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August 15, 2003

Rosann Youck, Chair of the Continuous Disclosure Harmonization Committee
British Columbia Securities Commission
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701 West Georgia Street
Vancouver, British Columbia
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Denise Brosseau, Secretary
Commission des valeurs mobili  res du Qu  bec
Stock Exchange Tower
800 Victoria Square
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Dear Ms Youck and Ms. Brosseau,

RE: Proposed National Instrument 51-102 *Continuous Disclosure Obligations*

I have pleasure in submitting the comments of the CICA's Canadian Performance Reporting (CPR) Board on the proposed National Instrument 51-102 and related documents. Our principal comments are summarized in this letter; additional, more detailed, comments are provided in the attachment to this letter.

Our comments focus specifically on the implications of proposed NI 51-102 for MD&A disclosures. The CPR Board has a strong interest in supporting regulatory initiatives to advance the quality and usefulness of Management's Discussion and Analysis (MD&A). The CPR Board carried out nearly two years of extensive research into expectations, requirements and practices regarding MD&A as the basis for developing the draft MD&A guidance that was released for public comment in December 2001. The wide range of comments received in the next four months was valuable input for the revisions leading to the final release of *Management's Discussion and Analysis: Guidance on Preparation and Disclosure*, in November 2002. An analysis of that Guidance relative to the June 2002 Continuous Disclosure Obligation proposals of the Canadian Securities Administrators was provided by CICA in January 2003, together with suggestions where considered helpful, at the request of staff on the Continuous Disclosure Harmonization Committee. The CPR Board is encouraged by emerging evidence of companies voluntarily applying the CICA's Guidance in preparing their 2002 MD&As. In May 2003, the CPR Board issued its first MD&A Interpretive Release, on the topic of *Off-Balance Sheet Arrangements and Related Exposures*.

We therefore commend the Canadian Securities Administrators for their continuing initiative to harmonize and enhance continuous disclosure obligations. Our experience leads us to strongly support the purpose of MD&A as stated in the Form 51-102F2, including recognition that the MD&A should complement and supplement financial statements and be delivered to investors as a package. We are pleased to note the reinstatement of the principle that the MD&A should enable investors to see the company through the eyes of management.

CICA Aug.15, 2003

We also support the emphasis on use of plain language and the accompanying guidance on this, the expanded disclosures about off-balance sheet arrangements, and the requirement for dating the annual and interim MD&A's.

From the point of view of strengthening corporate governance and oversight of public disclosures, we particularly support the proposal, to be applicable in all jurisdictions, for audit committee review and board of directors approval of the MD&A. We are also pleased to note that proposed Multilateral Instrument 52-110 includes as an audit committee responsibility the requirement for audit committees to review financial statements, MD&As and earnings press releases before this information is publicly released. Such provisions reinforce the importance of the MD&A and the concept that the financial statements together with the MD&A constitute the core reporting package. We recommend that the proposals in NI 51-102 regarding audit committee review of public disclosures, including press releases about financial results, be harmonized with those in MI 52-109.

We wish to bring to your attention, however, three key issues which we believe need further consideration before the Instrument is finalized:

1. Strengthening the effectiveness of the MD&A component of the core reporting package

We continue to regard the MD&A *together with* the related financial statements as the core reporting package within the continuous disclosure system. Although this is somewhat reflected in the General Instructions and Interpretation in Part 1 of Form 51-102F2, in the requirements for delivery of the MD&A along with the related financial statements, and in the requirements for audit committee review and board of directors approval of both financial statements and MD&As, we recommend that the key concept of the two-part core reporting package be explicitly articulated in the continuous disclosure requirements.

Further, we note that the certifications called for in proposed MI 52-109 clearly signal that it is the financial statements *together with* the MD&A that are expected to "present fairly" the financial condition, results and cash flows of the reporting issuer. This is a dramatic new concept of "presents fairly" for which at present there is little interpretive guidance or explanation to assist management, audit committees and boards of directors in the implementation, certification, review and approval processes. We recommend that appropriate interpretive guidance on this new concept of "presents fairly" be developed and issued, a task with which the CPR Board would be pleased to assist. We are concerned also that the role and effectiveness of the MD&A as a component of the core reporting package is not sufficiently reinforced in the structure and content of the actual disclosure requirements in the proposed Instrument and related forms.

