

# **FACILITY ASSOCIATION**

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**TO: MEMBERS OF THE FACILITY ASSOCIATION**

**ATTENTION: CHIEF EXECUTIVE OFFICER**

**BULLETIN NO.: F04 – 037**

**DATE: SEPTEMBER 1, 2004**

**SUBJECT: AGENT BROKER COMMISSIONS – FINAL ADJUSTMENT**

In Bulletins F04-001 and F04-006, we advised members that the commission amount recorded in the Participation Report was based on a computer generated calculation, whereas other amounts recorded on the Participation Report reflected actual transactions. As a result of rising premium volumes and rates, the differences between the actual commission amounts and the computer generated amount had become significant, particularly in Ontario.

In our October and November Participation Reports, Facility Association processed a \$25 million adjustment for the Ontario commission amount, which reflected an estimate of the overstatement of Ontario commissions for the 2003 fiscal year. We also advised members that a further balance of \$24 million which arose in prior years would be adjusted at a later date.

Facility Association has conducted an investigation into these differences and has determined that over the period from 1995 to 2003, significant differences arose in Ontario, Alberta, New Brunswick and Newfoundland and Labrador, which require adjustment. We have calculated the required adjustment for each member in each of these jurisdictions based on each member's participation rate in each of the affected years.

Members are advised that in order to avoid a system design change, this adjustment has been included in the line "F.A. Operating Expenses" on the Participation Report. As stated earlier, this adjustment includes adjustments for each fiscal year up to, and including, fiscal 2003. The adjusted amounts for each of Ontario, Newfoundland & Labrador, Alberta and New Brunswick for private passenger and non-private passenger

appear in their respective years on pages 4 and 6 of the Participation Report. These amounts should be considered as fully earned in members' financial statements.

We assume members will wish to report their correct operating expense total for the year, i.e. transfer the total of the commission adjustments from operating expenses to either commission expense or some other income or expense caption. In order to calculate their correct FA Operating Expense number for 2004, members must adjust the numbers in the column headed **F.A. Fiscal Year 2004** by the total of the fiscal year commission adjustments (i.e. the amounts shown in the FA Operating expenses line in the columns headed **1999 & Prior** and **2000, 2001, 2002** and **2003**).

Members are encouraged to discuss the appropriate accounting treatment with their auditors prior to booking their adjustment.

We appreciate your patience during our investigation. Facility Association has implemented procedures to ensure that such differences do not occur in the future. If you have any questions on this matter, please direct them to Georgette Chan, Vice President, Finance and Operations.

David J. Simpson, M.B.A., FCIP  
President & CEO

*Note: A copy of this bulletin has been attached to the June 2004 Participation Report.*