# New rules to cost $20B

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Companies in the TSX 60 could see a total of $20-billion or more wiped off their balance sheets because of new pension accounting rules, according to data compiled by Veritas Investment Research analyst Dimitry Khmelnitsky.

The rules force companies to put their pension surplus, or in most cases, deficit, directly in the accounts, instead of tucking it away in the notes to the annual financial statements.

Mr. Khmelnitsky's analysis shows the change will slash the value of shareholders' interests in the TSX 60 by 8%, based on their 2005 accounts.

"Investors are definitely concerned," said Mr. Khmelnitsky, who has fielded dozens of calls from fund managers and others trying to figure out what it all means.

The Veritas report shows that among those hardest hit will likely be Ace Aviation Holdings Inc. whose shareholders will see their equity drop by more than $800-million, or 70%; Nortel Networks Corp., where the balance sheet will be cut by almost two thirds or $580-million; and Bombardier Inc., where shareholders equity will fall by $1.7-billion or 61%.

At Ace, the effect is the equivalent to 89% of the company's market capitalization.

Furthermore, companies worst affected could find their ability to meet loan covenants or raise new debt is stymied by the changes, said Mr. Khmelnitsky.

Meanwhile, investors have some time to brace themselves. The rules kick in from Dec. 15 only for companies that file under U.S. accounting standards, including Canadian companies. Similar rules here in Canada will not take effect until after December 2007. Duncan Mavin

ONUS ON SUNCOR TO EXPLAIN WHY IT SHOULDN'T BE A TRUST: ANALYST

CALGARY - Given the successful recent conversions of several big Canadian companies into trusts, TD Newcrest says the onus has fallen on Suncor Energy Inc. management to prove why the large oilsands producer shouldn't follow suit.

TD Newcrest raised its recommendation on Suncor to "buy" yesterday and lifted its 12-month target price substantially, from $84 to $99, based on a trust-conversion analysis report that points to significant upside.

"With the success of past conversions such as BCE and Telus, and with trust valuation success shown by Canadian Oil Sands Trust, we believe the onus now directly falls on Suncor management to demonstrate to its owners why the trust-conversion path does not make sense today," TD analyst Nick Rontogiannis wrote in a note to clients.

Suncor has the potential to provide a sustainable and growing distribution, starting at 25 cents to 65 cents per share in 2008 and climbing to $7.50 to $14 a share in 2015.

Over the next nine years, a conversion could give Suncor a valuation lift of $3.5-billion to $7.8-billion, or $7.37 to $16.50 a share. It would effectively shield Suncor from corporate taxes, which are due for a major hike, depending on oil prices, after 2008. "A royalty tax structure would be a tax-efficient means of returning capital to shareholders, which is arguably superior to Suncor's current program of dividend or share repurchases," Mr. Rontogiannis said.

TD Newcrest said the probability of Suncor following the status quo is 60%, but a trust conversion has a probability of 30%. The likelihood of an outright sale is 10%.

Suncor isn't ruling out converting to a trust, but the company is still noncommittal.

"It's an ongoing process that we continue to look at," said John Rogers, Suncor's vice-president of investor relations. Jon Harding

SUN LIFE UNLIKELY BIDDER FOR U.S. INSURER UNUMPROVIDENT

Investors in Sun Life Financial Inc. were disappointed when the company closed the door for now on a deal to sell all or part of its MFS Investment Management subsidiary on Monday, but that's not the only transaction Canada's second-largest insurer is rumoured to be involved in.

The company, which reports third-quarter results tomorrow, has also been mentioned in speculation that several bidders are looking to pick up UnumProvident Corp., the Tennessee-based company that is the biggest provider of group disability insurance in the world.

"Sun Life is acquisitively minded and Unum's valuation at about 1.05 times book value is attractive," said RBC Capital Markets analyst Jamie Keating in a note. Acquiring Unum would boost Sun Life's U.S. group sales by about two and half times the current figure, said Mr. Keating.

The only problem -- the chances of Sun Life doing a deal for Unum seem to be going the way of its hoped-for MFS transaction.

"It would be a very large transaction at US$7-billion to US$8-billion and therefore, in our view, [it] is a low probability [deal,]" said Mr. Keating.

In the meantime, he said, Sun Life still faces challenges with regard to sales of insurance and wealth management products in Canada, and annuities and mutual funds in particular in the United States.

Mr. Keating has a $49 target price for Sun Life (SLF/TSX), compared to yesterday's closing price of $44.65.

He forecast third-quarter earnings of 85 cents per share, 3 cents below the consensus among analysts who follow the stock. Duncan Mavin