting and Reporting Requirements (Reporting Requirements)** – the document dated as of April 1, 2012 to which this Appendix is attached.

**Budget** – the final detailed estimate of the total costs of the Production prepared by industry professional estimators hired by the Production and set out in accordance with the standard formats as approved by the CMF.

**Contractual Agreements** – general term used to refer to the various types of agreements between the CMF and one or more Productions.

**Distribution Company** – the corporation, which has entered into the Contractual Agreements and under which it is responsible for distributing the production.

**Final Certified Activity Cost Statement (FCACS)** – the final production cost statement which has been audited or reviewed by an Independent Public Accountant and certified as being the true and accurate final cost of the Production.

**Final Cost Report (FCR)** – the final production cost report prepared and submitted by the Production setting out all costs paid, accrued and estimated to complete (if applicable) as compared to the Budget, after completion of the Production. The FCR must be accompanied by relevant notes in explanation of substantive variances between Budget and final cost for each line category.

**Final Payment Application** – refers to the Production's application for final payment in accordance with the financing agreement and guidelines applicable to the specific production or activity.

**GAAP** – Canadian generally accepted accounting principles.

**Guidelines** – Document providing detailed rules and instructions concerning the management of the CMF programs.

**Independent Public Accountant** – An independent public accountant, engaged by the Production to undertake the certification of the FCACS. Must be a member in good standing with a professional organisation authorized for this type of work and with its provincial institute. The Independent Public Accountant must be independent of the Production and the Producer(s), within the definition of independence as defined by the provincial institute with whom the Independent Public Accountant is a member.

**Interim Financing** – the temporary financing provided in the form of a loan paid in advance, and secured by funds to be received from the final underlying Production financing sources.

**Management** – any person(s) having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

**Parent Company** – (ref. CICA Handbook) a corporation who has control over another corporation (subsidiary) that has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks. In this context, control of an enterprise means the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

**Phase II Application** – refers to the process between the CMF receipt of the Production Company's application for final payment pursuant to the Financing Agreement through to the payment by the CMF to the Production Company of the final payment.

**Policy** – A policy is defined as a course of action in line with stated objectives officially adopted by the CMF's Board of Directors and pursued by the Corporations. A policy document states a policy and provides guidelines for its application.

Note: The terms "policy document" and "guidelines" are often used synonymously.

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<sup>8</sup> This glossary of terms is intended strictly for the interpretation of the present document and should not be used for any other interpretation of CMF Reporting Requirements.



**Production** – the television program or series, feature film or digital media product as defined in the Contractual Agreements, the cost of which is reported to the CMF pursuant to these Reporting Requirements.

**Production Company** – the corporation, which has entered into a Contractual Agreement under which it is responsible for producing, and completing the production.

**Residual value** – the estimated net realizable value of an item of property, plant and equipment at the end of its useful life to an enterprise.

## APPENDIX 7 - CALCULATION OF INTERIM FINANCING COSTS CHARGED BY A RELATED PARTY

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### CALCULATION OF INTERIM FINANCING COSTS CHARGED BY A RELATED PARTY

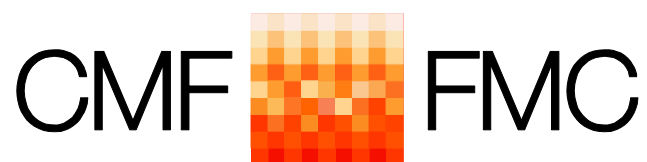
Actual Monthly Cash Flow	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month X <sup>9</sup>	Total <sup>10</sup>
Balance Carried Forward								
Monthly Receipts (A)								
Monthly Disbursements (B)								
Total monthly interim financing requirement (A) – (B)								
Related party monthly cost of borrowing (%) (C)								
Monthly interim financing (C) x (A - B)								
Plus estimate <sup>11</sup> of future cost of interim financing (D)								
Total interim financing cost								

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<sup>9</sup> The period should correspond to the period over which the related party has provided the interim financing for the production.

<sup>10</sup> Should be equal to Final Production Costs as per the FCACS.

<sup>11</sup> Not to exceed the date of receipt of final financing.



## CHAPTER 3

# **PRODUCER'S FEES & CORPORATE OVERHEAD (PFCO) POLICY**

IN EFFECT AS OF APRIL 1, 2012

## **I. SPIRIT AND INTENT OF POLICY**

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This policy provides producers with clear guidance on the amount of producer's fees and corporate overhead costs that can reasonably be included within their production budget.

