
STANDARDIZED DISTRIBUTABLE CASH IN INCOME TRUSTS AND OTHER FLOW-THROUGH ENTITIES

**MANAGEMENT'S DISCUSSION AND ANALYSIS
GUIDANCE ON PREPARATION AND DISCLOSURE**

INTERPRETIVE RELEASE

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PREFACE

This Interpretive Release provides guidance on reporting Standardized Distributable Cash in Management's Discussion and Analysis (MD&A) in income trusts and other flow-through entities. It supplements the non-GAAP financial measures discussion provided in CICA's Canadian Performance Reporting Board (CPRB) 2004 publication *Management's Discussion and Analysis: Guidance on Preparation and Disclosure*.

Income trusts and other flow-through entities are common legal forms for carrying on a publicly traded business in Canada. They differ from traditional incorporated businesses in that they are capable of eliminating income taxation at the entity level by distributing their taxable income to unitholders as it is earned, providing a significant cost saving. In addition, since the traded unit value is generally directly linked to the level of expected distributions, these entities have a strong incentive to maximize cash distributions, and to maximize the cash that could be considered distributable, even if it is retained for other purposes.

In this environment, investors seek information from management on the distributable cash an entity has generated in order to assess future prospects. To provide this information and, in particular, information about an entity's ability to generate cash from operations, management and investors have increasingly turned to non-GAAP financial measures. Some of these measures take the GAAP income statement and selectively add back certain non-cash expenses. Others start with the Cash Flows from Operating Activities in the GAAP Cash Flow Statement, and provide various adjustments to reflect management's view as to the non-recurring or seasonally-adjusted nature of a cash inflow or outflow.

The variety of reporting practices for distributable cash has resulted in difficulties in understanding its components and in making meaningful comparisons between entities. Furthermore, some entities do not report "distributable cash" measures, but produce statistics such as "pay-out ratios" based on measures of distributable cash. These suffer from the same difficulties. Without guidance or other benchmarks, disclosure of the nature of adjustments made in arriving at distributable cash does not enable the user to see what elements or attributes an entity has used to define its distributable cash measures.

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On July 6, 2007, the Canadian Securities Administrators (CSA) published revised National Policy Statement 41-201 *Income Trusts and Other Indirect Offerings* that includes guidance about distributable cash. The CPRB believes that the CPRB guidance will complement the CSA material by providing for a standardized measure of distributable cash to improve comparability and consistency of reporting, and a framework for disclosure that will assist preparers in meeting the objectives of the CSA policy. Consequently, the CPRB believes that flow-through entities should provide a measure of Standardized Distributable Cash in their MD&A, following the guidance set out in this Interpretive Release.

On June 22, 2007, Bill C-52 received Royal Assent. Bill C-52 enacts the Minister of Finance's October 31, 2006 proposals to impose a new tax on distributions of specified flow-through entities. This legislation is applicable for new flow-through entities in 2007 and for existing entities in 2011. Existing entities will need to develop plans for their businesses in the four-year window to 2011 and for the post 2011 environment to reflect the effects of the proposed tax. Those plans could involve significant changes to productive capacity management and debt management strategies and accordingly cash distribution policies. This guidance includes recommendations that deal with disclosure of productive capacity management and debt management strategies and the terms and conditions of financial obligations. In this uncertain environment, these particular recommendations take on additional importance to ensure that transparent and meaningful disclosure of these matters is provided to investors.

This measure of Standardized Distributable Cash and the related disclosures in this guidance address four basic needs of investors.

1. *How much cash has been generated in the period, and where did it come from? Are changes in working capital a significant factor in variances in cash flows from operating activities? The financial statements segregate cash flows into those from operations, investing, and financing activities. But what is the source of distributions to unitholders? Did this arise from operations or was it funded from borrowings or perhaps from non-operational sources such as the sale of capital assets or even from the pro-*

