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# Canada Music Fund

*Music Entrepreneur Component*

*Aid to Canadian Sound Recording Firms*

Application Guide  
2007-08



Canada

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## Application Guide 2007-08

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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 seven components of the Canada Music Fund (CMF) established in 2001. 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 our Web site:  
[www.pch.gc.ca/cmfmusic](http://www.pch.gc.ca/cmfmusic)

## 1.2 MUSIC ENTREPRENEUR COMPONENT—AID TO CANADIAN SOUND RECORDING FIRMS

At this time, funding is intended to support the ongoing production and promotion of Canadian sound recordings. Only established Canadian sound recording firms that fulfill the requirements detailed in this guide are eligible for assistance under this component.

*MEC—Aid to Canadian Sound Recording Firms* provides assistance on an annual basis to eligible Canadian sound recording firms using a funding formula based on an applicant's sales in a reference period. This guide explains eligibility requirements and the funding mechanism in detail.

Each year, the Department of Canadian Heritage holds consultations with designated members of the industry to discuss and review the design of the Music Entrepreneur Component.

## 1.3 NEW MUSICAL WORKS COMPONENT

Applicants that meet the eligibility requirements detailed in this guide **must apply for MEC funding**. Once qualified MEC applicants have signed a contribution agreement with the Department of Canadian Heritage, they will be deemed ineligible for project funding under the CMF's New Musical Works Component, which is administered by FACTOR and Musicaction.

Applicants that do not meet the MEC eligibility requirements detailed in this guide can apply for funding under the New Musical Works Component. They can contact either FACTOR or Musicaction to enquire about eligibility requirements and how to apply ([www.factor.ca](http://www.factor.ca) or [www.musicaction.ca](http://www.musicaction.ca)).

If an applicant does not meet all the eligibility requirements of *MEC–Aid to Canadian Sound Recording Firms* in the funding period immediately following its last contribution, the applicant will remain eligible for MEC funding (and therefore must apply) for that funding period. If the applicant fails to meet all the eligibility requirements in the following funding period, the applicant will be deemed ineligible for MEC funding. In all cases, qualified applicants whose contribution is less than \$200,000, after the calculation of the funding formula described in 2.3, will be excluded from receiving MEC funding. They will then be allowed to apply for project funding under the New Musical Works Component.

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](http://www.factor.ca) or [www.musicaction.ca](http://www.musicaction.ca)).

## 1.4 ABOUT THIS GUIDE

This guide contains important information about *MEC–Aid to Canadian Sound Recording Firms* criteria and procedures that will help you make a complete application and ensure funding applications are processed as quickly as possible. Words in the text that are **bolded** are defined in detail in the *Definitions* section of this guide.

An application form for *MEC–Aid to Canadian Sound Recording Firms* is included with this package. Please complete the form and submit to:

Music Entrepreneur Component  
Department of Canadian Heritage  
15 Eddy Street, 4<sup>th</sup> floor, 15-4-E  
Gatineau, Quebec K1A 0M5

PDF and electronic versions of the *MEC–Aid to Canadian Sound Recording Firms* Application Guide and Application Form are available for downloading from the Department's Web site: [www.pch.gc.ca/cmfmusic](http://www.pch.gc.ca/cmfmusic). You may also contact us to obtain a compact disc which includes an electronic version of the Application Form and Guide. For 2005-06 and 2006-07 applicants, this compact disc will include information submitted in that round of application.

Application forms must be completely filled out and all supporting documentation provided. The application checklist, which describes the supporting documentation, must also be completed. Applicants who opt for the compact disc version must also send us a printed and signed copy of the application form along with their compact disc.

Applicants with questions about *MEC–Aid to Canadian Sound Recording Firms* are encouraged to contact us as early as possible so that any issues can be resolved before the application deadline. Take advantage of our toll-free number: 1-866-686-1102. You can also write to us: [vem-mec@pch.gc.ca](mailto:vem-mec@pch.gc.ca)

## 1.5 DEADLINE

*MEC–Aid to Canadian Sound Recording Firms* applications must be received no later than **November 1, 2006**.