The percentages and dollar amounts set out below for producer's fees and corporate overhead represent a maximum eligible amount and are referred to as "the Cap". The Cap is calculated on the Canadian portion of Sections B+C, in the case of an audiovisual treaty co-production, and is applicable only to the Canadian producer's fees and corporate overhead.

In all cases, where it appears this policy is being used inappropriately to place fees outside the Cap, the CMF will apply the definition of a Producer to determine if a person's fees should be placed within the cap.

## **II. THE CAP**

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### **A. CONVERGENT STREAM: TELEVISION COMPONENT**

For the production of television components of projects in the Convergent Stream, the producer's fees and corporate overhead ("PFCO") included within the production budget shall be a maximum of 20% of Sections B+C of the production budget, with the exception of productions with budgets of less than \$500,000 (Low Budget Productions) for which the percentage is 30%.

Beyond these percentages, there is a maximum dollar amount of \$1.4 million per project which is pro-rated up for series of more than 13 hours (13 one-hour episodes or 26 half-hour episodes).

#### **Fees to be Included in the Cap**

The following rules apply to all persons with an Ownership Interest in a production even if they are not receiving a producer credit.

All producer's fees (i.e., executive producer, producer, co-producer, associate producer), other production management fees (e.g. production manager, post production supervisor) and fees paid for roles that are not clearly outside the responsibilities of a producer (e.g. consultant fees) paid to persons with an Ownership Interest in the production company must be included in the Cap.

#### **Fees Allowed Outside the Cap**

Fees paid to producers and other production managers who do not have an Ownership Interest in the production (including staff producers) may be outside the Cap provided that the spirit and intent of this policy is respected. All other fees paid to production personnel, who do not have an Ownership Interest in the production, may be outside the Cap.

Persons with an Ownership Interest may receive payment outside the Cap for roles beyond the definition of a producer (e.g. writer, showrunner, director, actor), provided that any fees in excess of industry standards will be placed within the Cap.

Any amounts exceeding these limits will be included in the Cap.

#### **Fees Paid to Financiers**

Finder's fees for the arranging of the production financing or commercial exploitation of the production (including excessive gap financing fees) must be included in the Cap. Additionally, any fees for responsibilities of a producer payable to financiers (including broadcaster, distributors and agencies) must either be included within the Cap or alternatively, reduce the level of recoupable financing from such financier.

## Placement of Fees in the Production Budget

Fees paid to a person with an Ownership Interest for producer roles (i.e., executive producer, producer, co-producer, associate producer) or production management roles (e.g. production manager, post production supervisor) must be placed in section A of the production budget for purposes of calculating the Producer Fees and Corporate Overhead Cap (they are also included in the Cap).

Producer or production management fees that are outside the Cap may be placed in sections B or C of the production budget.

## Corporate Overhead Costs

Corporate overhead is an allocation for corporate overhead expenses (e.g. rental of corporate office space, maintenance and repair expenses, office equipment, supplies, administrative staff salaries, industry association fees that are not specifically related to the production) and is a fixed amount that the CMF will allow ("Fixed Corporate Overhead"). The amount of Fixed Corporate Overhead must not, however, exceed the PFCO Cap. Producers must justify any administrative expenses charged to other budget items of the production in addition to the Fixed Corporate Overhead and such additional administrative expenses are subject to CMF's prior written approval. Administrative expenses specific to the Production are typically allowed outside of Fixed Corporate Overhead (e.g. rental of temporary production office space, salaries paid to production company staff for time spent working on the production, CAVCO user fees, provided tax credits are included in the production financing).

## Reduction or Deferral of PFCO

*Note: This section on reduction or deferral of PFCO does not apply where there is a Terms of Trade Agreement in effect between the Canadian Media Production Association and a Canadian broadcaster which governs the Television Component of the Eligible Project.*

The CMF does not encourage the reduction or deferment of PFCO to close the production financing for a television component of a convergent project.

To this end, in the English-language market, the CMF will not permit deferrals, producer investments and/or reductions of PFCO that in the aggregate exceed 25% of total maximum eligible PFCO, unless the producer is able to demonstrate a viable financial structure. The broadcaster should also use their best efforts to close the production financing without deferrals, investments and/or reductions. The broadcaster's best efforts could be demonstrated by:

- Licence fees in the financing that exceed historical average fees for the genre and format of the project; and
- The maximum envelope contribution has been committed to the project (or, if the broadcaster does not have sufficient funds remaining in their envelope to commit the maximum envelope contribution, they have used the remaining available funds).

