

CANADA MEDIA FUND
Smaller Broadcaster Working Group

Date: December 12, 2019

1. Introduction

Enabling a diversity of creative voices in one of the CMF's strategic objectives and independent and educational broadcasters have always played a valuable role in this regard. Over the years, the CMF has implemented a variety of measures to ensure that these broadcasters are able to access CMF Performance Envelope ("PE") funding and help produce diverse and compelling content.

In 2012-2013, the CMF implemented its new entrant and minimum PE allocation policy, whereby Broadcasters without any eligible credit in the system were able to apply for new entrant status. A minimum envelope of \$50K was provided to the eligible broadcaster to allow it to contribute to the licensing of CMF applications. Minimum envelopes were also allocated to broadcasters with PE factor credit that did not reach a \$50K allocation through the calculation process.

In 2014-2015, broadcasters with allocations under \$5M and educational broadcasters were permitted 100% genre flexibility and were exempt from the affiliated/in-house production funding cap.

Additionally in 2014-2015, PE credit in the Regional, Digital Media and Historic Performance Factors could be earned through licensing projects applying to the CMF's selective programs¹ (i.e., programs where smaller broadcasters are very active).

Finally, in 2019-2020, the CMF introduced the Alternative Access to the PE system whereby new Broadcasters or those that have not generated a PE Allocation in a given year are eligible to access a separate PE pool of funding on a first-come, first-served basis, by providing an Eligible Licence Fee and a BAF with a PE commitment to an Eligible Project. Eligible Broadcasters are limited to two applications using the Alternative Access portion of the PE Program or \$100,000 in total PE commitments in 2019-2020, whichever is less.

¹Aboriginal, English POV, Francophone Minority and eventually, the Convergent Digital Media Incentive.

The objective of this Working Group is to discuss further ways the CMF can better support educational, independent and broadcasters with smaller PE allocations to ensure the CMF continues to fund content from a diverse range of perspectives and ensure these voices continue to have the necessary tools to maximize CMF funding.

2. Smaller Broadcaster Definition – “Who’s In?”

In evaluating the merits of any specific strategy aimed at “smaller broadcasters”, the CMF first seeks stakeholder input on how that term should be defined.

As noted above, there have previously been a number of approaches that have focused on independent and educational broadcasters coupled with policies connected to the size of a broadcaster’s PE allocation.

Looking to the distribution of PE allocations in 2019-2020, the CBC and SRC – along with large vertically-integrated broadcasters – received the vast majority of PE allocations (Appendix A, Figure 1).

In the English-language market, CBC, Bell Media, Corus and Rogers received 80% of Performance Envelope funding. In the French-language market, SRC, Bell Média, and TVA received 78% of the Performance Envelope funding.

While the larger broadcaster share has actually (slightly) diminished over time (Appendix A, Figure 2), the general trend has been that 3 broadcasters in each language market have received the vast majority of PE funding.

In attempting to delineate which broadcasters would qualify as a smaller broadcaster, the CMF believes that the approach cannot be so blunt to merely exclude broadcasters attached to vertically-integrated companies. By adopting this simple definition, the CBC and SRC – broadcasters that traditionally receive the largest PE allocation shares in both language-markets – would qualify and be eligible to receive any additional benefit attached to a strategy aimed at helping broadcasters with significantly fewer resources.

Further, the CMF holds that the definition cannot also be solely tied to the size of a broadcaster’s PE allocation. While attached to a vertically-integrated company, Rogers Media has seen its PE allocation on par with – or lower than – allocations of many independent and educational broadcasters in the English-language market.

As noted above, in applying a policy to permit genre flexibility and cap exemptions from affiliated/in-house production funding, in 2014-2015, the CMF adopted a two-prong approach: broadcasters with allocations under \$5M and educational broadcasters.

Q1: If the CMF implemented a strategy to provide small broadcasters with additional tools to compete and maximize their CMF funding, how should the CMF define ‘small broadcaster’?

- **Should it be based on a classification of broadcaster?**
- **Should it be based on the size of a broadcaster’s PE allocation?**
- **A combination of both approaches?**

3. Smaller Broadcaster Strategic Approaches – “What do they get?”

Once a determination is made on who qualifies, there are a few approaches that could help ensure small broadcasters both continue to have access to PE funds and the ability to maximize those funds.