- ceeds of new units. An entity should provide an analysis of its cash flow statement to explain how cash has been generated and used in the period.
2. *Has the entity made sufficient investment to maintain operations?* Has productive capacity been maintained, grown, or diminished? What is the relationship of the entity's changes in productive capacity to its capital expenditures? Given the propensity of flow-through entities to distribute as much of the cash generated from operations as possible, investors want to know how productive capacity has changed in the period and its relationship to the entity's capital expenditures.
 3. *What is the impact of an entity's strategy for managing long-term debt obligations, including unfunded operational obligations, on its distributions?* How does the entity plan to fund these obligations? Some entities may plan to roll-over long-term debt, while others may plan to repay debt as it matures. Similarly, some operating cash payments, such as contributions to pension plans, and cash payments for asset retirement obligations, can be deferred to some degree at management's discretion. However, such deferred costs may become very large and ultimately limit management's discretion to use otherwise distributable operating cash flows. What impact have such obligations had on the period's distributions and how will they affect future distributions?
 4. *What financial covenants exist that might restrict future distributions and to what extent is the entity in compliance with those covenants?* The relatively high distribution rates of flow-through entities can contribute to apparently unanticipated liquidity challenges. Likewise, restrictions in bank covenants affecting cash distributions may limit an entity's ability to continue distributions.

The accompanying recommendations respond to these important issues and provide a framework for considering distributable cash. On some matters, the CPRB's guidance is necessarily restrictive, in order to ensure that even a modest degree of meaningful and comparable information is presented. Therefore, to provide investors with information that is related to cash, the recommended practices strictly interpret the meaning of cash from operations and do not permit adjustments other than those considered. Equally as well, however, the CPRB recognizes the benefit of management's communication of

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entity-specific matters not well-suited to a measure designed for comparability and consistency. Accordingly, the guidance contemplates that additional entity-specific adjustments may be recorded by an entity and reported after Standardized Distributable Cash as an adjusted distribution base. On other matters, the recommended practices are intentionally general: for example, there is no definition of productive capacity, as it is expected that such terms will be industry or firm specific. In these cases, the recommended practices derive measures from definitions provided by the entities.

In short, this Interpretive Release sets out precise recommendations for the components of Standardized Distributable Cash to produce comparable measures, while enabling additional information to be provided to reflect the specific circumstances of each reporting entity. The disclosure requirements are also designed to achieve that degree of transparency that enables investors to make meaningful judgments as to the construction and context of each significant element of the calculation of distributable cash.

Examples of the application of the CPRB's distributable cash guidance will be available shortly as a separate companion document, accessible on CICA's web site at www.cica.ca/cpr. If you would like to be notified when the examples are available, please send your request to d.cash@cica.ca

While this guidance is directed to flow-through entities, the CPRB expects that some of the principles it espouses should also be applicable to non-GAAP financial measures employed in the corporate sector. The CPRB is currently developing additional guidance to address these measures, including Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Free Cash Flow. In the meantime, however, corporate preparers are encouraged to follow relevant aspects of this guidance and provide comments to the CPRB about issues that in their view should be addressed.

The CPRB would like to thank the Canadian Association of Income Funds' Distributable Cash Committee for its efforts in developing a framework for distributable cash.

Preface

Any comments on this guidance, or suggestions for future CPRB projects should be sent to Chris Hicks, CA, Principal, Knowledge Development, The Canadian Institute of Chartered Accountants, 277 Wellington Street West, Toronto, M5V 3H2, or e-mail to d.cash@cica.ca

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INTRODUCTION

Purpose of guidance

Flow-through entities frequently publish a non-GAAP financial measure to describe the amount of cash generated in a period that is available for distribution to unitholders, often described as “distributable cash”.¹

There has been a wide variety of practices observed in the computation of distributable cash and related measures by flow-through entities in Canada. This has led to significant confusion about what the term “distributable cash” represents. For example, do the distributable cash flows arise from continuing operations or from the liquidation of capital assets or other financing activities? Has some provision been made for the replenishment of consumed assets or are the distributions in lieu of investments in productive capacity? Investors need to know the answers to these questions in order to understand the comparability of the measures and how to interpret them.

It is the view of the CICA’s Canadian Performance Reporting Board (CPRB) that guidance on the measurement and disclosure of cash available for distribution should improve its consistency, comparability, and disclosure transparency. In the same vein, CEOs and CFOs may wish to consider the guidance in determining whether financial information in interim and annual regulatory filings is fairly presented for certification purposes. Such guidance may also be useful for audit committees in making similar assessments.

