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Canada Music Fund

Music Entrepreneur Component

Aid to Canadian Sound Recording Firms



Application Guide
2012-2013



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1. Introduction and how to apply

1.1 OBJECTIVES OF THE MUSIC ENTREPRENEUR COMPONENT

The Music Entrepreneur Component (MEC) is one of five components of the Canada Music Fund (CMF). It aims to ensure that established Canadian music entrepreneurs contribute to the Canadian musical experience over the long-term via a diverse range of compelling Canadian musical choices, become increasingly competitive at the national and international level, and position themselves for success in a digitized global economy.

The Department of Canadian Heritage administers the MEC. For more information on the CMF and its components, please visit the Canada Music Fund homepage (<http://www.canadianheritage.gc.ca/cmfmusic>).

1.2 MUSIC ENTREPRENEUR COMPONENT—AID TO CANADIAN SOUND RECORDING FIRMS

Funding is intended to support the ongoing production and promotion of Canadian sound recordings.

MEC provides assistance on an annual basis to eligible Canadian sound recording firms using a funding formula based on applicants' sales in a reference period. This guide explains the eligibility requirements and the funding mechanism in detail.

1.3 NEW MUSICAL WORKS COMPONENT

The New Musical Works (NMW) component of the CMF also provides funding to Canadian sound recording firms, through FACTOR and Musicaction. However, applicants cannot apply for funding from both components at the same time: those who meet the eligibility requirements detailed in this guide **must apply for MEC funding** and if they are successful, they will be deemed ineligible for NMW. Those who do not meet MEC eligibility requirements can apply for NMW funding. Information regarding NMW eligibility requirements and how to apply is available from FACTOR and Musicaction.

In all cases, qualified applicants, whose contribution would amount to less than \$200,000 using the funding formula described in 2.3, will be excluded from receiving MEC funding. However, they will then be allowed to apply to NMW.

All applicants may be eligible for funding under other programs administered by FACTOR or Musicaction. Please contact FACTOR or Musicaction for more information (www.factor.ca or www.musicaction.ca).

1.4 REQUIREMENTS FOR A COMPLETE APPLICATION

This guide contains important information that will assist you in submitting a complete application. Words in **bold** are defined in detail in the *Definitions* section of this guide.

For new applicants, the application form and the template for sales of eligible sound recordings are available on the Department's Web site at www.canadianheritage.gc.ca/cmfmusic. For last year's recipients, the application form and template will be provided electronically and will include some of the information previously submitted.

Application forms must be completely filled out and all supporting documentation provided. The application checklist, which describes the supporting documentation, must also be completed.

All applicants must complete and submit their application form and template for sales of eligible sound recordings electronically (cmfmusic-fmcmusique@pch.gc.ca) and send a printed and signed copy to the following mailing address:

MEC–Aid to Canadian Sound Recording Firms
Department of Canadian Heritage
25 Eddy Street, 8th floor, 25-8-S
Gatineau, Quebec K1A 0M5

For more information about *MEC–Aid to Canadian Sound Recording Firms*, please contact us at 1-866-811-0055 (toll-free), 1-819-997-5868 (direct access to the program) or by e-mail at cmfmusic-fmcmusique@pch.gc.ca

1.5 DEADLINE

We consider your application to be filed on time if a printed and signed version of the application form, accompanied by all supporting documentation, is sent via mail or courier and is postmarked **March 15, 2012** or earlier. We will also consider that your application has been filed on time if the electronic version of the complete application form is received before midnight on the deadline date, provided that it is immediately followed by the printed and signed version accompanied by all supporting documentation.

Applications received after the deadline will not be accepted.

Since no funding can be distributed until all applications are considered, it is essential that complete applications are submitted on time. Applicants should take into account any extra time that may be required for the preparation of financial statements or other documents by other parties than the applicant.

2. Eligibility Criteria

2.1 INTRODUCTION

MEC–Aid to Canadian Sound Recording Firms will support the eligible activities of Canadian sound recording firms in the year beginning April 1st, 2012 and ending March 31st, 2013. Funding is calculated using a formula based on eligible sales in a reference period (see section 2.5).