This problem is manifested in two specific ways:

a. Distinction Between Annual Information Form and Management's Discussion and Analysis

We believe there is a need to clarify the distinctive purposes of the AIF and the MD&A and then ensure that the disclosures called for within the respective forms are consistent with the stated purposes.

A significant amount of information that it is proposed be provided in the AIF should, in our view, be required in the MD&A. Risk and risk management, discussed under point two below, is one such example. Other examples are provided in the attached detailed commentary.

This is of particular concern since there are requirements concerning delivery of the MD&A to registered holders and beneficial owners of securities, but no such requirements for delivery of the AIF. Furthermore, the proposed Instrument does not require venture issuers to file an AIF. Therefore, investors may not receive or even be aware of the existence of information they reasonably need.

b. Organization and Content of Form 51-102-F2 MD&A

To make the MD&A as useful as possible to readers and to promote comparability of MD&As between companies (especially ones in the same industry sector), we recommend that the required MD&A content be organized and reported according to an appropriate framework. Such a framework would need to be

conceptually realistic and logical, making it easier for readers to locate information they seek and to understand its linkages with other information – within the MD&A and in the financial statements. Just as the common and widely followed structure of financial statements enables readers to know where to look for financial information and how the pieces fit together, a suitable MD&A framework would assist MD&A readers and, we think, preparers and reviewers. We would be pleased to work with the CSA to develop such a framework, perhaps adapting or adopting relevant features of the disclosure framework provided in the CICA's MD&A Guidance.

More specifically, the introduction of a suitable framework would assist in reorganizing the structure and content of Form 51-102F2 MD&A to improve preparers' understanding of the historical and prospective disclosures required. In the view of the CPR Board and as reflected in Part 1 of Form 51-102 F2, there is more to an MD&A than discussion and analysis of the balance sheet, income statement and cash flow statement. It is, for example, the discussion of historical results in relation to MD&A disclosures about strategy, key performance drivers and risks that can provide meaningful insights about future prospects. This is not the same as providing earnings forecasts in the MD&A, a practice that the CICA MD&A Guidance specifically avoids. A redrafting of the Content section should more strongly address the need for disclosures that provide information relevant to assessing future prospects that place the results reported in the financial statements in a business context. The re-drafting should take into consideration items now called for in the AIF which would be more appropriately disclosed in the MD&A, one of which is risk.

2. Risk and Risk Management

There should be more specific requirements about risk and risk management disclosures in the MD&A. Existing MD&A requirements in Form 44-101F2 are more stringent in this regard and we would support strengthening these, not lessening them. Investors need an understanding not only of the risks the business faces, but also of the strategies employed to address them and their success in doing so.

In addition, the risk disclosure currently proposed for the AIF would be appropriate for the MD&A, particularly since the AIF is not required to be distributed to shareholders, and risk is typically a dynamic factor necessitating disclosures to be updated more frequently than once a year. Disclosures about risk, especially in the post-Enron world, need to be all in one place, not in several documents, which are not necessarily filed together or, like the AIF for venture issuers, are not even filed at all.

3. Critical accounting estimates and changes in accounting policies

While we support the need for improved disclosure to investors about critical accounting estimates and changes in accounting policies (and consider that venture issuers should not be exempt from making such disclosures), in order to assist investors in assessing the effect of such matters on reported financial results and financial condition, we are concerned that the MD&A is being used inappropriately for disclosures that we consider should really be provided in the notes to the financial statements where significant accounting policies are disclosed. Further consideration is needed as to which parts of these proposed disclosures should be presented in notes to final statements and which might remain as explanation and discussion by management in the MD&A.

Similarly, we consider that disclosure of outstanding share data and disclosures about restricted shares should be provided in notes to the financial statements (or possibly the AIF), not in the MD&A.