These deferral safeguards are not intended to restrict the producers' ability to submit an alternate viable financial structure with a deferral, producer investment or reduction in excess of 25% of the PFCO, which can later be replaced with other funding once it is confirmed.

## B. CONVERGENT STREAM: DIGITAL MEDIA PRODUCTION

For the production of digital medial components of projects in the Convergent Stream:

- a) For productions with budgets of less than \$100,000, the producer's fees included within the production budget shall be a maximum of 15% of Sections A+B of the production budget and the corporate overhead included within the production budget shall be a maximum of 15% of Sections A+B of the production budget; and
- b) For all other productions, the producer's fees included within the production budget shall be a maximum of 10% of Sections A+B of the production budget and the corporate overhead included within the production budget shall be a maximum of 10% of Sections A+B of the production budget.

## **C. CONVERGENT STREAM: DEVELOPMENT**

For the development of Television Components in the Convergent Stream, the PFCO must be at 20% of Direct Costs for producer's fees and 20% of Direct Costs for corporate overhead. Direct Costs include all eligible development expenses, except the following:

- Producer fees and corporate overhead
- Writer's fees in excess of industry standards

The following fees are ineligible costs in development budgets:

- Option or rights acquisition fees paid to a person with an Ownership Interest;
- Writer's fees in excess of industry standards paid to a person with an Ownership Interest (exceptions may be made if the writer has a sufficient track record to command fees in excess of industry standards from non-related producers);
- Fees for any role typically included in the responsibilities of a Producer.

For the development of Digital Media Components in the Convergent Stream, the PFCO cannot exceed 20% of the total of budget categories A+B.

## **D. EXPERIMENTAL STREAM**

For projects in the Experimental Stream, producer fees and corporate overhead included in the budget must be reasonable and:

- For Development: Account H cannot exceed 20% of Accounts A through F.
- For Production: Each of producer fees and corporate overhead cannot exceed 10% of Accounts B+C. The corporate overhead included within the budget must be comprised of costs directly related to the project.
- For Marketing & Promotion: Account E cannot to exceed 10% of Accounts B+C.

## **Definitions**

### **Ownership Interest:**

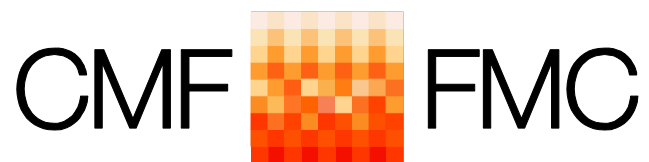
A direct or indirect ownership interest in the production company itself, or in any entity with a direct or indirect ownership interest in the production company, including affiliates, subsidiaries and parent entities, granting the holder decision-making authority for, or meaningful influence on, the significant matters of the production company.

Producer: an individual who controls and is one of the central decision makers in respect of the production from beginning to end. The following indicators are used to determine when a person is performing the role of a central Producer. The producer is normally involved in and is ultimately responsible for:

- The acquisition and/or meaningful development of the story;
- The commissions of the writing of the screenplay/series bible;
- The selection, hiring and firing of the key artists and creative personnel;
- The preparation, revision and final approval of the budget;
- All overages;
- The binding of the production company to talent and crew contracts;
- The arranging of the production financing;
- The supervision of the filming/taping and post-production;
- Final creative control;
- Production expenditures;
- Production bank accounts (sole and unfettered cheque signing authority);

- And arranging of the commercial exploitation of the production.

The functions of line producer and production manager, in and of themselves, are not sufficient to confer producer status.



CHAPTER 4

## **COMPLETION PROTECTION POLICY**

IN EFFECT AS OF APRIL 1, 2012



## 1. COMPLETION PROTECTION REQUIREMENT

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The CMF may require completion protection for any production funded. In general, the CMF will rely on the assessment and recommendation of interim lenders or, in the case of minority co-productions, of the majority partner's main creditor/financier, with regards to whether a completion guarantee or another form of completion protection is required. However, the CMF reserves the right, based on its own risk assessment of the production, to require a completion guarantee or other form of completion protection for any production. For those productions where an interim lender has stipulated binding completion protection requirements or where a completion guarantee is in place, the CMF will generally accept the lender's or guarantor's requirements for contingency.

### **CMF Contribution Less than \$250,000**

For those productions where the CMF contribution amount is less than \$250,000, in general, the CMF does not require completion protection and expects that producers will budget adequately for contingency.

### **If a completion guarantee is required**

If a completion guarantee is issued for a CMF-funded production, the CMF must always be made a beneficiary, irrespective of whether the completion guarantee was required by the CMF or another financier.