Applications received after the deadline will not be accepted.

Incomplete applications received by the deadline will also not be accepted. 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.

*MEC–Aid to Canadian Sound Recording Firms* will be strictly enforcing the application deadline to ensure successful applicants receive their contributions as soon as possible. Since no funding can be distributed until all applications are considered, it is essential that complete applications are submitted on time.

## 2. Music Entrepreneur Component–Aid to Canadian Sound Recording Firms

### 2.1 INTRODUCTION

*MEC–Aid to Canadian Sound Recording Firms* supports Canadian sound recording firms' activities in the year beginning April 1<sup>st</sup>, 2007 and ending March 31<sup>st</sup>, 2008. Funding is calculated through 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 *MEC–Aid to Canadian Sound Recording Firms*, applicants must meet the following eligibility criteria:

#### Number of years in operation

At the date of application, the applicant must have completed 5 years of continuous operation as a Canadian sound recording firm.

An exception will be made for firms that have between 36 (3 years) and 60 months (5 years) of continuous operation as a Canadian sound recording firm (ending at the date of application). If these firms meet all the other eligibility requirements detailed in this guide, they can choose whether to apply for *MEC–Aid to Canadian Sound Recording Firms* assistance or to the New Musical Works component. To enquire about eligibility requirements and how to apply under the New Musical Works Component, please contact FACTOR or Musicaction.

#### 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).

### Production minimum (new releases)

During the reference period, applicants must have released a certain amount of eligible **Canadian sound recordings**, allowing them to obtain a minimum of 10 points as follow:

- |  |          |
|--|----------|
| - Canadian sound recording produced by the applicant | 2 points |
| - Canadian sound recording under license             | 1 point  |
| - Canadian sound recording <b>co-produced</b>        | 1 point  |

Eligible **Canadian sound recordings** are defined in detail in section 2.4 of this guide.

### Sales minimum

In the reference period, the Canadian sound recording firm must have:

- sales (national and international) of eligible **Canadian sound recordings** (defined in section 2.4 of this guide) of at least 150,000 **units** including **free goods** and net of credits for returns. Units that are given free of charge (such as for promotional purposes) do not count towards the sales minimum.
- sales (national and international) of eligible **Canadian sound recordings** written or performed by artists who are shareholders or owners of the firm must not exceed 25% of total units sold.

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

Unit sales of **Canadian sound recordings** sold under license that have received production funding after March 31, 2006, from the CMF's New Musical Works Component count as 0.7 of the **unit** value.



## 2.3 FUNDING FORMULA

Funding is based on a qualified applicant's **unit** sales (national and international) of eligible **Canadian sound recordings** in its reference period. A qualified applicant's funding is determined by using its 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.

<b>MEC SALES COEFFICIENTS FOR CANADIAN SOUND RECORDINGS</b>	
Eligible sales up to 100,000 <b>units</b>	Coefficient: 6
Eligible sales between 100,000 – 150,000 <b>units</b>	Coefficient: 3
Eligible sales > 150,000 <b>units</b>	Coefficient: 1

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

The maximum annual contribution is \$650,000.

For example, if a qualified applicant's factored sales were 2% of the total factored sales, it would receive 2% of the total MEC budget that is calculated using the formula up to the maximum annual contribution. If a qualified applicant's funding is not at the maximum, its contribution would rise above 2% 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.

Qualified applicants whose contribution after this calculation is less than \$200,000 will be excluded from receiving MEC funding. These applicants will be allowed to apply for project funding under the CMF's New Musical Works Component, which is administered by FACTOR and Musicaction.

### How affiliated groups are treated under the formula

In 2007-08, 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.

An **affiliated group** is 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.