2.2 ELIGIBLE CANADIAN SOUND RECORDING FIRMS

To be eligible for funding, applicants must meet the following eligibility criteria:

Number of years in operation

At the date of application, the applicant must have completed a minimum of 3 years of continuous operations as a Canadian sound recording firm. Applicants who have completed between 36 and 60 months (3 and 5 years) of continuous operations and who meet all the eligibility requirements detailed in this guide can choose whether to apply for MEC or New Musical Works (NMW) funding. Applicants who have 5 or more years of continuous operations have no choice but to apply to MEC rather than to NMW.

Organizational requirements

From the time of application to the end of term of any **contribution agreement** between the Department of Canadian Heritage and a sound recording firm, the applicant must:

- be a **Canadian-owned and controlled firm**;
- have its company headquarters based in Canada;
- have key management personnel who are Canadian citizens or permanent residents in Canada. Key management personnel may include the Chairperson, directors, and officers as well as all other senior employees who may exercise financial control over the company;
- be able to demonstrate financial viability (MEC will determine viability based on the Canadian sound recording firms' application form, business plan and financial statements, as needed);
- own Canadian copyright for the Canadian sound recordings it produces, co-produces and releases or hold an exclusive license assigned to it by the Canadian copyright owner to release the Canadian sound recordings in the Canadian market;
- have fulfilled all contractual obligations with respect to artist royalty payments.

A Canadian sound recording firm is not eligible if revenues derived from the sale of sound recordings are in excess of \$20 million annually in each of the applicant's last three financial years or if the earnings before interest, taxes, depreciation, and amortization (EBITDA) margin for the last three financial years was 15% or greater.

Roster

On the last day of the reference period (defined in section 2.5 of this guide), applicants must have an active **roster** of at least 4 Canadian artists (solo, group, or collective).

New releases

During the reference period, applicants must have released a **minimum of 6 eligible Canadian sound recordings (full-length album), with at least 1 eligible release in the most recent year of the reference period**. MEC now treats eligible Canadian sound recordings that were licensed to the applicant in the same manner as those that were produced by the applicant.

Sales

In the reference period, the applicant must have sales of eligible **Canadian sound recordings**:

- of at least 200,000 **units** including **free goods** and net of credits for returns. Units that are given free of charge (such as for promotional purposes) and streaming do not count towards the sales minimum. MEC will use the values detailed in the definition of a **unit** to calculate this eligibility criterion. Please note that the values assigned to certain formats have changed for 2012-2013;
- written or performed by artists who are also shareholders or owners of the firm not exceed 25% of total units sold.

A Canadian sound recording firm is not eligible if the sales of their top selling Canadian artist exceed 75% of their total sales of eligible Canadian sound recordings for the three consecutive years of the reference period (not calculated as an average but on an annual basis).

Unit sales of **Canadian sound recordings** that received production funding from the CMF's New Musical Works Component (administered by FACTOR and Musicaction) during the time the Canadian sound recording firm was a MEC recipient count as 0.7 of the **unit** value. Please contact MEC for further information on this eligibility criterion.

2.3 FUNDING FORMULA

Funding is based on a qualified applicant's **unit** sales of eligible **Canadian sound recordings** in the reference period. A qualified applicant's funding is determined by using their factored sales (in **units**) in relation to the factored sales (in **units**) of all qualified applicants receiving MEC funding during the same funding period. Factored sales (in **units**) are calculated by multiplying a qualified applicant's **unit** sales of eligible **Canadian sound recordings** by the appropriate sales coefficient.

Current / Catalogue

Sales of eligible Canadian sound recordings released after June 30, 2007 will be given a value of 1 for each unit, whereas sales of albums released on or before June 30, 2007 will be given a weight of 0.5. Please refer to section 12 of the MEC application form for further information.

| MEC SALES COEFFICIENTS FOR CANADIAN SOUND RECORDINGS | |
|---|----------------|
| Eligible sales up to 150,000 units | Coefficient: 3 |
| Eligible sales between 150,001 – 300,000 units | Coefficient: 2 |
| Eligible sales > 300,000 units | Coefficient: 1 |

Please refer to the definition of a **unit** for an explanation on how different formats are treated.

The maximum annual contribution is **\$650,000**.

For example, if a qualified applicant's factored sales were 5% of the total factored sales, it would receive 5% of the total MEC budget up to the maximum annual contribution. If a qualified applicant's funding is less than the maximum, its contribution would rise above 5% if at least one other qualified applicant receives the maximum annual contribution, since it would receive a portion of the funds redistributed from the qualified applicant which had attained the maximum. This system ensures that the entire MEC budget is distributed each year.