### **Rebates for completion guarantee**

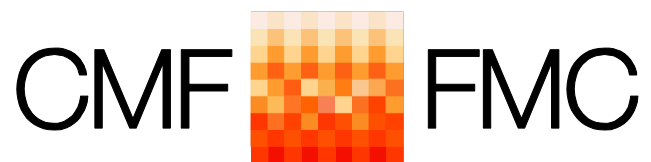
The applicant shall not accept or give any discount or rebate in respect of the completion guarantee without the CMF's prior approval. In the event that a no-claims rebate is recovered from the completion guarantor, such rebate shall first be applied to payment of Budget items and Budget overages. Any balance remaining from the rebate after all Budget items and overages have been paid may be retained by the Producer as a performance bonus.

### **Definitions:**

**Completion guarantor:** Company in the full-time business of providing a completion guarantee carrying demonstrable re-insurance coverage.

**Completion guarantee:** Protection acquired or offered by a completion guarantor that guarantees completion and delivery of a production and which, if the production is not completed, ensures that investors and financial partners in that production will be reimbursed.

**Completion protection:** Means of protecting the completing of a production. It typically takes the form of a completion guarantee, but can also be a sum in escrow, unencumbered line of credit, letter of credit, holdback or other measure.



CHAPTER 5

# **PRODUCTION INSURANCE POLICY**

IN EFFECT AS OF APRIL 1, 2010

## PRODUCTION INSURANCE POLICY

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For the production of projects in the Convergent Stream, the Applicant must obtain the following policies of insurance in accordance with the standards of the television and interactive digital media content production industry and the following requirements:

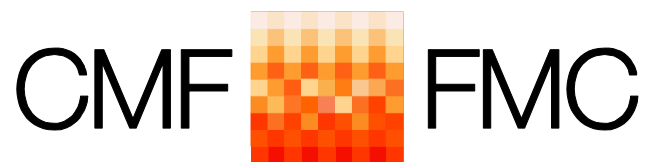
- (a) **Comprehensive General Liability:** certificate of insurance naming the CMF and Telefilm Canada, their officers, directors, agents and employees as additional insureds;
- (b) **Entertainment Package:** certificate of insurance naming the CMF as a loss payee; and
- (c) **Errors and Omissions:** certificate of insurance naming the CMF and Telefilm Canada and their officers, directors, agents and employees as additional insureds. This coverage shall be primary and not contributing to or in excess of any such insurance maintained by CMF and/or Telefilm Canada. The policy shall not contain any exclusions or restrictions in coverage or a deductible in excess of \$10,000.

The policy must be in effect as of the date of the first broadcast or the date of any earlier exploitation of the project. Notwithstanding the foregoing, in the event that any other financier or broadcaster requires the Errors and Omissions policy to be in effect prior to the date of first broadcast or other exploitation, the CMF and Telefilm Canada must be named as an additional insured on the policy upon commencement of coverage.

In any event, the certificate must be delivered to the CMF on the earlier of: *delivery of the completed project to the broadcaster or ten (10) business days prior to the first telecast or exploitation of the project.*

All of the policies outlined above must provide for a thirty (30) day notice of cancellation or material change in coverage to the CMF and provide for standard coverage, policy terms and limits obtained for comparable productions.

In the Experimental Stream, projects must be insured in accordance with industry standard policies.



CHAPTER 6

## **STANDARD RECOUPMENT POLICY**

IN EFFECT AS OF APRIL 1, 2010

**This policy applies to the CMF's equity investments in television components of projects in the Convergent Stream. The policy relating to the Experimental Stream is available in a separate document on the CMF's [website](#).**

## **STANDARD RECOUPMENT POLICY**

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Producers receiving equity financing (i.e., that portion of CMF participation in excess of the licence fee top-up) must provide to the CMF the opportunity to recoup its equity participation in a manner no less favourable than pro rata and pari passu with Other Financial Participants (as defined below). If a more preferential recoupment position is negotiated by any of the Other Financial Participants than outlined below, the CMF will require similar treatment (pro rata and pari passu).

The Standard Recoupment Policy was developed to eliminate negotiation of recoupment deals between the CMF and Producers, to save time, and to provide producers with predictability in the form of pre-approved recoupment structures. The CMF recognizes that in the case of audiovisual treaty co-productions financial structures, distribution arrangements, marketability and other elements vary considerably. The CMF in its sole discretion will consider alternative recoupment proposals in these situations on a case-by-case basis, but no such deal will be approved by the CMF unless it can be demonstrated that it provides an expectation of revenue that is no less favourable than that provided through Model B, described below.