Access to Performance Envelope Allocations

One option that has been raised for a number of years is the concept of a separate Performance Envelope that is exclusive to small broadcasters. This ‘separate pool’ would remove these small broadcasters from competition with broadcasters with significantly larger resources. The aim of this strategy is to evaluate the performance of ‘like-broadcasters’ to attempt to ensure fairness in the marketplace and an equitable distribution of CMF resources.

If the CMF decided to implement the ‘separate pool’ option, a number of elements would have to be resolved. First, by dividing PE funds into a larger and smaller pool, a determination would need to be made on the amount of CMF funds devoted to each respective pool. Looking at the previous 5 years (Appendix A, Figure 2), the CMF believes a (roughly) 80/20 split is reasonable.

Given, however, that small broadcasters in the separate pool will be capped at this approximate 20% amount, the CMF is also cautious not to artificially limit and hinder broadcasters from earning larger amounts. For example, in recent years in the English-language market, both APTN and TVO have either exceeded or earned similar PE allocations as Rogers Media. By placing APTN and TVO in a pool with a lower cap, the separate pool could be limiting these smaller broadcasters rather than providing a benefit.

Q2: What could be an appropriate cap for the separate pool?

Q3: Should the CMF consider options other than a separate pool?

Another element that would need to be addressed in implementing a separate pool for smaller broadcasters are the Performance Factors that will be used to evaluate broadcaster performance.

Currently, the vast majority of Performance Envelope Factor weight – in both language markets – is attributed to Audience Success Factors (both Total Hours Tuned and Original First Run):

ALL GENRES	ENGLISH ENVELOPES	FRENCH ENVELOPES
AUDIENCE SUCCESS – TOTAL HOURS TUNED	40%	40%
AUDIENCE SUCCESS – ORIGINAL FIRST RUN	15%	15%
HISTORIC PERFORMANCE	5%	20%
REGIONAL PRODUCTION LICENCES	30%	15%
OTT LICENCES	10%	10%

These Factors, however, are solely based on figures from Numeris, an independent and verifiable third-party measurement system that currently only tracks and reports linear viewing data from traditional broadcasters.

While some smaller broadcasters could benefit from not having to compete against the audience numbers from larger broadcasters, there are other smaller broadcasters who do not subscribe to Numeris – or Numeris does not capture viewing certain communities served by some smaller broadcasters – and would therefore remain at a competitive disadvantage in this separate pool.

For context, Appendix A, Figure 3, unpacks how independent and educational broadcasters in both language markets have competed in both Audience Factors and the Regional Production Licences Factor.²

Q4: In attempt to ensure the smaller broadcaster separate pool evaluates like-broadcasters fairly, what different Performance Factors should the CMF consider adopting?

Q5: Should the CMF keep the Historic Performance, Regional Production and OTT Licenses Factors?

²Only these 3 PE Factors are examined because:

- the OTT Licences Factor data is not yet finalized,
- the DM Investment Factor has been eliminated, and
- the Historic Performance Factor is determined by the cumulative amount of CMF funds triggered by a broadcaster’s eligible licenses over a three-year period.

Maximizing Performance Envelope Allocations

In addition to determining the ideal strategy to ensure smaller broadcasters can maintain access to CMF PE funds, a peripheral issue to this access is determining an appropriate policy to ensure smaller broadcasters can *maximize* their CMF dollars.

Over the past number of years, a common refrain has emerged that CMF funding is “too expensive”. In short, if broadcasters with CMF PE allocations cannot use these funds because the minimum licence fee thresholds (“**LFT’s**”) to access those allocations are too high, then funds meant to supplement a project’s financing are being unused and opportunities are being missed.

For context, when the Performance Envelope Program was first introduced in 2004-2005, LFT’s - the minimum amounts that broadcasters were required to pay for the broadcast rights to a project – were established in order to trigger CMF (then CTF) funding.

These LFT’s were based on observation of the market at the time³, and set pursuant to consultation with industry stakeholders. As the majority of LFT’s were set as a percentage of a production’s Eligible Costs, the goal was that LFT’s could adapt as the market changed.

Since that time, while some License Fee Thresholds have been amended over the years, the majority of LFT’s have not changed.

Without going through every genre and budget-tier in each language market, the CMF seeks stakeholder feedback on a macro-approach to smaller broadcaster licence fee thresholds.