Our more general concern, as noted in our comments last September on the 2002 NI 51-102 proposals, is the danger of the MD&A being used for detailed disclosures that are or should be called for under GAAP financial statement standards. Our suggestion then and now is that, if such disclosures are necessary to inform investors but are not currently required under GAAP, then an appendix to the MD&A might be appropriate in order to avoid burdening the MD&A with excessive detail – especially if an MD&A disclosure framework is adopted in due course to promote more meaningful, consistent and better organized MD&As.

One further related issue is the requirement in proposed MI 52-109 and related Forms 52-109 F1 and F2 for MD&A disclosures concerning conclusions from management's annual assessment of the effectiveness of disclosure controls and procedures and internal controls, and, quarterly as well as annually, concerning significant changes in internal controls and corrective actions taken during the period covered by the filings. Such disclosures are certainly desirable to provide assurance to investors about the integrity of reported information, including but not limited to information provided in the MD&A. The requirements in NI 51-102, which presently do not address this type of disclosure, therefore need to be harmonized with what is called for in MI 52-109.

To support the thrust of the MI 52-109 requirements about internal controls and disclosure controls and procedures, there is a need to develop and provide for the benefit of reporting issuers a set of widely applicable and acceptable guidance on the design, implementation and evaluation of such controls. This represents an opportunity for the CICA to assist the regulators, building on existing literature and practice in Canada and elsewhere. Providing MD&A disclosures about internal control systems, frameworks and related governance policies and processes – whether applicable just to financial reporting and other public disclosures or more broadly to overall organizational effectiveness and integrity – also calls for a new dimension to be included in any future MD&A disclosure framework. The CPR Board is considering expanding the CICA's MD&A Guidance and disclosure framework to address this dimension more explicitly than at present.

The attached commentary discusses these and other issues in more detail. We would be pleased to meet with staff of the Continuous Disclosure Team to discuss our comments if that would be helpful.

Yours truly,



J.L. Goodfellow, FCA
Chair, Canadian Performance Reporting Board

cc D.W. Smith, President and CEO, CICA
P. Cherry, Chair, Accounting Standards Board
R.T. Rutherford, Vice President, Standards, CICA

Encl. Attachment – Detailed Commentary

**Detailed Commentary – Attachment to August 15, 2003 Submission by
CICA’s Canadian Performance Reporting (CPR) Board regarding
Proposed National Instrument 51-102
Continuous Disclosure Obligations
June 20, 2003**

The CPR Board is responsible for CICA’s publication *Management’s Discussion and Analysis Guidance on Preparation and Disclosure*, released in November 2002. In May 2003, the Board also issued its first MD&A Interpretive Release, on the topic of *Off-Balance Sheet Arrangements and Related Exposures*. Accordingly, the CPR Board’s comments focus specifically on the implications of proposed NI 51-102, related forms and Companion Policy for MD&A disclosures.

This detailed commentary re-states under General Comments major points in the letter from CPR Board chair, JL Goodfellow FCA, dated August 15, 2003, and provides more detailed supplementary comments about them. This is followed by detailed comments on the National Instrument itself, AIF Form 51-102F1 and MD&A Form 51-102F2.

As noted in the August 15 letter, the CPR Board commends the Canadian Securities Administrators for their continuing initiative to harmonize and enhance continuous disclosure obligations. It strongly supports the stated purpose of MD&A, including the recognition that the MD&A should complement and supplement financial statements and be delivered to investors as a package. The CPR Board is pleased to note the reinstatement of the principle that the MD&A should enable investors to see the company through the eyes of management.

Other features the CPR Board particularly supports are audit committee review and board of directors approval of the MD&A, use of plain language and accompanying guidance on this, expanded disclosures about off-balance sheet arrangements, and dating the annual and interim MD&A’s.

However, there are three particular issues which the CPR Board believes need further consideration before the Instrument is finalized; these are summarized in the August 15 letter and discussed in more detail below under General Comments.

General Comments

1. Strengthening the effectiveness of the MD&A component of the core reporting package

We continue to regard the MD&A *together with* the related financial statements as the core reporting package within the continuous disclosure system. Although this is somewhat reflected in the General Instructions and Interpretation in Part 1 of Form 51-102F2, in the requirements for delivery of the MD&A along with the related financial statements, and in the requirements for audit committee review and board of directors approval of both financial statements and MD&As, we recommend that the key concept of the two-part core reporting package be explicitly articulated in the continuous disclosure requirements.