The mandate and objectives of the CMF include maximizing the CMF's return on investment when it is an equity investor. The CMF will apply the Standard Recoupment Policy in an adaptable and purposive manner with this objective in mind. In particular, the CMF may:

- Reject a distribution arrangement where it determines that the entity to do the distribution is unable, or likely will not, exploit the rights in an effective and/or timely manner;
- Require that a distribution arrangement includes and expresses all terms and conditions necessary for the CMF to meaningfully assess the arrangement—this may include requiring that distribution arrangements be provided for in a separate legal agreement; and/or
- Take different approaches to distribution of traditional distribution rights (e.g. television rights for non-Canadian markets, theatrical, non-theatrical, DVD/Blu-ray, and traditional ancillary rights such as merchandising and music publishing) and digital distribution rights (e.g. electronic sell-through, Internet distribution, mobile/wireless distribution, and digital ancillary rights such as interactive rights).

### **CMF-APPROVED RECOUPMENT MODELS**

Projects without an Eligible Distributor attached must comply with the recoupment schedule outlined in Model A. Projects with an Eligible Distributor attached, regardless of the level of their distribution advance, must comply with the recoupment schedule outlined in Model B.

## Model A – No Eligible Distributor Attached

CMF – English and French-Language Productions

Territory: Worldwide

	PRODUCER (PROVINCIAL TAX CREDITS)	PRODUCER (FEDERAL TAX CREDITS)	CANADA MEDIA FUND	OTHER FINANCIAL PARTICIPANTS*
<b>Tier 1 (200% of provincial tax credit)</b>	100% of the provincial tax credit participation (equal to 50% of total net revenue in Tier 1)	% = tax credit participation as % of recoupable sources of production financing multiplied by 50%	% = CMF's Equity as % of recoupable sources of production financing multiplied by 50%	% = financial participation as % of recoupable sources of production financing multiplied by 50%
<b>Tier 2 (balance of recoupable financing)</b>	% =	balance of federal tax credit	balance of CMF Equity	Balance of Other Financial Participants' participation

\* "Other Financial Participants" include, but are not limited to: broadcaster investment, producer deferral, private fund and provincial agency investment, craft and creative deferrals (whether or not by related parties) and any form of producer-related financial participation which is directly or indirectly supported by producer fees or corporate overhead ("Other Financial Participants").

## Model B – An Eligible Distributor is attached

"Net Distribution Revenue" (as explained in more detail in Appendix A) is briefly defined as world-wide gross revenue received from the sale of the CMF project to end users less:

- distribution fees/commissions;
- distribution expenses to a maximum of 10%;
- administration fee of 5% to the production company.

## Eligible Distributors

Eligible Distributors are given a sole first Tier recoupment position.

## CMF and Other Financial Participants

Until full recoupment of the provincial tax credits, this amount will recoup at an amount equal to 50% of all Net Distribution Revenue in Tier 2. Other Financial Participants, with the exception of Federal Tax Credits, will share in the remaining 50% in an amount equivalent to their portion of the overall recoupable sources of production financing (excluding the distribution advance and tax credits). Amounts not recouped in Tier 2 will recoup pro rata and pari passu in Tier 3. Federal tax credits will recoup in Tier 4.

**CMF – English and French Language Productions**  
**Territory: Worldwide**

	<b>ELIGIBLE DISTRIBUTOR</b>	<b>PRODUCER (TAX CREDITS)</b>	<b>CANADA MEDIA FUND</b>	<b>OTHER FINANCIAL PARTICIPANTS</b>
<b>Tier 1</b>	100% = Distribution advance	% = 0	% = 0	% = 0
<b>Tier 2</b>	% = 0	100% of the provincial tax credit (equal to 50% of total net revenue in Tier 2	% = CMF's Equity as % of recoupable sources of production financing (excluding the distribution advance) multiplied by 50% of remaining revenue in the Tier	% = financial participation as % of recoupable sources of production financing (excluding distributors and tax credits) multiplied by 50% of remaining revenue in the Tier
<b>Tier 3</b>	% = 0	% = 0	balance of CMF Equity	balance of Other Financial Participants' participation (except tax credits)
<b>Tier 4</b>	% = 0	100% = federal tax credits	% = 0	% = 0

Note: The Standard Terms and Conditions (Appendix A) must be adhered to.