How affiliated groups are treated under the formula

In 2012-2013, members of an **affiliated group** will be subject separately to the maximum contribution. However, they will be jointly subject to a maximum that cannot exceed 15% of the total MEC budget.

Change in ownership

MEC recipients must immediately inform MEC of any change of ownership. The Department of Canadian Heritage will review a change of ownership to ensure the eligibility requirements continue to be met.

2.4 ELIGIBLE CANADIAN SOUND RECORDINGS

Eligible

A sound recording that:

- is a **single** (see remark below), **full-length album**, **SACD**, **DVD Audio**, **DVD Video**, a recording available via download or **streaming**, and other formats recognized by MEC;
- is a **Canadian sound recording**;
- is clearly and publicly attributed to the artist (solo, group or collective);
- has complied with **legal deposit** requirements.

Singles

Sales of singles count towards the applicant's minimum level of sales (200,000 units) and the total eligible unit sales used in the calculation of the formula. However, singles will not count towards an applicant's production minimum.

Compilations and re-issues of previously released material (including greatest hits):

Sales of compilations and re-issues count towards the applicant's minimum level of sales (200,000 units) and its total eligible unit sales used in the calculation of the formula.

However, they will not count towards an applicant's production minimum.

Live sound recordings

Sales of **live sound recordings** count towards the applicant's minimum level of sales (200,000 units) and the total eligible unit sales used in the calculation of the formula. They are considered new releases only if they are released no less than twelve (12) months after the previous release, and contain at least two new tracks. In such cases, live albums will count towards an applicant's production minimum.

Multiple formats

Please note that for the purposes of the production minimum, releases on multiple formats are counted as one release.

Ineligible

Sound recordings that do not meet the eligibility criteria and are any of the following:

- **Demos;**
- promotional units;
- sound recordings being created as a fundraising, advertising or promotional project;
- sound recordings that are made for instructional use;
- sound recordings that, in the opinion of the Department of Canadian Heritage, consist of:
 - material that is hate propaganda, obscene or child pornography, or any other illegal material, as defined in the Criminal Code;
 - pornography or other material having significant sexual content unless it can be demonstrated that there is an overriding educational or other similar purpose, material that contains excessive or gratuitous violence, material that is denigrating to an identifiable group or any other similarly offensive material.

2.5 REFERENCE PERIOD

This is the timeframe upon which a qualified applicant's contribution is based.

The reference period for an applicant's unit sales is thirty-six months (3 years), from **July 1, 2008 to June 30, 2011.**

Wherever the term "reference period" is used in this guide, it refers to the timeframe stated above.

2.6 FINANCIAL STATEMENTS

Applicants must submit financial statements for the three most recently completed financial years. The most recently completed financial year and applicable financial statements must end on June 30, 2010 or after.

Applicants who did not receive a MEC contribution in 2011-2012 will be allowed to submit, as a minimum, financial statements in the form of a notice to reader. However, once a contribution agreement is signed between a recipient and the Department of Canadian Heritage, the recipient is required to submit **audited financial statements**.

2.7 USE OF FUNDS

MEC contributions will have to be directed toward the production and promotion of **Canadian sound recordings** from April 1, 2012 to March 31, 2013. Eligible expenditures under this component include:

- costs related to production and manufacturing;
- costs related to the marketing and promotional activities;
- costs related to distribution;
- costs related to royalties paid to the artists;
- costs related to mechanical rights;
- catalogue acquisition costs;
- Web-related costs;
- Canadian artists and songwriters development initiatives costs;
- touring costs (domestic and international), including travel, accommodations and meals for artists and tour organizers;
- costs related to the improvement of copyright management, royalty tracking or payment system;
- costs related to the development of digital technologies and e-distribution capability;
- costs related to the improvement of business processes;
- association membership costs;
- salaries and benefits related to eligible expenses.

but exclude:

- dividends, bonuses, or other extraordinary compensation to company shareholders or proprietors.

Recipients may allocate a maximum of 15% of their MEC contribution to overhead expenses.

The specific conditions relating to the use of funds will be detailed in a **contribution agreement** between each recipient and the Department of Canadian Heritage.