For context, using last year’s licence fees as a model, the average licence fees for 2018-2019 PE television projects⁴ (as a % of budget) were 28.6% for English projects and 46.5% for French projects⁵.

In the English-language market, the CMF predicts that reducing licence fee thresholds by 5% results in a \$3M shortfall and reducing by 10% results in a \$8M shortfall.

³This observation was based on the dollar amounts evident in the CTF’s Equity Investment Program (“EIP”): thresholds were set based on the average paid to projects that had received funding from the EIP, to which 20% was added in order to ensure that projects that had received above-average licences would continue to receive a “fair” licence.

⁴Excluding feature films, feature docs, and French animation because of their low thresholds.

⁵Broadcasters included in the small broadcasters for this model: AMI-tv, Anthem, APTN, Blue Ant, Wildbrain, Hollywood Suite, Knowledge, New Tang, Super Channel, TVO, Zoomer (English) AMI-télé, APTN, V, Télé-Québec, TFO, TV5 (French).

In the French-language market, the CMF predicts that reducing licence fee thresholds by 5% results in a \$4.0M shortfall and reducing by 10% results in a \$7M shortfall.

This scenario above would result in a minimum of \$7.2M and maximum of \$14.7M of funds necessary to offset the shortfall caused by a threshold reduction.

Q6: If the CMF lowered the licence fee threshold, what unintended impacts could that create (e.g., completion of financing)?

- **Are there complementary measures the CMF could implement to counter any negative impacts (e.g., increase the CMF's maximum contribution amount)?**
- **If the CMF lowered LFT's for smaller broadcasters - and correspondingly increased its maximum contribution amount - the impact is likely to be fewer projects receiving CMF funds.**
- **Finally, if the CMF increased its maximum contribution amount, this increased amount would not necessarily be in the form of a licence fee top-up and could be in the form of equity (and therefore subject to tax credit grind).**

Would the nature of contribution change stakeholder opinion on the CMF lowering LFT's (i.e., if the contribution were in the form of equity and subject to the grind)?

- **Are there alternative strategies that stakeholders want to put forward?**

4. Timeline for Implementation – “When will it start?”

Finally, in 2019-2020, the CMF made a number of changes to its Performance Envelope Program, including shifting some of the current Historic Performance Factor Weight to the Regional Factor Weight⁶ and eliminating the Digital Media Investment Factor (which rewarded Broadcasters' licensing of related digital media content) and introducing an Over the Top (“OTT”) Licences Factor which rewards content licensed through Broadcasters and Broadcast Distribution Undertakings' (“BDU”) online services.

⁶In the English-language market, the Historic Performance decreased from 15% to 5% and the remaining 10% was reallocated to the Regional Factor Weight (increasing it from 20% to 30%). In the French-language market, the HP Factor Weight was reduced from 25% to 20% and the remaining 5% was reallocated to the Regional Factor Weight (increasing it from 10% to 15%).

As the impact to these recent changes will not be known until the end of the current fiscal year, the CMF is cognizant that introducing further changes in such a condensed time period may have unintended impacts on stakeholders.

Further, the *Broadcasting and Telecommunications Acts* Review Panel is expected to deliver its report by the end of January 2020. This report may recommend that there could be significant legislative, regulatory and (eventual) industrial change on the horizon and it may be more prudent to delay any major CMF policy change