The following applies to all CMF recoupment, whether under Model A, Model B, or an alternative model:

- The CMF will stop recouping its investments and participating in profits after 7 years from the date of the submission of the first exploitation report for the project. However, where revenues are generated by the project pursuant to a syndication arrangement, the CMF may, at its sole discretion, elect to continue to recoup and/or participate in profits beyond 7 years.
- The CMF will consider “gap” financing (a financial guarantee against future revenues) from a recognized gap financier as distribution advances, for the purposes of determining their recoupment position, and will ensure that the terms of such gap financing are in accordance with the Standard Terms and Conditions.
- In all cases, approved budget over-runs, facilities and service deferrals (deferred payments to commercial laboratories, equipment rental companies and post-production facilities) may be recouped only after the CMF has recouped.
- The CMF in its discretion may consider approving “star breakage” (where additional expenditure beyond that originally budgeted is required to contract marquee cast) to recoup preferentially, but only on a case-by-base basis.
- Profit Participation: The CMF will continue to receive a share of Net Distribution Revenue after full recoupment by all participants in accordance with the final recoupment schedule. The CMF will receive an amount equivalent to the CMF's equity participation as a percentage of total equity participation in the production multiplied by Net Distribution Revenue. The CMF's profit participation shall be calculated no less favourably than any Other Financial Participant, and will be calculated before any profit participation entitlement of a non-equity participant. The CMF will forego 50% of its profit participation for the benefit of the Producer. Other Financial Participants are not obliged to similarly forego any portion of their profit participation.

## APPENDIX A

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### Standard Terms and Conditions

#### 1. ELIGIBLE DISTRIBUTOR

The preferential recoupment position will only be provided to Eligible Distributors. An eligible distributor (“Eligible Distributor”) is one that has demonstrated to the CMF’s satisfaction:

- A level of experience and expertise sufficient to arrange for the distribution of the Canadian television production in question;
- A sufficient volume of business and a business plan to ensure the company’s future financial viability;
- That it regularly attends relevant international television markets;
- That it has distributed productions of a similar size and nature; and
- That for projects that the distributor will distribute in Canada or Canada plus other territories, the distributor is Canadian-controlled within the meaning of the Investment Canada Act, as amended from time to time.

A producer who is unsure of this process should contact their appropriate regional Telefilm office for more information.

International distribution rights must be offered to appropriately qualified Canadian international sales companies, which must be given the right and opportunity of first offer. In cases where comparable offers are made by Canadian and non-Canadian companies, CMF will seek to ensure that priority is given to Canadian international sales companies.

An agency, Crown corporation, broadcaster, or other entity which is financed primarily through provincial or federal public funding may be recognized by the CMF as an Eligible Distributor (such as the National Film Board of Canada) or a gap financier. Such a publicly funded Eligible Distributor may recoup its distribution advance and receive fees/commissions and expenses in accordance with those outlined herein for Eligible Distributors. The CMF will monitor this policy to ensure that private sector distributors are not compromised. The CMF may, in its discretion, apply a less favourable recoupment standard to publicly funded Eligible Distributors in the event that there is an increase in the distribution advances being provided at the expense of historical levels of broadcast licenses and equity investments from these same organizations.

#### 2. BROADCASTER-AFFILIATED ELIGIBLE DISTRIBUTORS

An Eligible Distributor affiliated to a broadcaster (whether public or private sector) may distribute a project in which CMF invests if it meets the requirements outlined herein, and the following safeguards. The goal of these safeguards is to ensure fair dealing for producers and for other distribution companies in situations in which the trigger broadcaster(s) is affiliated with an eligible distribution company. The CMF will use the definition of “affiliate” set out in the *Canada Business Corporations Act*.

##### **SAFEGUARDS:**

The negotiation process for traditional distribution rights (e.g. television rights for non-Canadian markets, theatrical, non-theatrical, DVD/Blu-ray, traditional ancillary rights, etc.) must be conducted separately from the negotiation process for a broadcaster licence fee commitment to a project. There should be a two-week delay after the producer and broadcaster have completed a short form broadcast agreement and before the broadcaster-affiliated distributor and producer commence negotiation of a distribution commitment.

This delay is to allow the producer to solicit offers from other distributors. In the event the producer elects to grant distribution rights to another distributor, the broadcaster shall not reduce its licence fee commitment.

The broadcaster-affiliated distribution company is prohibited from accessing information from its affiliated broadcaster that would give it an undue advantage in the negotiating process with the producer.



The CMF will ensure that these safeguards are enforced, acting as an arbiter as required. This entails receiving and assessing complaints and enforcing other measures at its own discretion.

