

## Getting the MD&A right!

The Management's Discussion and Analysis ("MD&A") of the financial results is expected to provide vital "extra information" for the investment decisions of investors, compensating for the lack of explanations of the financial statements. In the USA, the Securities and Exchange Commission ("SEC") mandated in 1980 that publicly traded companies provide MD&A statements in their annual reports aiming to explain all aspects of the company's operations in a clear and consistent manner so that investors can understand. Many companies provide a MD&A statement for all earning periods and not just for the annual reporting. A good MD&A is expected to provide narrative and transparent information on the company's operations and trends that enables investors to see the company through the eyes of management and identify future trends that can affect the operations of the company.

MD&A statements are very common for companies in North America but IR Global Rankings has identified many companies worldwide that do not provide this important analysis. We have selected some guidelines to help such companies understand what should be included in the MD&A statements.

### 1. Focus on Materiality

Readers should be able to understand the effects of known material trends and uncertainties during the periods under review, as well as their relative importance. Companies should provide a balanced view of the underlying dynamics of the business, including descriptions and examples of their material successes and failures. Disclosures should de-emphasize (or, if appropriate, delete) immaterial information--that is, information that is too complex and does not promote understanding.

### 2. Focus on Key Indicators of Financial Condition and Operating Performance of Your Company

The MD&A should:

- Discuss how the company earns income and generates cash;
- Explain the economic and industry-wide factors relevant to the company;
- Explain the company's business model, locations of operations, and principal products and services;
- Discuss material opportunities, risks, and challenges the company faces and how company management plans to face them.
- Limit the statements that could really apply to any company in your industry. Rather, be specific about the particular opportunities and uncertainties affecting **your** company, and how they would affect **your** financial statements.

To achieve the disclosures above is no easy task but narrating the evolution of key industry-specific measures, nonfinancial data and value drivers can help the MD&A meet its goal. Such information can include: business strategy, customer satisfaction, service offerings vs. market demand, customer and vendor relations, product development, production capacity, affiliations/joint undertakings, employee retention (labor conflicts, new competition, etc.), changes in the managerial approach or structure, and regulatory actions or the company's overall regulatory environment. Other pertinent macroeconomic measures, such as interest rates or economic growth rates and their anticipated trends, may be important variables.

### 3. Explain accounting policies

Companies should explain the critical accounting policies that are most significant and discuss which estimates and judgments are part of financial reporting. In addition, presenting a sensitivity analysis for the range of possible outcomes, however remote their likelihood, is also a good practice. Enumerate the specific conditions and circumstances that could lead to one of these alternative outcomes so users can understand the likelihood of such occurrences.

The registration period for the 2010 IR Global Rankings starts September 1, 2009! Stay tuned and don't miss out!

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