Further, we note that the certifications called for in proposed MI 52-109 clearly signal that it is the financial statements *together with* the MD&A that are expected to “present fairly” the financial condition, results and cash flows of the reporting issuer. This is a dramatic new concept of “presents fairly” for which at present there is little interpretive guidance or explanation to assist management, audit committees and boards of directors in the implementation, certification, review and approval processes. We recommend that appropriate interpretive guidance on this new concept of “presents fairly” be developed and issued, a task with which the CPR Board would be pleased to assist. We are concerned also that the role and effectiveness of the MD&A as a component of the core reporting package is not sufficiently reinforced in the structure and content of the actual disclosure requirements in the proposed Instrument and related forms.

This problem is manifested in two specific ways:

a. Distinction Between Annual Information Form and Management’s Discussion and Analysis

Summary

We believe there is a need to clarify the distinctive purposes of the AIF and the MD&A and then ensure that the disclosures called for within the respective forms are consistent with the stated purposes.

A significant amount of information that it is proposed be provided in the AIF should, in our view, be required in the MD&A. Risk and risk management, discussed further below, is one such example.

This is of particular concern since there are requirements concerning delivery of the MD&A to registered holders and beneficial owners of securities, but no such requirements for delivery of the AIF. Furthermore, the proposed Instrument does not require venture issuers to file an AIF. Therefore, investors may not receive or even be aware of the existence of information they reasonably need.

Detailed Commentary

Part 1 (a) of Form 51-102F1 AIF states that an “AIF is a disclosure document intended to provide material information about your company and its business up to a point in time. This disclosure is supplemented throughout the year by subsequent continuous disclosure filings including press releases, material change reports, business acquisition reports, financial statements and management discussion and analysis. Your AIF describes your company, its operations and prospects, risks and other external factors that impact your company specifically.”

Part 1(a) of Form 51-102F2 MD&A states that the “MD&A should help current and prospective investors to understand what the financial statements show and do not show, important trends and risks that have shaped the past, and trends and risks that are reasonably likely to shape the future. Your MD&A must discuss material information that may not be fully reflected in the financial statements...Your MD&A should be designed:

- to provide a narrative explanation of your company’s financial statements that enable investors to see your company through the eyes of management;
- to improve overall financial disclosure and provide the context within which financial statements should be analyzed; and
- to provide information about the quality, and potential variability, of your company’s earnings and cash flow, to assist investors in ascertaining the likelihood that past performance is indicative of future performance.”

Taking into account the stated purpose of the MD&A and the content requirements in Form 51-102F2 MD&A, we have identified a number of items in the list of required AIF disclosures that it may be appropriate to place in the MD&A. Examples of such items, taken from Part 2 Content of Form 51-102F1 AIF, are:

- Item 4, General Development of the Business, would seem to provide some important contextual information, relevant to understanding reported financial results. Furthermore, the requirement in 4.1 to “discuss changes in your company’s business that you expect will occur during the current financial year” seems inconsistent with the AIF’s stated intention to be an “up to a point in time” disclosure and appears to be more appropriate as an MD&A disclosure. A more general question is: How much forward-looking information is expected to be disclosed in the AIF?
- Item 5, Describe the Business, contains important contextual information, relevant to understanding reported financial results and hence a portion of which at least would seem to be called for in MD&A disclosures. Examples include: specialized skill and knowledge, competitive conditions, intangible properties, cycles, economic dependence, environmental protection, and risk factors. (See also General Comment 2 below regarding Risk.)
- Item 6, Selected Consolidated Financial Information, requires that issuers:

“Discuss the factors that have caused period to period variations including discontinued operations, changes in accounting policies, significant acquisitions or dispositions and changes in the direction of your business, and any other information your company believes would enhance an understanding of, and would highlight trends in, financial condition and results of operations.” Item 6 also includes a requirement to disclose restrictions that could prevent the payment of dividends and intended changes in dividend policy.