In the event that the CMF determines that a broadcaster-affiliated distribution company has used undue leverage or coercion in the negotiation processes described above, the CMF at its discretion may elect to disqualify the distribution company as an Eligible Distributor for two years. The CMF will conduct an annual review to ensure that the eligibility of broadcaster-affiliated distribution companies does not have an adverse impact on the distribution industry in general.

### 3. DISTRIBUTOR FEES

Fees deducted must not exceed the following percentages of gross revenues:

- Television (conventional, pay) 30%
- Television (syndicated) 35%
- Theatrical 35%
- Home video (rental or sell-through) 30% (or 20% royalty payable to producer)
- Electronic sell-through or digital rental 30%
- Free Internet broadcast/distribution 30%
- Paid Internet broadcast/distribution 30%
- Mobile/wireless distribution 30%
- Foreign (regardless of medium) 35%
- Non-theatrical 50%
- “Non-theatrical” includes airlines, military bases, hotels, hospitals, schools, museums, libraries, etc. For distributors acquiring only non-theatrical rights without access to commissions from any other media, the commission will be raised to the historical standard of a 70% royalty payable to the Distributor.

In exceptional situations, or as described at section 3.2.TV.5.3(1)(a) of the guidelines for the applicable production Program (i.e. the 50/50 revenue share), the CMF will evaluate requests for royalties on Gross Revenues as opposed to these Standard Terms and Conditions.

All distributor fees must be inclusive of fees/commissions payable to sub-distributors, agents and local distributors.

The CMF will also allow for production companies without an affiliated distribution entity to receive 15% of revenues regardless of medium, language or territory, for sales they directly complete (with the exception of pre-sales included in the financing of the production). This also applies to non-eligible distributors.

Fees for sales of ancillary rights (e.g. merchandising, music publishing, format sales) are subject to negotiation on a case-by-case basis.

### 4. DISTRIBUTION EXPENSES

Distribution expenses incurred in connection with the exploitation of a production must be actual and verifiable and include only those reasonably incurred to a maximum of 10% of gross receipts, with the exception of standard guild and union royalties/residuals and net versioning expenses. Versioning expenses are limited to the costs incurred in the creation of a language master and a sub-master for the purposes of creating dubs.

Distribution expenses may exceed 10% of gross receipts in the first two years of reporting on the production, provided that a reconciliation is made at the end of the second year of reporting (the fourth reporting period). At that time, the cumulative total of the distribution expenses must not exceed 10% of the cumulative total of the gross receipts for the two-year period.

Allowable distribution expenses are costs related to campaign creation, publicity, material production costs, printing, dubs and other related costs. Other related costs include packing, transportation, insurance customs tariffs, import taxes and those related to censorship requirements and festival entries/market costs (i.e., the Geminis), including travel accommodation/living expenses for actors and directors. Distribution expenses must be net of any non-recoupable financial assistance the distributor has received from Telefilm, the CMF or elsewhere.

Expenses for sales of ancillary rights (eg. merchandising, music publishing, format sales) and digital rights are subject to negotiation on a case-by-case basis.

Inadmissible Distribution Expenses are any costs (other than costs for sales of ancillary and digital rights) not specifically listed above and include travel/accommodation/living expenses for producers, distributors and their employees.

The CMF will also allow for production companies without an affiliated distribution entity to deduct distribution expenses on sales which they directly complete in the same manner as for distributors as outlined above.

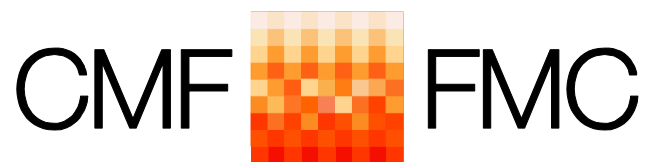
## **5. COLLECTION COSTS**

Production Companies may take 5% of the Net Distribution Revenue payable to the CMF after allowable fees/expenses are calculated. This 5% is to compensate for administrative costs related to the collection, reporting and remitting of distribution revenues and retransmission royalties.

