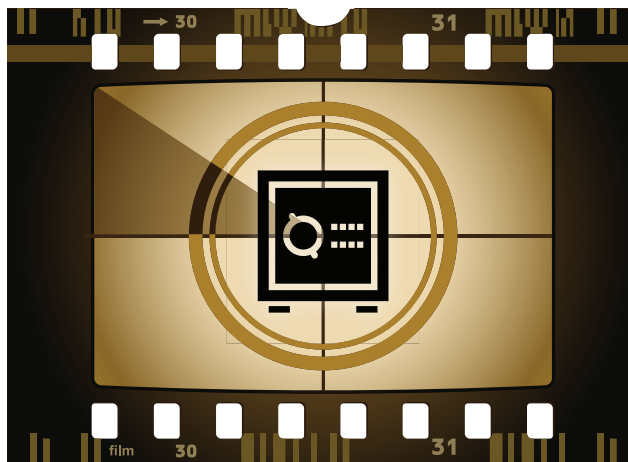




# FINANCIAL ASSURANCES

RESIDUALS RESERVES



[SAGAFTRA.org/fa](http://SAGAFTRA.org/fa)





## What is a Residuals Reserve?

A residuals reserve is a cash deposit for the producer's use to pay residuals when due under the Basic Agreement.

## Residuals Reserves vs. Security Deposits

The **security deposit** is calculated based on performer salaries to secure payment during production and delivery of required financial assurances. The **residuals reserve** is a form of financial assurance required in certain circumstances and is calculated based on actual or estimated sales of film rights.

## What can Trigger a Reserve Request?

- You have a sales agent for territories that will not be covered by a SAG-AFTRA Distributor's Assumption Agreement, and SAG-AFTRA is not a party to a collection agreement covering those territories.
- Your distributor will not sign a standard SAG-AFTRA Distributor's Assumption Agreement, and SAG-AFTRA is not a party to a collection agreement covering their territory.
- Your production lender will not sign our intercreditor agreement, or your equity lender will not sign our interparty/subordination agreement.
- Your collection agreement is not finalized with SAG-AFTRA as a party before principal photography starts. We return the reserve when all parties sign the collection agreement.



- Your distributor will not deliver a Distributor's Assumption Agreement or Qualified Distributor Letter of Guaranty before accepting delivery of the project. We return the reserve when you deliver the outstanding fully executed document.

## Types of Residuals Reserves:

**Worldwide reserve.** A reserve covering all territories and markets worldwide.

**Partial reserve.** A reserve covering only certain territories or markets. You have provided acceptable financial assurances which apply to some, but not all territories or gross receipts.

**Reserve against a bank loan.** You have made SAG-AFTRA party to a collection agreement, but your production lender is being repaid out of first grosses before residuals funds become available through the collection account.

## Steps to Budget for a Residuals Reserve

1. Review your pre-sales and/or sales projections for all markets and territories that the reserve will cover. **(Remember: Reserves are calculated based on actual or estimated sales, described in the Basic Agreement as “distributor’s gross receipts,” not on projected profits.)**
2. Allocate the reasonable percentage of total sales to theatrical, DVD, pay TV, free TV and new media platforms, as applicable. **If the reserve is being calculated only against the amount of your production loan, use your loan repayment amount as “total sales.”**



3. Subtotal the sales for each market based on your allocations.
4. Multiply each market subtotal by the applicable residuals rate for that market (see chart.)
5. Total the results from each market. That's your estimate.

#### EXAMPLE:

**FEATURE FILM** (released theatrically) with \$8 million in estimated sales.

Market & Allocation	Subtotal out of \$8M in Sales	Residuals Rate	Reserve Amount
<b>Theatrical</b> = 15%	\$1.2M	0	0
<b>DVD</b> = 20%	\$1.6M	4.5% on first 1M 5.4% on 600K	\$45,000 \$32,400
<b>Pay TV</b> = 30%	\$2.4M	3.6%	\$86,400
<b>Free TV</b> = 25%	\$2M	3.6%	\$72,000
<b>SVOD</b> = 5%	\$400K	3.6%	\$14,400
<b>EST</b> = 5% (e.g. iTunes)	\$500K	5.4%	\$21,600
<b>TOTAL</b>	<b>\$8M</b>	<b>=</b>	<b>\$271,800</b>

*Allocations are for example only and will vary depending on elements such as genre, cast, budget, territories sold, and term length and value.*



## Required Documents and Delivery of Funds

**Custody Agreement:** This agreement contains the information regarding account custody, payment methods, requirements and remedies for breach of the agreement. Your Contracts business representative will issue this for signature.

**Tax Forms:** For reportable interest, use W-9 for domestic companies or W-8 for foreign entities.

**Delivery of Funds:** Reserve funds may be deposited via **cashier's check or wire only**. Your Contracts business representative provides wire instructions.

## Limits of Reserve Coverage

**The party who signed the Custody Agreement is responsible for the following:**

- All payroll house fees and expenses;
- Producer's share of payroll taxes and any related reporting required by law (including, as applicable, Social Security, withholding, unemployment and disability insurance), and;
- Other taxes legally required in connection with the reserve funds, including taxes assessable on the reserve account's accrued interest.



## Does SAG-AFTRA Ever Refund Some or all of a Residuals Reserve?

**Yes.** Your Custody Agreement states that after the project has been exploited for at least two years, either you or SAG-AFTRA can request a meeting in writing to discuss the adequacy of the reserve funds. You may request the return of some or all unused funds in view of the project's exploitation history and prognosis.

Send your written request to **residuals.reserves@sagaftra.org** with relevant information about exploitation and the basis upon which you believe we should consider a refund. FA Compliance will review the file and past residuals payment history, and contact you to discuss your request.

## Important Things to Remember

**SAG-AFTRA does not automatically pay performers from a residuals reserve.**

- The producer must still submit quarterly reporting as required under the Basic Agreement. Producer must also provide all required documentations required by the Basic Agreement, such as a **final cast list** and **quarterly reporting details, including allocation of any advances**. Only the funds owed for residuals at the time of reporting will be paid out of the reserve account.
- **Please send all reporting, payroll house invoices and payments relating to reserves to the address on the back of this brochure.**



# How to Pay Residuals from the Reserve

## #1 Direct Drawdown

- Have your payroll house calculate residuals due based on your reporting and send FA Compliance the payroll house invoice and reporting.
- Provide the producer's share of the invoice to the payroll house (the obligations not funded from the reserve) and have the payroll house confirm to FA Compliance that they received the funds.
- If FA Compliance has no questions or concerns, we will initiate a check or wire from the reserve to your payroll house in the amount necessary to prepare the performers' residuals checks.

## #2 Reimbursement from Reserve

- Have your payroll house send FA Compliance the performers' checks, the invoice and related reporting.
- If FA Compliance has no questions or concerns, we will arrange for you to be reimbursed from the reserve for the **residuals amounts** and the **employees'** share of payroll taxes within 15 business days after receiving the performers' checks. FA Compliance will have the residuals checks processed and sent to the performers.

You can also use this method if you are equipped to handle residuals payments in-house.



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## TO CONTACT US

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