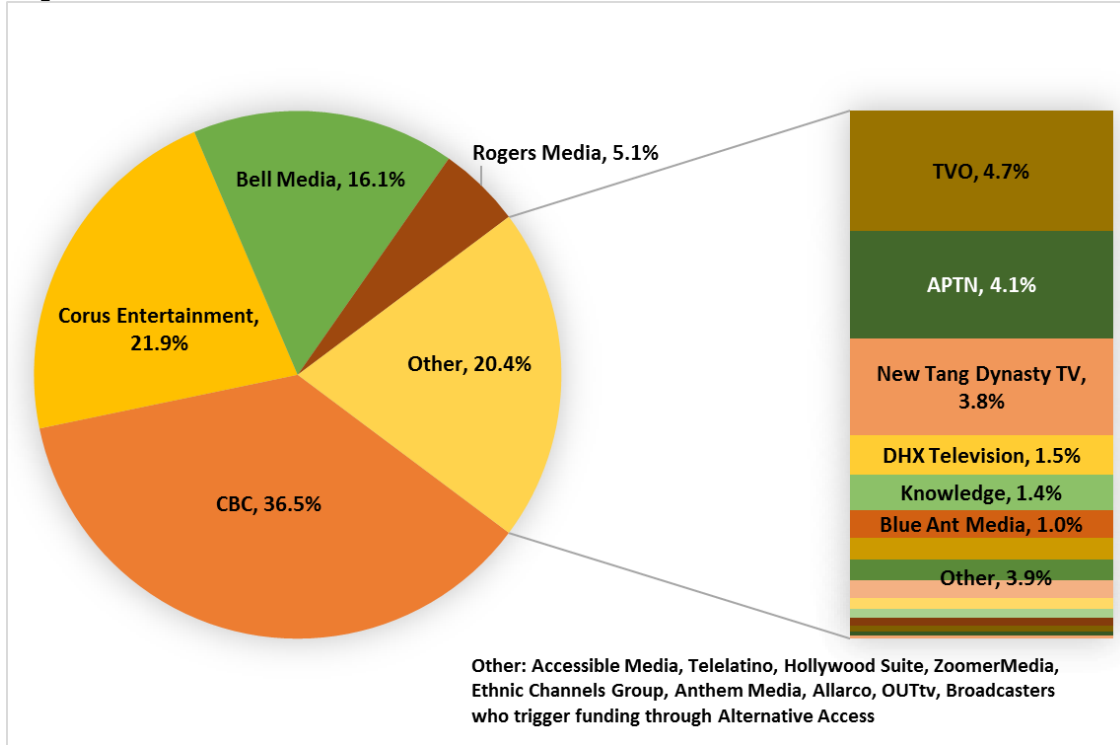
Q7: If the CMF decides to adopt some (or all) of the elements discussed in the smaller broadcaster strategies raised in this Briefing Note, when would be the ideal window?

- **Announce a significant change in policy and implement for 2020-2021?**
- **Announce and implement minor/strategic elements and implement for 2020-2021?**
- **Announce in 2020-2021 and implement in 2021-2022?**

APPENDIX A

Figure 1 - Performance Envelope Program - Distribution of English allocations 2019-2020