Expenses Incurred Prior to Funding Approval

The Department will assume no responsibility for any contractual commitments entered into by the applicant prior to confirmation of financial support from the Department.

Payments and Reporting

The schedule of payments will be described in the **contribution agreement** between the recipient and the Department of Canadian Heritage.

Recipients will be required to report on the use and results of their contributions. This requirement will be described in the **contribution agreement** between them and the Department of Canadian Heritage.

Audit

The Department of Canadian Heritage reserves the right to conduct audits of funding recipients. In such cases, recipients must make available any records, documents or other information that may be required to perform the audit.

3. Government assistance: General conditions

3.1 ACKNOWLEDGEMENT OF SUPPORT

All funding recipients must recognize the financial support provided by the Government of Canada by printing the acknowledgment text on all their eligible sound recordings. The conditions for the acknowledgment will be specified in the **contribution agreement** between them and the Department of Canadian Heritage.

All recipients must be prepared to assist the Department of Canadian Heritage in preparing public announcements or promotional activities about their contribution.

3.2 LIMITS ON GOVERNMENT ASSISTANCE

For MEC, the maximum level of **Total Government Assistance** (federal, provincial/territorial and municipal) cannot exceed 50% of the Canadian sound recording firm's total eligible expenditures. This includes investment tax credits for the same eligible expenses. The Recipient will have to recover the federal portion of excess assistance granted pursuant to a prorated calculation.

3.3 REPAYMENT OF GOVERNMENT ASSISTANCE

MEC recipients must repay their contributions if the contribution is equal or greater than \$100,000 and if the recipient's EBITDA margin—excluding MEC funding—is more than 15% for the recipient's financial year in which the contribution was received and its two previous years.

3.4 MINISTER'S DISCRETION AND DECISIONS

Eligibility criteria and guidelines will not restrict the discretionary power of the Minister of Canadian Heritage or a representative to refuse a request for financial assistance.

The Minister, or a duly authorized representative, at their own discretion, may decide to accept or refuse, in whole or in part, any application submitted. The decision made by the Minister or representative is conclusive.

4. DEFINITIONS

Affiliated group

A group of companies in which the same person, or group of persons, holds the majority of shares with full voting rights or has been shown to have control in fact of these companies.

Audited financial statements

Financial statements prepared according to Canadian generally accepted accounting principles (GAAP) and audited according to Canadian generally accepted auditing standards.

Canadian

Means:

- a) a citizen within the meaning of the *Citizenship Act*; or,
- b) a permanent resident within the meaning of the *Immigration and Refugee Protection Act*.

Canadian-owned and controlled firm

A firm:

- a) that is a sole proprietorship, partnership, cooperative or corporation established under the laws of Canada or a province;
- b) whose principal place of business is Canada;
- c) whose firm headquarters is based in Canada;
- d) whose chairperson or presiding officer and more than half of whose directors and other similar officers are **Canadian**;
- e) if a corporation with share capital, established under the laws of Canada or a province, which **Canadians** beneficially own or control, other than by way of shares held only as security, directly or indirectly, in the aggregate at least 50% plus 1 of all the issued and outstanding votes;
- f) if a corporation without share capital, established under the laws of Canada or a province, which **Canadians** beneficially own or control, directly or indirectly, interests, representing in monetary value at least 50% plus 1 of the total value of the assets;
- g) if a partnership, trust or joint venture, which a **Canadian** or Canadian corporation or any combination of the two, beneficially own or control, directly or indirectly, interests representing in value at least 50% plus 1 of the total value of the assets of the partnership, trust or joint venture, as the case may be, and of which the Chairperson or other presiding officers and more than half of the directors or other similar officers are **Canadian**.

If at any time one or more persons that are not Canadian have any direct or indirect influence through a trust, an agreement, an arrangement or otherwise that, if exercised, would result in control in fact of the firm, the firm is deemed not to be Canadian-owned and-controlled.