This Interpretive Release to the CICA publication *Management’s Discussion and Analysis: Guidance on Preparation and Disclosure* has been prepared to provide guidance on the disclosure and measurement of distributable cash by flow-through entities, including income trusts and limited partnerships. This guidance represents a statement of general recommended practices. It may not resolve the issues

¹ Flow-through entities are generally defined as entities that can distribute their taxable income and thereby flow through their income tax consequences to their unitholders, primarily by means of distributions. They are not the same as and do not include entities that issue flow-through shares where the entity’s deduction for tax purposes for resource expenditure is permitted to be claimed by the shareholders. On June 22, 2007 Bill C-52 received Royal Assent. Bill C-52 implements the Minister of Finance’s October 31, 2006 announcement to tax certain distributions of some specified flow-through entities.

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that arise in all types of entity or all situations, for example issues arising when a corporation converts into an income trust or issues arising in acquisitions. While the guidance focuses on reporting in MD&A, much of this material will be equally applicable in other public disclosures, including press releases.

General perspectives on the use of distributable cash and similar non-GAAP financial measures

Distributable cash and other similar terms such as distributable income, distributable cash flow, and available distributable cash, are commonly used examples of non-GAAP financial measures employed in financial reporting. Non-GAAP financial measures are provided by management and employed by users to obtain additional analytical insight into the performance and financial condition of an entity not provided by GAAP financial statements. The measures, being non-GAAP, may involve an inherent degree of subjectivity such as identifying matters as “non-recurring items” and may omit items such as “non-cash” expenses that are required elements of any GAAP computation of performance. To be meaningful, a measure of cash available for distribution to unitholders, used in conjunction with other GAAP and non-GAAP information, should enable users to form reasonable expectations of the comparative returns on their investments, be they debt or equity securities of an issuer.

Characteristics of non-GAAP financial measures

There are some general characteristics of non-GAAP financial measures that have significant consequences for these recommendations: first, they rely on historical information, and second, they frequently involve subjective judgments and estimates.

Historical information The institutional framework governing the presentation and disclosure of forward-looking financial information in Canada, including forecasts of financial information, adds significant responsibilities for issuers of such information. In light of these responsibilities, many issuers are reluctant to formulate forward-looking financial outlooks or statements. Instead, it is the responsibility of users of financial statements to generate forecasts and other forward-looking financial information from a combination of

the trends evident in the historical data produced by issuers, and the application of judgment (by the user) on how known or anticipated future events will affect those trends.

Consequently, financial information produced by issuers, including non-GAAP financial measures, is generally historical information that facilitates the analysis of important trends and developments and enables users to form their reasonable expectations. Therefore, to avoid the challenge of forward-looking information, such measures should be capable of being constructed from historical information.

Use of subjective estimates and entity-specific information

One purpose for using non-GAAP financial measures is to permit the preparer to convey entity-specific information that may not be evident from the constraints of GAAP-prepared financial information. For example, an entity may wish to convey that certain transactions will not recur, and therefore that investors should not include any related amounts in forming their expectations of future cash flows. Alternatively, an entity may wish to indicate that the historical cost of an item expensed in the period is not representative of the cost of replacing or renewing that item. Or an entity may wish to convey that it has expectations that transactions not yet “cashed-out” do in fact have a high degree of certainty and that users should anticipate cash flows from such transactions in forming their expectations. Each of these assertions may not be supportable in the manner accorded to GAAP information, yet such information may provide valid insights to future cash flows.

While non-GAAP financial measures that involve entity-specific adjustments are subjective and often based on estimates, there is evidence that such disclosures are useful to investors. Accordingly, such information should be made available to investors as long as appropriate cautions are made as to the inherent risks of relying upon such unsubstantiated assertions. These entity-specific non-GAAP financial measures, however, should be distinguished from other non-GAAP financial measures that can be drawn from financial statements prepared in accordance with GAAP and which provide a higher degree of comparability and consistency.

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The purpose of a distributable cash measure

The purpose of a distributable cash measure is to provide users with a (non-GAAP) financial measure of the periodic cash from the entity's activities that is potentially available for distribution to unitholders. To be useful in making comparisons and analyses, the measure should be consistent over time, comparable across entities, and transparent as to its composition. Such a measure should also maximize its reliance on objectively determined historical data and minimize subjective judgments and estimates.

Standardized Distributable Cash

To provide a transparent measure of cash available for distribution to unitholders that would be comparable between entities and consistent over time, this guidance recommends the use of a benchmark measure and accompanying disclosures that enable its appropriate interpretation. In view of the lack of a definition for "distributable cash", the confusion over its meaning, and its widespread use, the CPRB believes a new term should be used to label this standardized benchmark measure — hence "Standardized Distributable Cash."