English



French

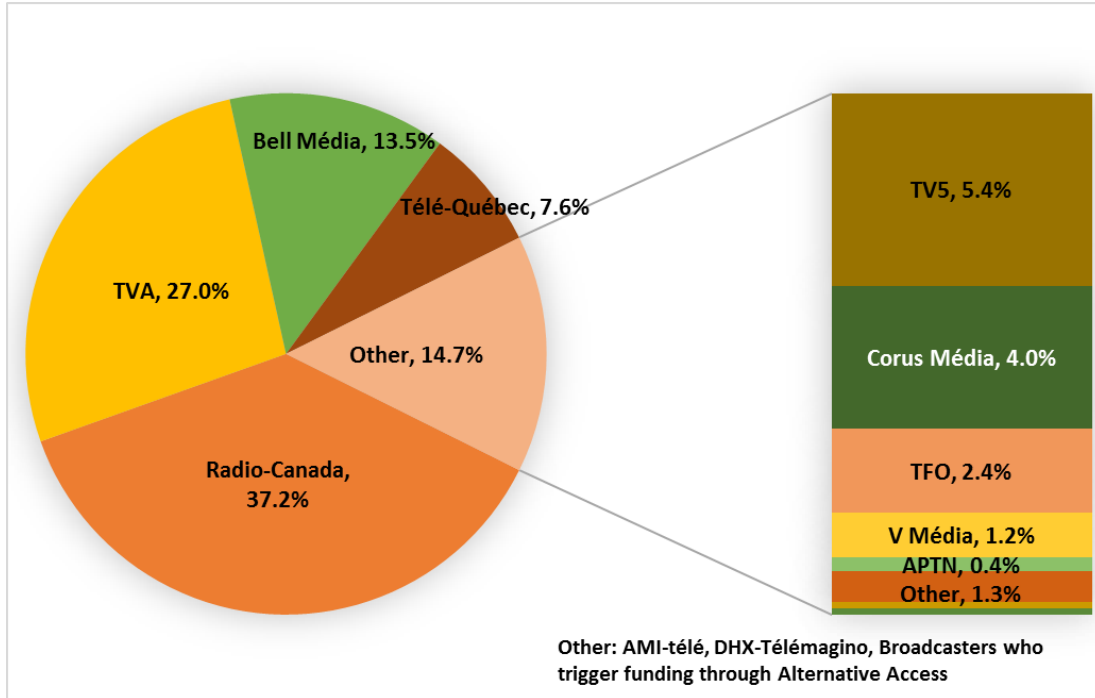


Figure 2 - Total Allocations 2015-2016 to 2019-2020

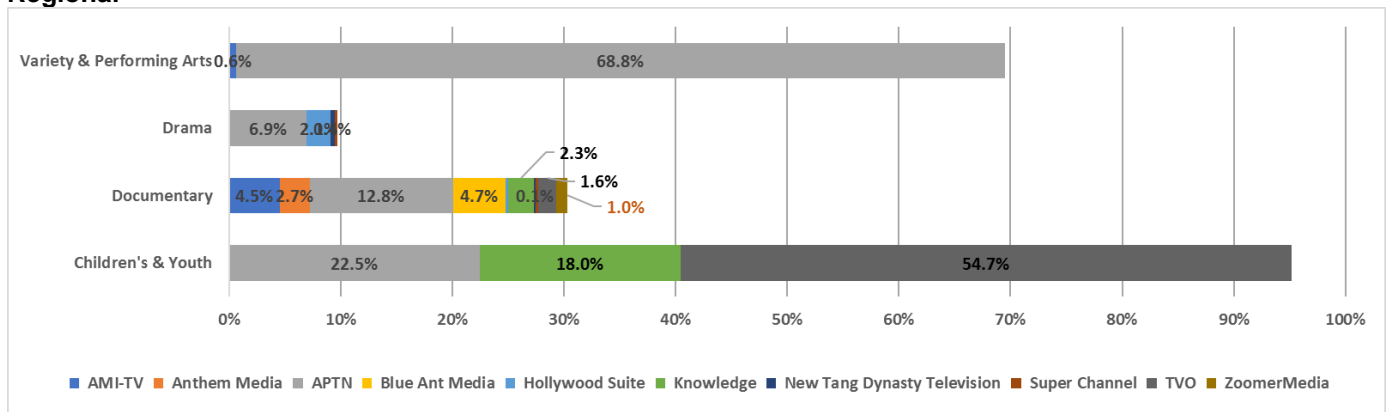
English	Allocation \$ K					Share %					Share Point Variance year-over-year				Allocation Trendline	Variance Trendline
	15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	16-17	17-18	18-19	19-20		
CBC	51,720	57,975	54,810	57,095	56,199	29.6	34.6	35.8	37.4	36.5	5.0	1.2	1.6	-0.9		
Corus Entertainment	52,980	43,892	35,609	39,428	33,627	30.4	26.3	23.3	25.9	21.9	-4.1	-3.0	2.6	-4.0		
Bell Media	30,849	29,375	26,866	23,119	24,807	17.7	17.3	17.5	15.2	16.1	-0.4	0.2	-2.3	0.9		
Rogers Media	9,301	7,023	7,197	5,652	7,801	5.3	4.2	4.7	3.7	5.1	-1.1	0.5	-1.0	1.4		
Sub-total	144,850	138,265	124,482	125,294	122,434	83.0	82.4	81.3	82.2	79.6	-0.6	-1.1	0.9	-2.6		
TVO	3,784	3,887	5,204	4,848	7,160	2.2	2.3	3.4	3.2	4.7	0.1	1.1	-0.2	1.5		
APTN	5,719	5,561	6,598	6,691	6,381	3.3	3.3	4.3	4.4	4.1	0.0	1.0	0.1	-0.3		
New Tang Dynasty TV	5,055	6,238	6,213	6,039	5,777	2.9	3.7	4.1	4.0	3.8	0.8	0.4	-0.1	-0.2		
DHX	6,135	5,398	3,490	2,407	2,350	3.5	3.2	2.3	1.6	1.5	-0.3	-0.9	-0.7	-0.1		
Knowledge	1,212	882	1,740	1,169	2,153	0.7	0.5	1.1	0.8	1.4	-0.2	0.6	-0.3	0.6		