## Change in ownership

MEC qualified applicants 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, and other formats recognized by MEC;
- is a **Canadian sound recording**;
- 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 (150,000 units) and its 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 (150,000 units) and its total eligible unit sales used in the calculation of the formula. However, compilations and re-issues of previously released material 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 (150,000 units) and its 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 which contain material which is degrading, dehumanizing, or which otherwise diminishes the dignity of any participant represented therein.

## 2.5 REFERENCE PERIOD

This is the timeframe that a qualified applicant's *MEC–Aid to Canadian Sound Recording Firms* contribution is based upon.

The reference period for an applicant's unit sales is thirty-six months (3 years), from July 1, 2003 to June 30, 2006.

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 statement for the three most recently completed financial years. The most recently completed financial year must end no earlier than June 30, 2005.

Applicants which did not receive a MEC contribution in 2005-06 and 2006-07 will be allowed to submit financial statements reported on with a notice to reader. However, once a contribution agreement is signed between a qualified applicant and the Department of Canadian Heritage, the qualified applicant is required to submit **audited financial statements** beginning with the fiscal year in which the first contribution is received. An applicant's financial statement does not necessarily have to cover the reference period.

Please inform MEC as soon as possible if you are changing your financial year to ensure that eligibility requirements continue to be met.

## 2.7 USE OF FUNDS

*MEC–Aid to Canadian Sound Recording Firm's* contributions must be directed toward the production and promotion of **Canadian sound recordings** from April 1, 2007 to March 31, 2008. 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;

- 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; and,
- other related expenditures (specify).

but exclude:

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

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

### Payments and Reporting

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

Qualified applicants 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 ACKNOWLEDGMENT 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 acknowledgement will be specified in the **contribution agreement** between them and the Department of Canadian Heritage. The acknowledgment text may be accompanied with the Canada wordmark, available at [www.canadianheritage.gc.ca/logos](http://www.canadianheritage.gc.ca/logos).

Neither an acknowledgment nor the wordmark should be placed on ineligible sound recordings.

**The English acknowledgment text is:**

We acknowledge the financial support of the Government of Canada through the Canada Music Fund (CMF) for our sound recording activities.

**The French acknowledgment text is:**

Nous reconnaissons l'aide financière du gouvernement du Canada par l'entremise du Fonds de la musique du Canada (FMC) pour nos activités d'enregistrement sonore.

### 3.2 LIMITS ON GOVERNMENT ASSISTANCE

For *MEC-Aid to Canadian Sound Recording Firms*, 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-Aid to Canadian Sound Recording Firm* 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.

## 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 chairperson or presiding officer and more than half of whose directors and other similar officers are **Canadian** ;
- d) 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;
- e) if a corporation without share capital, established under the laws of Canada or a province which **Canadians** beneficially own of control, directly or indirectly, interests, representing in monetary value at least 50% plus 1 of the total value of the assets;
- f) 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);
- a minimum of 50% of the total number of tracks of the master must be recorded and mixed in Canada.

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;
- a minimum of 50% of the total number of tracks of the master must be recorded and mixed in Canada.

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

- all tracks of the master must be performed by a **Canadian** artist;
- a minimum of 50% of the total number of tracks must be recorded and mixed in Canada.

## 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

It is 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 of the recipient and the financial and/or non-financial conditions attached to the contribution and the consequences of failing to adhere to these conditions.

## Co-produced

A co-production for which the applicant has at least a 50% share in the co-production agreement will count towards the production minimum (new releases) criteria.

## **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.

## **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.

## 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:

<b>Format</b>	<b>Unit value</b>
1 full-length album	1 unit
1 full-length download recording	3 units
1 DVD-A	2 units
1 DVD-V	2 units
1 download track	0.33 units
1 single	0.2 units

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

Unit sales of **Canadian sound recordings** sold under licence that have received funding after March 31, 2006, from the CMF's New Musical Works Component (administered by FACTOR & MUSICACTION) count as 0.7 of the unit value.