- Items 7, Description of Capital Structure, and 8, Market for Securities, call for information on bond ratings as well as trading prices and volumes.
- Item 10, Directors and Officers, calls for disclosure of any existing or potential material conflicts of interest between officers and directors and the company.
- Item 13, Interest of Management and Others in Material Transactions, requires disclosure of the existence and quantity of any material interest of management, directors or others in transactions with the company.
- Item 15 Material Contracts calls for information that may need to be duplicated in the MD&A to assist investors in understanding reported results and future prospects.

b. Organization and Content of Form 51-102-F2 MD&A

Summary

To make the MD&A as useful as possible to readers and to promote comparability of MD&As between companies (especially ones in the same industry sector), we recommend that the required MD&A content be organized and reported according to an appropriate framework. Such a framework would need to be conceptually realistic and logical, making it easier for readers to locate information they seek and to understand its linkages with other information – within the MD&A and in the financial statements. Just as the common and widely followed structure of financial statements enables readers to know where to look for financial information and how the pieces fit together, a suitable MD&A framework would assist MD&A readers and, we think, preparers and reviewers. We would be pleased to work with the CSA to develop such a framework, perhaps adapting or adopting relevant features of the disclosure framework provided in the CICA’s MD&A Guidance.

More specifically, the introduction of a suitable framework would assist in reorganizing the structure and content of Form 51-102F2 MD&A to improve preparers’ understanding of the historical and prospective disclosures required. In the view of the CPR Board and as reflected in Part 1 of Form 51-102 F2, there is more to an MD&A than discussion and analysis of the balance sheet, income statement and cash flow statement. It is, for example, the discussion of historical results in relation to MD&A disclosures about strategy, key performance drivers and risks that can provide meaningful insights about future prospects. This is not the same as providing earnings forecasts in the MD&A, a practice that the CICA MD&A Guidance specifically avoids. A redrafting of the Content section should more strongly address the need for disclosures that provide information relevant to assessing future prospects and that place the results reported in the financial statements in a business context. The re-drafting should take into consideration items now called for in the AIF which would be more appropriately disclosed in the MD&A, one of which is risk.

Detailed Commentary

- I. We strongly support Part 1(a), “What is MD&A?”. To implement these ideas, however, it is important that they be embedded in the contents requirements of the Form (see IV below).
- II. We believe that the subheading Part 1(b), entitled “What Must You Discuss?” should be deleted as this topic is the subject of Part 2, Content of MD&A. The first sentence of 1(b) should be deleted as, on its own, it is incomplete. The remaining sentences of 1(b) could be merged into 1(a).

- III. We recommend that the term “financial condition” be defined as there appears to be ambiguity and confusion about what this term constitutes. In addition, we recommend that Part 2, Contents, be reorganized to reflect the components of the definition.

With respect to the definition, Part 1(b) refers to “results of operations, financial condition, liquidity and capital resources” as though these were distinct. Yet Instruction (ii) following Part 2 item 1.2 states: “Financial condition includes your company’s financial position (as shown on the balance sheet) and other factors that may affect your company’s liquidity and capital resources.”

With respect to organization, we recommend that Part 2, Contents, be reorganized to better reflect the components of the definition. At present in Part 2 there is no heading for disclosures about financial condition, but there are headings for Liquidity, Capital Resources, and Off-Balance Sheet Arrangements (1.5, 1.6 and 1.7 respectively).

- IV. Part 2 the Content section of the MD&A Form is not organized or worded in a way that best reflects and addresses the definition and purpose of MD&A as stated in Part 1 of the form.

To illustrate this point, we note the following about item 1.2, which is ostensibly the information issuers need to provide to analyze overall performance. We present excerpts of item 1.2 below with our comments noted:

“Provide an analysis of your company’s financial condition, results of operations and cash flows.”

This has in the past been understood to correlate broadly with an analysis of the balance sheet, income statement and cash flow statement. It is unclear whether this is intended. We recommend that the intended meaning be explicitly stated. Currently, there is a risk that MD&A preparers will focus unduly on historical analysis and on issues contained within the financial statements.

It is unlikely that this initial requirement within the contents section will lead to an MD&A, that according to Part 1, “should help current and prospective investors to understand what the financial statements show and do not show, important trends and risks that have shaped the past, and trends and risks that are reasonably likely to shape the future” or will “assist investors in ascertaining the likelihood that past performance is indicative of future performance.”