Blue Ant Media	1,899	2,277	1,431	1,661	1,608	1.1	1.4	0.9	1.1	1.0	0.3	-0.5	0.2	-0.1		
AMI	302	353	679	832	1,222	0.2	0.2	0.4	0.5	0.8	0.0	0.2	0.1	0.3		
Telelatino	0	50	426	1,302	1,067	0.0	0.0	0.3	0.8	0.7	0.0	0.3	0.5	-0.1		
Hollywood Suite	328	231	568	364	606	0.2	0.2	0.4	0.2	0.4	0.0	0.2	-0.2	0.2		
ZoomerMedia	499	475	647	540	536	0.3	0.3	0.4	0.3	0.4	0.0	0.1	-0.1	0.1		
Ethnic Channels Group	50	0	148	702	497	0.0	0.0	0.1	0.5	0.3	0.0	0.1	0.4	-0.2		
Anthem Media	438	716	528	405	367	0.3	0.4	0.3	0.3	0.2	0.1	-0.1	0.0	-0.1		
Allarco	2,688	2,407	0	57	198	1.5	1.4	0.0	0.0	0.1	-0.1	-1.4	0.0	0.1		
OUTtv	226	139	83	0	191	0.1	0.1	0.1	0.0	0.1	0.0	0.0	-0.1	0.1		
WIN HD	262	484	644	0	0	0.2	0.3	0.4	0.0	0.0	0.1	0.1	-0.4	0.0		
Channel Zero	50	146	114	0	0	0.0	0.1	0.1	0.0	0.0	0.1	0.0	-0.1	0.0		
Stornoway	747	108	0	0	0	0.4	0.1	0.0	0.0	0.0	-0.3	-0.1	0.0	0.0		
YES TV	50	63	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Minimum Allocations / Alternative Access	215	165	150	100	1,333	0.1	0.1	0.1	0.1	0.9	0.0	0.0	0.0	0.8		
Sub-total	29,659	29,580	28,663	27,117	31,446	17.0	17.6	18.7	17.8	20.4	0.6	1.1	-0.9	2.6		
Total	174,509	167,845	153,145	152,411	153,880	100	100	100	100	100						
Value of 1 Share Point (\$K)						1,745	1,678	1,531	1,524	1,539						