Canadian sound recording

A Canadian sound recording means that:

- all tracks of the master must be performed by a **Canadian** artist. (See exception for a tribute/compilation album);
- a minimum of 50% of the total number of tracks of the master must have music and lyrics (or an equivalent combination) written by a **Canadian** artist. (See exception for a tribute/compilation album; a classical music, world music and **traditional jazz/blues music** album);

Tribute/compilation album:

- a minimum of 75% of the tracks of the master must be performed by a **Canadian** artist;
- 100% of the total number of tracks of the master must have music and lyrics written by a **Canadian** artist;
- all tracks of the master must be performed by a **Canadian** artist;

Classical music, world music and **traditional jazz/blues music** albums:

- all tracks of the master must be performed by a **Canadian** artist;

Compilations and re-issues of previously released material (including greatest hits)

A compilation is an album that is compiled from various pieces of music, all or most of which were previously released. The pieces may be from different artists or from previously released material from a same artist.

Contribution Agreement

A signed agreement between a qualified applicant and the Department of Canadian Heritage that describes the obligations of both parties. Among other provisions, the contribution agreement includes: the purpose of the contribution and the expected results to be achieved from the contribution; the duration of the agreement; the reporting requirements expected; and the financial and/or non-financial conditions attached to the contribution and the consequences of failing to adhere to these conditions.

Demo

A demonstration recording of music recorded by an artist or group to promote its material and display their talent to potential publishers, agents, labels, etc.

DVD Audio

Digital Versatile Disk Audio (DVD-A) is a high-density disc with extra capacity that is used to achieve a high-quality, multi-channel surround sound that is significantly better than current CDs, and may also be used to include features such as texts, graphics, video and interactivity. For a DVD-A to be eligible under MEC, it must have a minimum of 10 tracks, or at least 30 minutes of recorded music.

DVD Video

Digital Versatile Disk Video (DVD-V) is a high-density disk with extra capacity that is used to achieve high-quality video with multi-channel audio and can include picture elements such as captions and stills. In addition, it offers the user choices of languages, various navigation and interactive controls. For a DVD-V to be eligible under MEC, music must comprise at least 30 minutes of the length of the material on the DVD-V.

Employee

Full- and part-time paid staff working directly for the firm. Owners are considered employees unless they have no active role in the firm. Independent contractors are not considered employees.

Free Goods

Free goods are units of sound recordings that are sold at retail but reported as “free of charge” in distributor reports. Firms do not derive any revenue from the sale of these units. Not to be confused with goods given free of charge for promotional purposes.

Full-length album

A full-length album has a minimum of 10 tracks, or at least 30 minutes of recorded music.

Legal deposit

Legal deposit is the means by which a comprehensive national collection is gathered together as a record of the nation’s published heritage and development. Applicants are required to send a copy of musical sound recordings they produce to **Library and Archives Canada**. Further information is available by consulting Library and Archives Canada:

<http://www.collectionscanada.ca>

Live sound recording

A live sound recording is a musical recording that contains a concert performance.

Roster

A roster is the sound recording firm’s list of artists (solo, group or collective) under contract on the last day of the reference period.

SACD

Super Audio Compact Disk (SACD) is a high-density disc format that uses a proprietary audio system of very high quality. Like the DVD, SACD has extra capacity that is used to achieve a high-quality, multi-channel surround sound that is significantly better than current CDs, and also is used to include features such as text, graphics, video and interactivity. For a SACD to be eligible under MEC, it must have a minimum of 10 tracks, or at least 30 minutes of recorded music.

Single

A single is a recording medium (vinyl record, cassette, CD) that has only one or two (but in the case of a CD, no more than four) tracks of music on it.

Stream, streaming

An audio transmission in real time over the Internet. Unlike downloads, streamed files are not stored permanently in the destination computer or other device. To be eligible as a sale under MEC, a digital stream must generate revenue and be supported by a distribution report. Streams originating from the applicant's website are not eligible. Although streams count in calculating the amount of the contribution, they do not count towards the sales minimum (200,000 units).

Traditional jazz/blues music

Jazz and blues works that were copyrighted prior 1955.

Total government assistance

All federal, provincial, territorial and municipal assistance provided towards the same eligible costs.

Unit

A unit is a full-length-equivalent sound recording. For comparative purposes:

| Format | Unit value |
|------------------------------|-------------------|
| 1 full-length physical album | 1 unit |
| 1 full-length download album | 2 units |
| 1 DVD-A, 1 DVD-V, 1 SACD | 2 units |
| 1 single - streaming | 0.05 unit |
| 1 single - download | 0.2 unit |
| 1 single - physical | 0.2 unit |

Unit sales of albums produced by or licensed to the applicant will count for the full unit value.