“Compare your company’s performance in the most recently completed financial year to the prior year’s performance.”

This second sentence might lead MD&A preparers to a strictly historical perspective which provides little insight into future performance and prospects.

“Analyze and compare at least the following:

- (a) operating segments that are reportable segments as those terms are used in the Handbook or other parts of your business if:*
 - (i) any part of the business has a disproportionate effect on revenues, income or cash needs;*
 - (ii) there are any legal or other restrictions on the flow of funds from one part of your company’s business to another; or*
 - (iii) known trends, demands, commitments, events or uncertainties within a part of the business are reasonably likely to have an effect on the business as a whole;”*

Our interpretation of this is that reportable segments must be analyzed and compared and, in addition, other parts of the business that meet any of the three conditions should also be analyzed and compared. If this interpretation is correct, then we recommend that this requirement be divided into two subsections, a and b, to aid understanding of what is required.

Further, the structure of this excerpt does not explicitly call for disclosure of “known trends, demands, commitments, events or uncertainties within a part of the business that are reasonably likely to have an effect on the business as a whole”. They are merely conditions to be considered in determining if another part of the business needs to be analyzed and compared.

We suggest that the contents section be organized so that the issuer is asked first to present its “big picture” assessment and then its more detailed assessment of financial condition, results of operations and cash flows. This would then be followed by other required disclosures. If this were the thrust of the contents of an MD&A, it would be useful to establish these items as headings, with the specific requirements for historical and prospective disclosures provided.

Under the heading “results of operations”, perhaps current sections 1.3 and 1.4 could be merged. To demonstrate how the prospective perspective could be added to the contents section, one could add a sentence, for example, to the end of 1.3 requiring issuers to indicate the likelihood of noted trends continuing into the future.

Instruction (i)I following 1.4 of Part 2 should be moved from the instruction section and be embedded as a requirement, perhaps 1.4(k). It is unclear whether this requirement to report progress against milestones is intended to apply to all issuers or only venture issuers without significant revenues. We believe it should be applicable to all, if milestones are included to include forward-looking information such as goals, objectives and targets.

2. *Risk and Risk Management*

Summary

There should be more specific requirements about risk and risk management disclosures in the MD&A. Existing MD&A requirements in Form 44-101F2 are more stringent in this regard and we would support strengthening these, not lessening them. Investors need an understanding not only of the risks the business faces, but also of the strategies employed to address them and their success in doing so.

In addition, the risk disclosure currently proposed for the AIF would be appropriate for the MD&A, particularly since the AIF is not required to be distributed to shareholders, and risk is typically a dynamic factor necessitating disclosures to be updated more frequently than once a year. Disclosures about risk, especially in the post-Enron world, need to be all in one place, not in several documents, which are not necessarily filed together or, like the AIF for venture issuers, are not even filed at all.

Detailed Commentary

Form 51-102F2 MD&A opens by stating in Part 1(a) that the

“MD&A should help current and prospective investors to understand what the financial statements show and do not show, important trends and risks that have shaped the past, and trends and risks that are reasonably likely to shape the future.”

Thereafter, however, the Form has no table of contents heading for risk and Part 2, the contents section, offers few specific references to risk, as follows:

- 1.4 calls for an analysis of the company’s results of operations including: (g) “known trends, commitments, events, risks or uncertainties that you reasonably believe will materially affect your company’s future performance including net sales, total revenue and income from continuing operations”
- 1.5 calls for an analysis of liquidity including: (d) liquidity risks associated with financial instruments

- 1.7 on off-balance sheet arrangements states that “you should discuss their business purpose and activities, their economic substance, risks associated with the arrangements, and the key terms and conditions associated with any commitments.”
- 1.13 calls for a description of how risks associated with financial instruments and other instruments are managed.

