

Reporting Alert

CORPORATE REPORTING

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COVID-19: MD&A Disclosures In Volatile and Uncertain Times

The Canadian Securities Administrators (CSA) have published temporary blanket relief to reporting issuers with respect to filing deadlines due to the COVID 19 outbreak. The **blanket relief** provides reporting issuers meeting necessary conditions with a 45 day extension for periodic filings due during the period from March 23, 2020 to June 1, 2020.

The COVID-19 pandemic has resulted in some unique and difficult reporting issues.

COVID-19 will have significant impacts on the financial results, operations and cash flows of many organizations. It may be difficult to prepare disclosures that adequately capture all elements of this developing situation. Investors will want a frank discussion of the effects on the entity, with specific attention to an entity's ability to fund its plans for the immediate future, i.e. its liquidity, and its plans for dealing with the effects of the crisis.

This Alert sets out some considerations when preparing MD&A disclosures in this environment.¹ It is intended to help issuers who are preparing December 31, 2019 and March 31, 2020 MD&As, amongst others. The approach to MD&A will vary depending on issuer specific circumstances and whether the financial statements cover a period that has been affected by COVID-19 or whether COVID-19 is a subsequent event.

¹ [Form 51-102F1 Management's Discussion & Analysis](#) sets out requirements for annual and interim MD&A. MD&A is a narrative explanation, through the eyes of management, of how your company performed during the period covered by the financial statements, and of your company's financial condition and future prospects. It also requires issuers to discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future.

The Alert does not attempt to provide advice on how to comply with securities regulations. Whether MD&A disclosures comply with applicable securities requirements is ultimately a legal matter and should be considered carefully. The information included in this Alert is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

Focus on the Effects on the Entity

In most entities, the most important information to communicate will be the impact of COVID-19 on the entity currently and in both the short-term and long-term. This focus means that the previous MD&A, drafted in different times, may be ineffective as a template for discussing performance. Issuers will also need to evaluate whether previously issued financial guidance² needs to be updated or withdrawn in light of the circumstances.

The discussions in MD&A focused on the impact of COVID-19 will need to address the major drivers that are affecting the entity. These may include but are not limited to:

- Health and safety of employees, customers and communities
- Business and supply chain disruption
- Nature and impact of government measures
- Borrowing and lending issues
- Customer demand
- Commodity prices

Health and safety of employees, customers and communities

Health and safety considerations are driving many of the impacts on the business including the need for shutdowns and cost containment measures. This includes the actions of local, regional, national and global health authorities in flattening the COVID-19 curve.

Questions to consider:

- What necessary actions have we taken to protect our employees and public health and safety pursuant to guidance from health officials and government?
- What type of financial and other support are we offering to our employees during this period and what are the effects on the entity of actions with respect to employees?

Business and supply chain disruption

While it may be too early to fully understand the severity of this crisis and its long-term implications, investors will want to know how companies are responding to business disruption and supply chain challenges.

² Parts 4A, 4B and 5 (item 5.8) of NI 51-102 *Continuous Disclosure Obligations* sets out requirements relating to forward looking information.

Questions to consider:

- What disruptions have occurred and are at risk of occurring?
- Do we have an updated business continuity and disaster recovery plan?
- What are we doing to mitigate the effects of disruptions and potential additional disruptions?
- What countries/organizations do we have a high dependence on to fulfill our need for raw materials and sale of products?
- Do we have access to alternate sources of supply?

Nature and impact of government measures

The federal government has announced a number of measures to support workers and businesses through Canada's COVID-19 Economic Response Plan.

Questions to consider:

- Is our industry in special circumstances that warrant additional support and what efforts are being made to pursue this?
- What type of emergency funding and other support is the government making available to the entity and its employees and what are the plans for accessing these benefits?

Borrowing and lending activities

There are many issues related to commitments and imminent debt obligations and the ability of organizations to meet these obligations as they come due. Many banks are providing relief solutions which include loan payment deferrals and are indicating willingness to consider increases to operating line of credit limits.