Figure 2 - Total Allocations 2015-2016 to 2019-2020

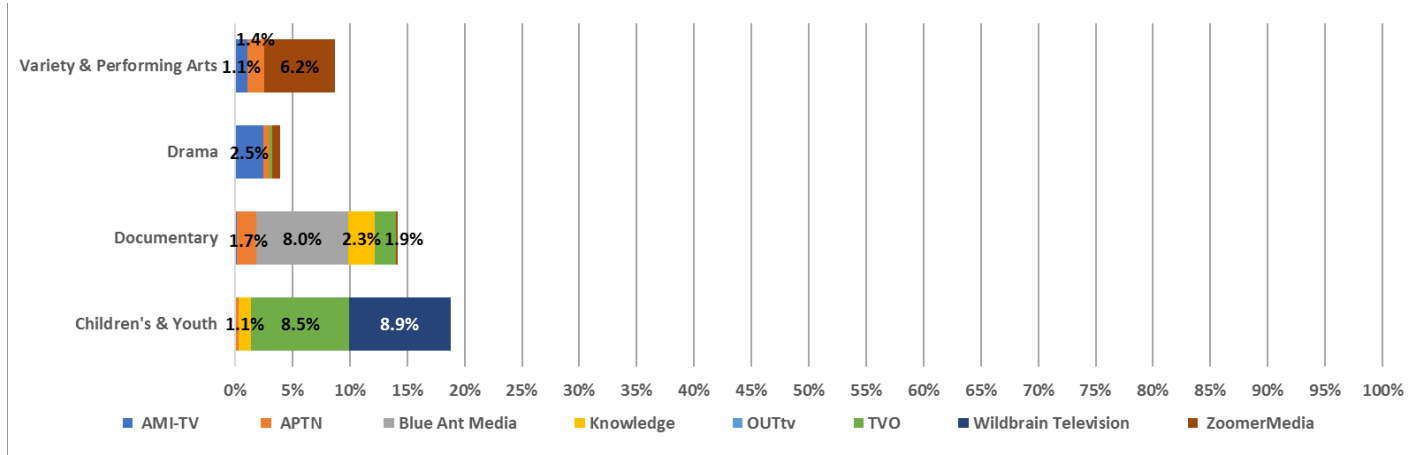
French	Allocation \$ K					Share %					Share Point Variance year-over-year				Allocation Trendline	Variance Trendline
	15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	16-17	17-18	18-19	19-20		
Radio-Canada	32,894	31,779	27,190	27,872	28,338	38.1	37.9	35.5	36.6	37.2	-0.2	-2.4	1.1	0.6		
TVA	21,773	22,268	21,733	20,582	20,550	25.2	26.5	28.4	27.0	27.0	1.3	1.9	-1.4	0.0		
Bell Média	12,233	12,430	9,998	11,071	10,304	14.2	14.8	13.1	14.5	13.5	0.6	-1.7	1.4	-1.0		
Corus Média	5,282	4,097	4,929	2,944	3,074	6.1	4.9	6.4	3.9	4.0	-1.2	1.5	-2.5	0.1		
Sub-total	72,182	70,574	63,850	62,469	62,266	83.6	84.1	83.4	82.0	81.7	0.5	-0.7	-1.4	-0.3		
Télé-Québec	6,089	6,140	5,087	6,013	5,790	7.0	7.3	6.7	7.9	7.6	0.3	-0.6	1.2	-0.3		
TV5	3,238	2,778	2,598	3,379	4,142	3.7	3.3	3.4	4.4	5.4	-0.4	0.1	1.0	1.0		
TFO	2,958	2,692	2,838	2,327	1,808	3.4	3.2	3.7	3.0	2.4	-0.2	0.5	-0.7	-0.6		
V Média	1,123	1,034	1,543	1,345	944	1.3	1.2	2.0	1.8	1.2	-0.1	0.8	-0.2	-0.6		
APTN	552	552	389	439	310	0.6	0.7	0.5	0.6	0.4	0.1	-0.2	0.1	-0.2		
AMI-télé	50	50	50	55	133	0.0	0.1	0.1	0.1	0.2	0.1	0.0	0.0	0.1		
DHX	234	0	0	112	125	0.3	0.0	0.0	0.1	0.2	-0.3	0.0	0.1	0.1		
Minimum Allocations / Alternative Access	85	85	200	50	667	0.1	0.1	0.2	0.1	0.9	0.0	0.1	-0.1	0.8		
Sub-total	14,329	13,331	12,705	13,720	13,919	16.4	15.9	16.6	18.0	18.3	-0.5	0.7	1.4	0.3		
Total	86,511	83,905	76,555	76,189	76,185	100	100	100	100	100						
Value of 1 Share Point (\$K)						865	839	766	762	762						