Form 51-102F1 AIF provides a heading for risk in its table of contents and in Part 2 Content of AIF, item 5.2 notes a list of specific disclosure requirements:

“Disclose risk factors relating to your company and its business, such as cash flow and liquidity problems, if any, experience of management, the general risks inherent in the business carried on by your company, environmental and health risks, reliance on key personnel, regulatory constraints, economic or political conditions and financial history and any other matter that would be most likely to influence an investor’s decision to purchase securities of your company. Risks should be disclosed in the order of their seriousness. If there is a risk that security holders of your company may become liable to make an additional contribution beyond the price of the security, disclose that risk.”

In our opinion, all the risk factors noted in the above AIF excerpt are appropriate for MD&A disclosure.

We note that existing MD&A requirements in Form 44-101F2 are more stringent in this area and include specific instructions to:

“Disclose information on risks and un certainties facing the issuer necessary to understand the issuer’s financial condition, changes in financial condition and results of operations.

“Provide an analysis of the risks, events and uncertainties that could cause reported financial information to not necessarily be indicative of future operating results or of future financial position. Include both qualitative and quantitative descriptions of factors that

- (a) could have an effect on future operations or financial position and have not had an effect In the past; and
- (b) have had an effect on reported operations or financial position, and are not expected to have an effect in the future.”

Neither the proposed AIF nor MD&A requirements makes mention of the need to disclose information on risk management systems.

We recommend that more weight be given to risk and risk management disclosures in Form 51-102F2 MD&A.

3. *Critical accounting estimates and changes in accounting policies*

Summary

While we support the need for improved disclosure to investors about critical accounting estimates and changes in accounting policies (and consider that venture issuers should not be exempt from making such disclosures), in order to assist investors in assessing the effect of such matters on reported financial results and financial condition, we are concerned that the MD&A is being used inappropriately for disclosures that we consider should really be provided in the notes to the financial statements where significant accounting policies are disclosed. Further consideration is needed as to which parts of these proposed disclosures should be presented in notes to final statements and which might remain as explanation and discussion by management in the MD&A.

Detailed commentary

The above comments relate to *Form 51-102F2 Part 2 1.11 Critical Accounting Estimates and Form 51-102F2 Part 2 1.12 Changes in Accounting Policies including Initial Adoption*

The CPR Board believes the requirement to provide disclosures about changes made to critical accounting estimates should be applicable to all issuers. It also believes that assessment of the different estimates that could have been used would be useful disclosure if the administrative burden on reporting issuers is not unreasonable.

The CPR Board considers that venture issuers should not be exempted from the requirement for disclosures about changes in accounting policies.

National Instrument 51-102 Continuous Disclosure Obligations

1. *NI 51-102 4.3(3)(a) Disclosure of Auditor Review of Interim Financial Statements, NI 51-102 6.5 Disclosure of Auditor Review of Interim Financial Statements, Companion Policy 51-102CP 3.3(2), Form 51-102F2 2.3*

We recommend that any disclosure about the auditor's review of interim financial statements be made in a notice that accompanies the interim financial statements and the notes thereto, not in the MD&A. We therefore do not support the options provided under parts (i) and (ii), nor do we support the MD&A disclosure requirement set out in 6.5 of the National Instrument.

In general, it seems an inappropriate use of the MD&A to include statements about auditor involvement with financial statements, annual or interim. In addition, a notice that accompanies the interim financial statements will be more readily apparent to readers of the interim financial statements than if it is embedded in the MD&A.

2. *NI 51-102 4.6 Delivery of Financial Statements, NI 51-102 6.7 Delivery of MD&A and Companion Policy 51-102CP 3.9*

From the viewpoint of the retail investor, it may be preferable to provide that unless otherwise notified the reporting issuer is obliged to deliver the financial statements and MD&A. Therefore, we would recommend that reporting issuers annually send request forms under which the registered holders or beneficial owners are asked to indicate if they do not want delivery of the documents.

We continue to strongly support paragraphs 4.6(4) and 6.7(2) regarding delivery of financial statements and MD&A together.

At present there is no requirement for delivery of the AIF to investors. However, as highlighted in General Comment 2 and 3 above, a significant number of disclosures called for in the AIF are relevant to an understanding of reported financial results. Consideration should therefore be given to requiring that such items be presented in the MD&A. Alternatively, the AIF could become a required distribution, thereby ensuring that investors are given all appropriate information.