Standardized Distributable Cash is defined as the GAAP measure of cash from operating activities after adjusting for capital expenditures, restrictions on distributions arising from compliance with financial covenants restrictive at the time of reporting, and minority interests.

Other entity-specific adjustments

In order to provide additional information that management believes is appropriate for the determination of levels of distributions, this guidance also contemplates a measure that includes additional items beyond those included in Standardized Distributable Cash. This entity-specific measure reflects adjustments to Standardized Distributable Cash for items outside of Standardized Distributable Cash that may affect the entity's distributions and forms a basis for the actual amount of cash distributed. Such items usually comprise entity-specific adjustments that involve significant management judgment beyond that incorporated in the benchmark measure, for example the seasonal effects of changes in working capital and subjectively determined non-recurring items. Such adjusted amounts would not be

labelled as Standardized Distributable Cash, but would be identified by terminology such as adjusted distribution base, or distributable cash or funds from operations etc.

Related disclosures

This guidance also recommends MD&A disclosure of additional information to provide a context for assessing the amount described as Standardized Distributable Cash. This information addresses various concerns with the measure of Standardized Distributable Cash by having an entity disclose the following:

- an analysis of the relationship between Standardized Distributable Cash and changes in working capital;
- an analysis of the relationship between Standardized Distributable Cash, distributions, and investing and financing activities;
- the entity's definition and recent history of productive capacity, including indicators of key competitive attributes and a reconciliation of capital expenditures to productive capacity, which may be analyzed in terms of growth or maintenance;
- the entity's strategy for managing productive capacity;
- the entity's financing strategy, in order to understand the likely impact of future financing activities;
- the extent of compliance with financial covenants to inform users about the degree of flexibility an entity has to make distributions;
- unit based and ratio disclosures; and
- tax attributes of distributions and the entity's assets.

RECOMMENDATIONS

The following guidance provides recommendations for the measurement and disclosure of Standardized Distributable Cash and related matters. A summary of the recommendations is presented in the Appendix.

A. GENERAL

1. Compliance with guidance

Non-GAAP measures are commonly employed by users to make comparisons between different entities or to establish trends over time for a given entity. This practice exists despite securities regulators' requirements for disclosure of warnings by issuers that such comparisons may not be valid.² The CPRB believes that its recommendations on Standardized Distributable Cash will enable valid comparisons to be made. However, for that to occur, compliance with all the recommendations is necessary. Entities that use a non-GAAP financial measure to convey amounts available for distribution to unitholders should comply in full with these recommendations in all material respects. Otherwise such labels may lead to invalid comparisons and misleading inferences.

An important element of these disclosures is information relating to the relationship between the distributions and the capital expenditures of an entity. A trade-off between current distributions and investments in future productive capacity exists for all entities making distribution decisions regardless of whether they use a non-GAAP measure to discuss cash available for distribution to unitholders. As a consequence, information about the relationship between capital expenditures and productive capacity is critical to interpreting an entity's measure of cash available for distribution. Accordingly, to inform users of the nature of the decisions being made about distributions and investments in productive capacity, the CPRB believes that all flow-through entities should discuss in the MD&A their definition of productive capacity, its history, and their productive capacity management and financing strategies.

² See CSA Staff Notice 52-306.

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- (a) **When a flow-through entity uses a non-GAAP financial measure to report the cash available for distribution to unitholders, the entity should report Standardized Distributable Cash and related disclosures in accordance with these recommendations.**
- (b) **Whether or not a flow-through entity uses a non-GAAP measure to portray cash available for distribution to unitholders, the entity should discuss in its MD&A its definition and history of productive capacity, and its productive capacity management and financing strategies.**
- (c) **Flow-through entities should make a statement that their MD&A is in compliance with this guidance.**

To inform readers of the importance of the completeness of the disclosures, the CPRB recommends that flow-through entities make a statement of compliance in their MD&A. For example, an entity might state the following at the beginning of its MD&A:

This Management Discussion and Analysis is in all material respects in accordance with the recommendations provided in CICA's publication *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*.