Figure 3 – Shares of Factors – English Market

Regional



Audience – Total Hours Tuned



Audience – Original First Run

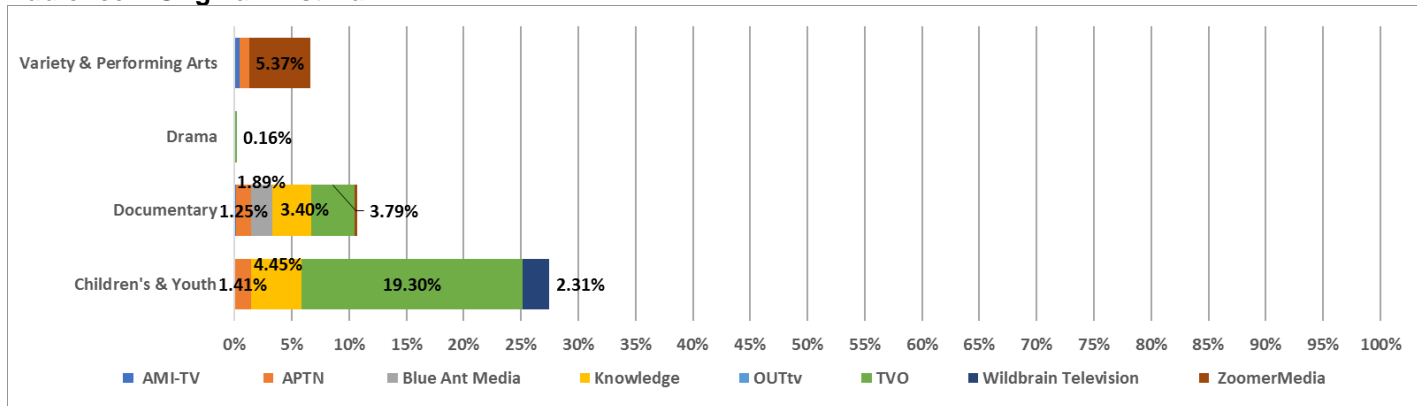
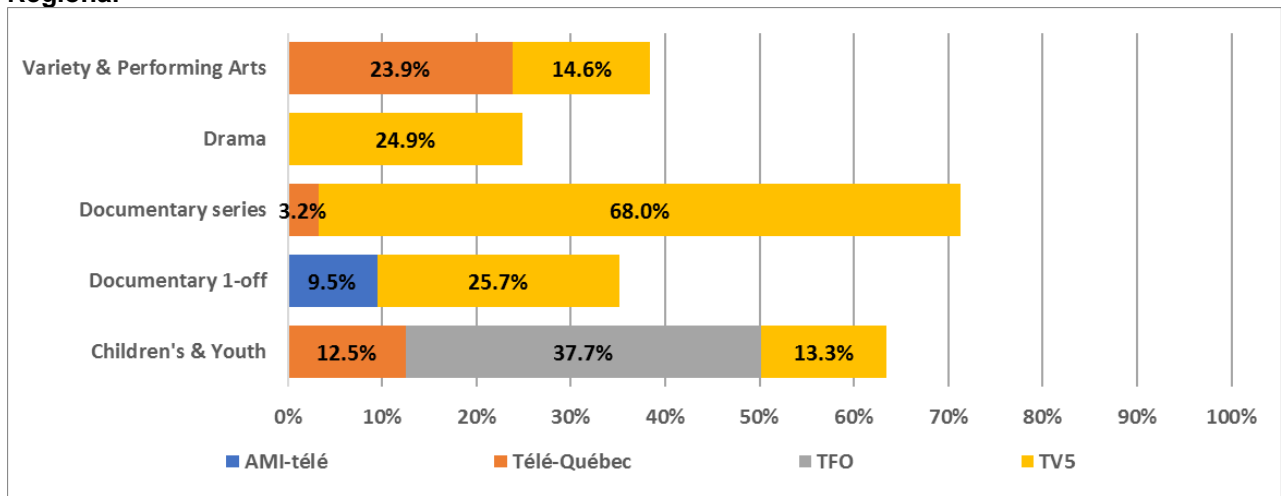
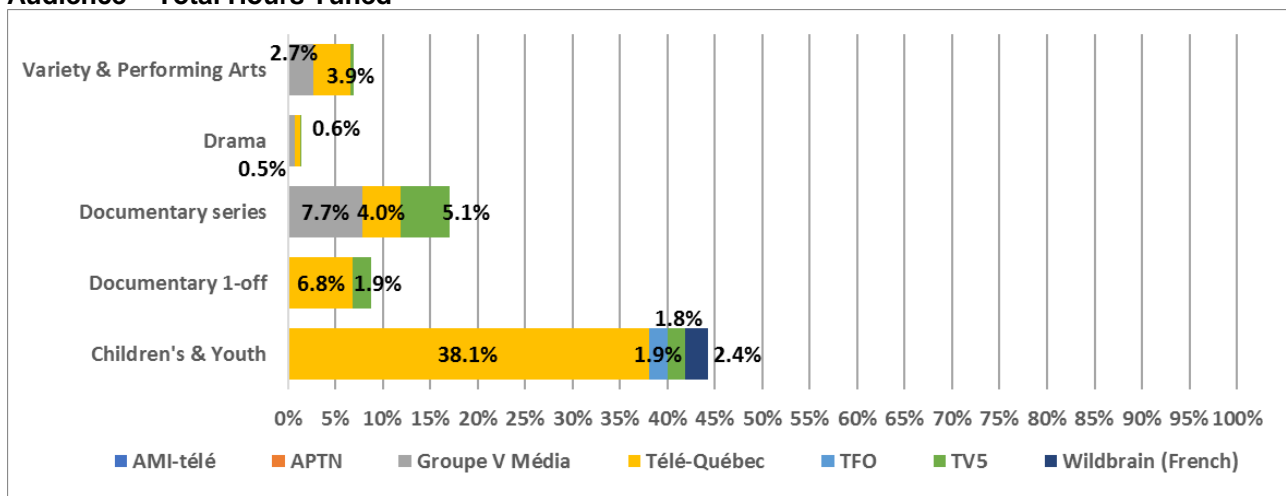


Figure 3 – Shares of Factors – French Market

Regional



Audience – Total Hours Tuned



Audience – Original First Run