## **6. OTHER REQUIREMENTS**

- 1.1 Withholding taxes are to be included in distributor's gross receipts for the period in which the taxes were returned to the distributor (i.e. a distributor may only calculate fees/commissions and expenses on Gross Receipts when actually paid to the distributor and not on any amounts withheld by government sources). As such, withholding taxes are not considered to be Distribution Expenses.
- 1.2 The CMF's share of television retransmission and music (i.e., SOCAN) royalties must be paid directly to the CMF without deduction. Producers are responsible to collect and distribute retransmission and music royalties for the benefit of investors.
- 1.3 Cross-collateralization of North American revenues and expenses with that of other territories is not allowed.
- 1.4 Cross-collateralization of revenues and expenses against other titles carried by the distributor is not allowed.
- 1.5 Finder's fees for the arranging of the production financing or commercial exploitation of the production (including excessive gap financing fees) must be included in the calculation of producers fees and corporate overhead. Additionally, any fees for responsibilities of a producer payable to financiers (including broadcaster, distributors and agencies) must either be included within the cap or alternatively reduce the level of recoupable financing from such financier.
- 1.6 A production may be sold as part of a package of productions provided that:
  - A. the distributor has made its best efforts to maximize revenues for the production by selling the production separately;
  - B. the allocation of revenues and expenses among the productions sold as a package will be fair and reasonable; and
  - C. distribution reports (via notes) disclose any package sales and the allocation of the revenues and expenses to the production.
- 1.7 Distributors must maintain books and accounts in accordance with generally accepted accounting principles and the CMF must have unrestricted rights, without time limitations, to audit the distributor's accounts for a production.
- 1.8 No limitation may be placed on the producer's right to contest revenue reports.

- 1.9 The producer should also include within the production budget sufficient resources to acquire exploitation rights within Canada and for at least 5 years in the rest of the world for all elements of the production including music, stock footage, stars, writers, etc. unless otherwise approved by the CMF. Exploitation rights must be purchased for a period of at least 5 years for all territories in which pre-sales have been made or for which a distributor has acquired exploitation rights. The cost of acquiring extended exploitation rights are excluded from the calculation of the cap on distribution expenses.
- 1.10 Revenues must be reported to Telefilm Canada on behalf of the CMF twice a year.
- 1.11 Distribution agreements must provide for the producer to recover the distribution rights to a production in the event of bankruptcy or insolvency of the distributor.
- 1.12 The initial licence term of the distribution agreement(s) entered into with the producer shall only be renewable subject to mutual written approval between producer and distributor.
- 1.13 Distribution agreements must provide that all expenses deducted are net of any non-recoupable financial assistance the distributor has received from the CMF or elsewhere.



CHAPTER 7

## **TREATMENT OF TAX CREDITS**

IN EFFECT AS OF APRIL 1, 2013

**This policy applies to the production of projects in the Convergent Stream; however this policy does not apply where there is a Terms of Trade Agreement in effect between the Canadian Media Production Association and a Canadian broadcaster which governs the Television Component of the Eligible Project.**

## **ENGLISH-LANGUAGE PROJECTS IN THE PERFORMANCE ENVELOPE PROGRAM**

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Federal and provincial tax credits are not required to be included in the financial structure for projects receiving funding from the CMF, whether funding is licence fee top-up alone or a combination of licence fee top-up and equity. In general, the elements of the financial structure, including the extent to which federal and provincial tax credits are included, will be determined by the market place.

Where tax credits are included in the financing structure of a project, the amount included should not exceed 90% of the estimated federal and provincial tax credits. The inclusion of more than 90% of the estimated federal and provincial tax credits in the production financing will be permitted, however, where a producer advises the CMF that (a) all alternative financing sources have been exhausted and that producer wishes to include the additional tax credit amounts in the financial structure for the project, or (b) a provincial tax credit regime effectively requires the inclusion of the full amount of the tax credits in the financial structure for the project.

If based on the CMF's judgment, a broadcaster is found to be practicing unfair dealing with a producer by consistently requiring the inclusion of more than 90% of the estimated tax credits in the financial structure for projects, the CMF may elect to freeze the use of the broadcaster's envelope until the situation is remedied.

## **FRANCOPHONE MINORITY PROGRAM, ENGLISH POV PROGRAM, DIVERSE LANGUAGES PROGRAM AND ABORIGINAL PROGRAM**

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Eligible Projects in these Programs must include 90% of the estimated federal and provincial tax credits in their financial structures at application.

The inclusion of more than 90% of the estimated federal and provincial tax credits in the production financing will be permitted, however, where a producer advises the CMF that (a) all alternative financing sources have been exhausted and that producer wishes to include the additional tax credit amounts in the financial structure for the project, or (b) a provincial tax credit regime effectively requires the inclusion of the full amount of the tax credits in the financial structure for the project.

If based on the CMF's judgment, a broadcaster is found to be practicing unfair dealing with a producer by consistently requiring the inclusion of more than 90% of the estimated tax credits in the financial structure for projects, the CMF may elect to freeze the use of the broadcaster's envelope until the situation is remedied.