2. The definition and disclosure of Standardized Distributable Cash

To achieve the objectives of users, measures of distributable cash should be consistent and comparable across entities. The definition of Standardized Distributable Cash provided herein satisfies these attributes in that it:

- measures cash on a comparable basis, that is, as defined in GAAP;
- uses the consistent starting point of cash flows from operating activities following GAAP;
- reflects for all entities a deduction for total capital expenditures as defined by GAAP; and

- recognizes that certain covenants may limit the amount of Standardized Distributable Cash and that only the parent's interest in a subsidiary's Standardized Distributable Cash should be reflected in consolidated Standardized Distributable Cash.

Standardized Distributable Cash is defined in these recommendations as the periodic cash flows from operating activities as reported in the GAAP financial statements, including the effects of changes in non-cash working capital and any operating cash flows provided from or used in discontinued operations, less adjustments for:

- (a) total capital expenditures as reported in the GAAP financial statements; and**
- (b) restrictions on distributions arising from compliance with financial covenants restrictive at the date of the calculation of Standardized Distributable Cash and limitations arising from the existence of a minority interest in a subsidiary.**

No other adjustments for “one-time” or “unusual items” should be made to cash flows from operating activities in the calculation of Standardized Distributable Cash.

Flow-through entities should disclose each of the elements of the definition of Standardized Distributable Cash separately, in the form of a reconciliation between periodic cash flows from operating activities determined in accordance with GAAP and Standardized Distributable Cash.

The components of Standardized Distributable Cash

For the most part, components of Standardized Distributable Cash will be extracted from the financial statements and should not involve additional issues related to estimates or assumptions beyond those used in the GAAP financial statements.

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Operating Cash Flows

The definition of Standardized Distributable Cash uses cash flows from operating activities prepared in accordance with GAAP. These cash flows take into account amounts provided or consumed by changes in working capital balances³, which may vary for seasonal, cyclical, or non-recurring reasons. While it may be important to communicate the reasons for such variances and their impact on the entity's distribution policy, no adjustment for matters such as these should be included in arriving at Standardized Distributable Cash. It is the objective of Standardized Distributable Cash to provide comparable and consistent information about the actual cash available, which would be that amount of cash after effects of working capital changes. If an entity's actual cash distributions exceed its Standardized Distributable Cash, the entity must have obtained part of the cash for such distributions from some other source. Other measures of distributable cash not strictly based on cash would not identify this situation.

Adjustment for capital expenditures

Adjustments for capital expenditures are restricted to cash outlays in the period for tangible and intangible capital assets, including those major repairs and maintenance items that are capitalized in accordance with GAAP. No adjustment should be made in respect of working capital changes to maintain productive capacity.

In some entities, management may be able to isolate the elements of maintenance capital expenditure and growth capital expenditure in total capital expenditures. While such information may be useful information for analyzing the amount of capital expenditures, the definition of Standardized Distributable Cash in these recommendations employs the total cash amount of capital expenditures in the period to calculate a measure that is based on the actual cash transactions that have occurred. Discussions of maintenance and growth capital expenditures would nonetheless be appropriate in the disclosure concerning productive capacity maintenance.

³ In this context, working capital is generally assumed to mean an entity's trade accounts receivable and inventory, less accounts payable and short-term accrued liabilities. In specific industries, this term might include other amounts, such as work-in-progress and prepaid assets.

It is recognized that there are circumstances when non-capitalized major repairs and maintenance occur cyclically and result in cyclical patterns to operating cash flows. For example, an entity may engage in significant scheduled maintenance activities once every three to five years. This cyclical pattern should be discussed as part of the explanation of the variance in periodic Standardized Distributable Cash (see below), and the manner in which it affects distributed cash. As noted, cyclical events such as these may be addressed by reporting an adjusted distribution base.

Adjustment for financing restrictions caused by debt covenants or limitations arising from minority interests

There are often contractual limitations on the distribution of cash by virtue of a covenant arising in either a parent's or subsidiary's debt agreements. For example a covenant may require an entity to maintain a ratio of specified tangible assets and working capital to long-term debt. When a covenant is restrictive in the period and it has affected distributions, an adjustment should be made to reduce Standardized Distributable Cash.

Consolidated cash flows from operating activities include the entire operating cash flows of subsidiaries even though distributions from the subsidiary may have to be shared with minority interests. Likewise, capital expenditures of a non-wholly owned subsidiary include a portion attributable to the minority interest. Accordingly, when a minority interest exists, consolidated Standardized Distributable Cash should reflect only the parent's interest in the subsidiary's Standardized Distributable Cash. The basis for determining the parent's interest in the subsidiary's Standardized Distributable Cash should be disclosed.