Questions to consider:

- What is our ability to meet debt and leasing obligations as they become due?
- Are we seeking any concessions from lenders, landlords, suppliers or others?
- Are we taking advantage of any permitted payment deferrals?
- What is our access to additional credit if needed and would its costs be prohibitive, even if available?
- What is our ability in the short and near term to satisfy debt covenants?
- Are there any plans to renegotiate the covenants?
- What are the consequences of defaults and covenant violations under current financing agreements and how you intend to cure the default to address the risk?
- Are there anticipated restrictions in accessing funds in subsidiaries?
- Are reductions or suspensions of dividends or share buybacks planned?

Customer demand

COVID-19 has severely affected consumer spending across many sectors of the global economy.

Questions to consider:

- How has declining demand affected us?
- What is the outlook for customer demand for the rest of the year and next year?
- What are our plans for dealing with changes in demand?

Commodities

COVID-19 is negatively impacting pricing for some commodities as a result of demand destruction and oversupply, particularly in the oil and gas industry which has also been affected by other events affecting supply.

Questions to consider:

- If an entity is a commodity producer, how are changing prices and demand affecting our cash flows?
- What is the impact of our existing hedge position?
- Given the decline in selling prices, what is the impact on planned capital spending and significant projects under consideration?
- What is the effect of a lower forecasted commodity price on reserves?

The above considerations would need to be integrated into the structure of your MD&A. We have highlighted some relevant MD&A requirements below. Reference should be made to the complete requirements of National Instrument 51-102 *Continuous Disclosure Obligations* and [Form 51-102F1](#) *Management's Discussion & Analysis* (Form 51-102F1) when preparing your MD&A.

Overall Performance & Discussion of Operations (Part 2, Items 1.2 and 1.4 of Form 51-102F1)

Investors will need to be informed how the matters identified above have affected the entity's financial condition, financial performance, cash flows, and future prospects. They will also need to be informed of the actions the entity has undertaken in response to those matters (e.g., personnel reductions, production facility closures, capital expenditure reductions, deferral of payments under renegotiated agreements).

In addition to reporting impacts that have already been reflected in financial reports, there should be a discussion of the expected impact of the crisis. For example, an entity with a defined benefit pension plan, this would include changes in the plan's investment values and liabilities and the entity's plans to fund any shortfall, including the period over which funding is anticipated. As well,

entities should discuss how the crisis is affecting planned or in-process acquisitions and other capital projects.

Liquidity, Capital Resources and Off-Balance Sheet Arrangements (Part 2, Items 1.6, 1.7, and 1.8 of Form 51-102F1)

Liquidity is the ability of an entity to generate cash and to meet existing known and reasonably likely future cash requirements. An entity's liquidity will be of paramount importance to investors during this volatile period.

The disclosure will need to address significant changes in balance sheet conditions, income and cash flow items resulting from the crisis during the reporting period covered by the MD&A. This will need to be supplemented with a discussion of expectations for the foreseeable future. This involves consideration of matters affecting future operating cash flows and other sources and uses of cash including changes in borrowing and lending arrangements as a result of the crisis as discussed above. Access to and utilization of government economic support mechanisms should also be discussed.

The risks that access to traditional sources of financing may be reduced should be discussed, including for example, the factors that could influence credit ratings, and the impact of a downgrade in the entity's credit rating on its ability to raise debt and capital. As well, risks related to the creditworthiness of material counterparties should be addressed, including mitigation and monitoring activities to minimize these risks.

Critical Accounting Estimates (Part 2, Item 1.12 of Form 51-102F1)

Investors will need to be informed how recent events have impacted and may impact key assumptions underlying critical accounting estimates and judgements (e.g., inventory write-downs, collectability of receivables, impairments etc.).

Generally accepted accounting principles require consideration of whether an entity is a going concern and financial statement disclosure of material uncertainties related to events or conditions that may cause significant doubt about an entity's ability to continue as a going concern. Generally accepted accounting principles require that in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. When such material uncertainties exist, these should be described in the MD&A, including factors that management considered in making its assessment about the uncertainties and any planned activities to address them. When it was concluded that no disclosure of material uncertainties was required, it may be prudent to discuss those circumstances in the MD&A, including management's reasons for concluding that they do not comprise a material uncertainty.

Conclusion

Investors will be grateful for enhanced communication and assessments in today's unprecedented financial circumstances. A transparent and complete discussion of the issues is essential.

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