CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Enhancing Management's Discussion & Analysis

SUMMARY GUIDANCE

Management's Discussion & Analysis (MD&A) is a narrative explanation, through the eyes of management, of how a company has performed during the period covered by the financial statements, and of its financial condition and future prospects. The MD&A is a key means of communicating with investors and an opportunity for companies to add meaningful context to the financial statements and thus provide a more comprehensive picture of the business.

This CPA Canada *Guidance* is intended to help members of senior management, audit committees and boards of directors when preparing and issuing MD&A reports by:

- summarizing the principles and disclosure framework outlined in the comprehensive CPA Canada publication *Management's Discussion and Analysis: Guidance on Preparation and Disclosure*[1]
- outlining the responsibilities of management, audit committees, boards and external auditors in overseeing the quality and appropriateness of MD&A disclosures.

This *Guidance* encourages companies to go beyond what is necessary to satisfy existing regulatory requirements and includes ideas and concepts intended to maximize the usefulness of MD&A disclosures. It is not intended to and does not address all the individual MD&A content requirements and guidance issued by the Canadian Securities Administrators (CSA). The *Guidance* is non-authoritative, is not a substitute for CSA requirements and guidance, and should not be relied on to achieve compliance with regulatory requirements for the MD&A.

1 www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/guidance-for-mda-preparation-and-disclosure

General Disclosure Principles

The six principles set out in this section illustrate the approach required when crafting an effective MD&A. The principles are applied when using the disclosure framework described later in this summary.

Principle 1: Through the Eyes of Management

A company should disclose information in the MD&A that enables readers to view it through the eyes of management.

Principle 2: Integration with Financial Statements

The MD&A should complement as well as supplement the financial statements. An MD&A supplements the financial statements by adding to information they contain about financial position and performance. It complements financial statements by presenting additional contextual and prospective information.

Principle 3: Completeness and Materiality

The MD&A should be balanced, complete and fair in trying to reach its goal of providing information material to the decision-making needs of users. It should avoid promotional language and exaggeration, openly report both positive and negative developments, and stay away from promoting overly optimistic or pessimistic expectations.

Completeness calls for management to identify, address and communicate the qualitative and quantitative information necessary for users to understand and evaluate the company's business, strategy, performance, financial condition, risks and prospects.

Information is material if its omission or misstatement would be likely to influence or change the decision of a reasonable investor to invest or continue to invest in the company.

Principle 4: Forward-Looking Orientation

The MD&A should describe management's strategy and the conditions, opportunities and risks management considers likely to materially impact future prospects. Management should consider whether past events, decisions, circumstances and performance are reasonably likely to be indicative of, or to have a material impact on, future prospects. The disclosure should convey this likelihood to the reader.

Principle 5: Strategic Perspective

The MD&A should explain management's strategy for achieving short-term and long-term objectives. Useful disclosure will often involve breaking down the overall strategy into discrete objectives, summarizing the plans attaching to each of those objectives, and indicating the adequacy of the resources available for implementing these plans.

Principle 6: Usefulness

To be useful, MD&A should be understandable, relevant, comparable, reliable and timely.

Understandable

The MD&A should focus on material information, use plain language and avoid boilerplate disclosure.

Relevant

Relevant information has the capacity to make a difference in the decisions made by readers.

Comparable

Information is comparable when users are able to identify and understand similarities and differences between particular items of information over time or in comparison with the MD&As of other organizations.

Reliable

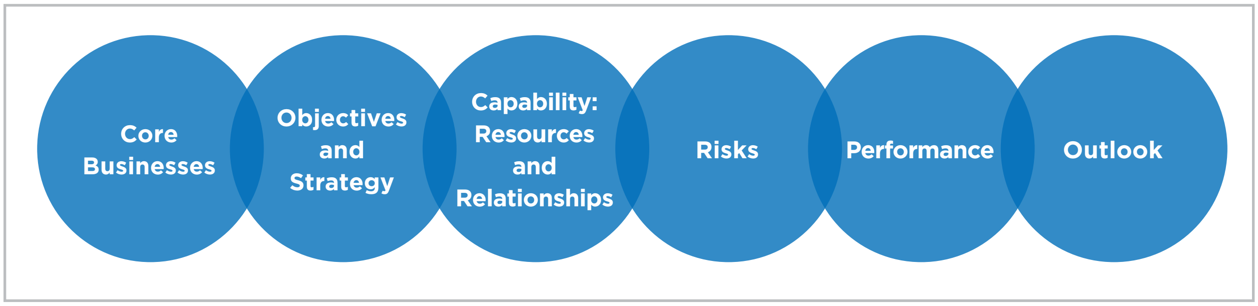
Information is reliable when it is free from error and bias and faithfully represents what it purports to represent. Companies should subject information disclosed in the MD&A to appropriate internal controls and, where appropriate, consider disclosing the source of any information that has a greater level of uncertainty.

Timely

The MD&A should reflect all information available as at the date of preparation.

The Disclosure Framework

The Disclosure Framework contains six broad elements:



Core Businesses

The MD&A should describe the company's business model, including its core businesses. This description should include but not be limited to communicating what the company does, the markets in which it operates, and how it generates revenue and ultimately creates value.

Objectives and Strategy

The MD&A should disclose the company's principal long- and short-term business objectives and the key features of its strategy to achieve them, including the major internal and external factors, opportunities and risks considered by management in developing that strategy.

Capability: Resources and Relationships

The MD&A should describe the capability of the company as a whole and that of each core business to execute its strategy, to manage the activities underlying its key performance indicators, and to achieve its objectives. It should also explain the nature and extent of relationships with other parties important to the company, including the entity's dependence on them, the degree of management or board involvement in them, their potential financial implications, and any consequent exposure to increased risk.

Risks

The MD&A should disclose material risks to the company and their potential impact. It should also disclose the company's strategy for managing the disclosed risks as well as communicate the company's ability to identify and evaluate risks and respond to them appropriately.

Performance

The MD&A should provide an analytical discussion of the various factors that impacted past financial and operating performance, focusing on their relevance to a reader's assessment of future prospects. It should also identify and define the key performance indicators used by management and explain their relevance to the company's strategic and operational performance goals.

Outlook

Companies should provide in the MD&A, in some form, an outlook for the company as a whole and for each core business.

Overseeing the Quality and Appropriateness of MD&A Disclosure

Responsibilities of Management

Management is responsible for effective systems, controls and processes, including those that relate to information disclosed in the MD&A. As required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, certifying officers should report in the MD&A the conclusions arising from management's periodic evaluation of internal control over financial reporting and disclosure controls and procedures.

A disclosure committee is an important element of a company's systems, controls and procedures for all aspects of a company's external financial reporting. The mandate of a company's disclosure committee should include MD&A reporting.

Responsibilities of Audit Committees

Companies should provide a statement about the oversight role of the audit committee in reviewing the MD&A. National Instrument 52-110 *Audit Committees* requires that the audit committee review the company's interim and annual MD&A before a company publicly discloses this information.

Responsibilities of Boards of Directors

Companies should provide a statement about the role of the board of directors in approving the MD&A. When approving the MD&A, directors who are not members of the audit committee will be interested in understanding how the audit committee carried out the review described above, and in understanding the results of that review. Those other board members may apply similar criteria and considerations when assessing the MD&A for purposes of providing their approval.

Responsibilities of Auditors

A company's auditor does not provide assurance on the MD&A but rather reads the MD&A for the purpose of identifying whether it contains material inconsistencies with the audited financial statements or with the auditor's knowledge obtained in the audit. The auditor is required to respond appropriately when material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated.

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