In addition, there should be a prominent notice within the MD&A as to the existence of the AIF, together with information on how investors can access the AIF.

3. *NI 51-102 6.3 Additional Disclosure for Venture Issuers Without Significant Revenues and Companion Policy 51-102CP paragraph 6.1*

We believe this disclosure should be in the notes to the financial statements. (Is it considered that such disclosure is only appropriate for venture issuers?) The MD&A should be used for any needed analysis and discussion of such disclosure.

We note that Part 1 (h) of Form 51-102F2 MD&A refers to "development-stage issuers", a term which is no longer defined in the Instrument. Is it intended that this term be replaced by "venture issuers without significant revenues"?

4. *NI 51-102 6.4 Disclosure of Outstanding Share Data*

We believe this information is more appropriately reported in the financial statements and the notes thereto. Sections 3210 and 3240 of the CICA Handbook already provide for much of this information.

5. *NI 51-102 6.6 Approval of MD&A*

We strongly support this requirement. It may also be useful to indicate that board approval should occur following any CEO/CFO certifications of annual and interim filings.

6. *NI 51-102 10.1 Restricted Share Disclosure Requirements – Content and Dissemination of Disclosure Documentation and Form 51-102F2 MD&A Part 2 Content of MD&A 1.14 Other MD&A Requirements and Form 51-102F5 Information Circular 6.2*

We consider such disclosure more appropriate in the financial statements and notes thereto, and/or Information Circular, not in the MD&A.

7. *NI 51-102 Additional Filing Requirements*

11.1(1) As a point of clarification, does this requirement mean that annual reports would qualify as a filing document if they were distributed to more than 50% of security holders of a class of securities?

11.4 We strongly support this requirement but suggest that it should explicitly refer and apply to press releases about both historical and prospective information.

8. *References to Forms*

We recommend that the Instrument make explicit reference to the Forms 51-102F1 and 51-102F2 in Parts 5 and 6 respectively.

Form 51-102F1 Annual Information Form

Form 51-102F1 Part 1(i) Special Purpose Vehicles

The term “special purpose vehicles” should be defined.

Form 51-102F2 Management’s Discussion and Analysis

1. *Form 51-102F2 Part 1(g) Forward-Looking Information*

We support this section. However, we strongly recommend that these ideas also be embodied as requirements in the contents section, Part 2.

We suggest that the Form specifically require that forward-looking information be supported by appropriate control systems and processes. We recommend that a cross-reference to any certification requirements on disclosure controls is appropriate and would assist preparers.

2. *Form 51-102F2 Part 1(o) Plain Language*

We strongly support this guidance and the accompanying information in Companion Policy 51-102CP.

3. *Form 51-102F2 Part 2 1.1 Date*

We support this requirement.

4. *Form 51-102F2 Part 2 1.7 Off-Balance Sheet Arrangements*

We support the requirement to discuss off-balance sheet arrangements. In the CICA's MD&A Interpretive Release *Disclosure About Off-Balance Sheet Arrangements and Related Exposures*, it is recommended that management disclose the definition it has applied in determining the off-balance sheet arrangements about which disclosure needs to be considered. However, it would be useful for the Form to provide a definition or other guidance as to the nature and scope of off-balance sheet arrangements to which this requirement should apply.

5. *Form 51-102F2 Part 2 2.1 Date of Interim MD&A*

We support this requirement.

6. *Form 51-102F2 Part 2 2.2 Interim MD&A*

We believe this section could be strengthened. It asks for an update of the company's annual MD&A for all disclosures required by Item 1. While we support this general thrust that the interim MD&A should update the annual MD&A, we have noted above that we believe the requirements in Item 1 need to be changed. We believe there is a need to specifically require that any significant change related to historical or prospective performance and risk needs to be disclosed.

7. *Reference to Information Circular Form 51-102F5 and Statement of Executive Compensation Form 51-102F6*

We recommend that the MD&A be required to contain an explicit reference to the Information Circular Form 51-102F5 and the accompanying Statement of Executive Compensation Form 51-102F6 as these documents provide important information to investors in enabling them to understand the business and factors that may affect its performance and prospects.