No other adjustments

In order to provide a measure that is comparable from entity to entity and consistent between periods, no other adjustments should be made to cash flows from operating activities in arriving at Standardized Distributable Cash. Entity specific adjustments may be made in the calculation of the adjusted distribution base, discussed in further detail below.

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3. Adjustments beyond items in Standardized Distributable Cash: non-recurring items, non-cash items and Funds from Operations

One characteristic of some non-GAAP measures is the inclusion of management's adjustments for entity-specific issues not contemplated in a standard measurement that focuses on comparability across entities and consistency over time.

There may be a cyclical or periodic nature to the pattern of cash flows generated from operating activities and from investing activities. In certain seasonal industries, inventory is built up (consuming cash) in the summer months, and is sold (producing cash) in the winter. In other industries, routine maintenance requires a multi-year cycle of capital expenditures on compressors or capacity rebuilds that may also require capacity to be taken off-line for extended periods. The relative predictability of the pattern of such cash flows often motivates management to describe them not in terms of the actual historical cash patterns, but after adjusting for the cyclical or seasonal components of operating and investing activities.

Similarly, management may wish to communicate the special or non-recurring nature of certain transactions that in their view should not be part of a user's reasonable expectation of the future cash flows. For example, restructuring charges are frequently described as non-recurring. Other examples include investing or financing activities not in the normal course of business, such as the proceeds from major asset dispositions or refinancing transactions. Entity-specific adjustments may also include significant commitments that an entity may consider in determining the amount of its distributions.

When an entity wishes to make entity-specific adjustments for items such as these, they should be identified separately from the elements of Standardized Distributable Cash. They should be reported separately and the adjusted amount presented as an adjustment to the entity's distribution base.

When additional entity-specific adjustments are made that are outside the definition of Standardized Distributable Cash, these amounts should be separately disclosed after the computation of Standardized Distributable Cash and the adjusted amount reported as an adjusted distribution base.

When an entity reports an adjusted distribution base, the components of each adjustment should be disclosed and analyzed. For example, when an adjustment is made for working capital, the elements of the adjustment, such as seasonality and growth, should be analyzed by their nature and the impact of each element on working capital explained.

The adjusted distribution base may be labeled in a variety of ways, including “distributable cash” and “funds from operations”.

Funds from Operations and Adjusted Funds from Operations

Measures such as “funds from operations”, and “adjusted funds from operations” exclude some or all of the changes in working capital that are included in the calculation of cash flows from operating activities. In effect, they incorporate non-cash elements in a cash measure. So the concept of funds from operations is not consistent with cash, and it should not be reported as a sub-total between cash flows from operating activities and Standardized Distributable Cash, both cash measures.

Management may recommend rates of cash distributions based upon the performance of such non-cash measures. Funds from operations and adjusted funds from operations are examples of a measure that may reflect management’s insights as to the appropriate distributions of amounts derived from Standardized Distributable Cash, and as such they could be appropriately presented as an adjusted distribution base.

Distribution levels based on measures that exclude working capital changes would, to the extent the working capital change has consumed cash, have to be funded by some other source than cash from operations. In that event, the entity should explain the source of the additional funds.

B. RELATIONSHIP OF STANDARDIZED DISTRIBUTABLE CASH TO THE ENTITY'S OPERATIONS AND INVESTING AND FINANCING ACTIVITIES

An entity's Standardized Distributable Cash reflects its cash flows from operating activities and consequently may be affected by discretionary decisions that defer or advance the timing of those flows. In order for the investor to understand the significance of the periodic Standardized Distributable Cash, the entity should provide an analysis of the effect of deferring or advancing discretionary operating cash flows, both short and long-term, on Standardized Distributable Cash.

Deferred or advanced items may be short term in nature, such as the payment of accounts payable or the payment of accruals, for example, performance bonuses paid in a subsequent period. The cash consequences of other operating transactions may also be accelerated or deferred on a long-term basis. A common example is the pension contribution related to the periodic pension expense. Funding such amounts may involve a significant degree of management discretion.

The amount of many periodic operating cash flows is subject to a similar degree of management discretion. Other examples of long-term operating items that are subject to deferrals resulting from some degree of managerial discretion are asset retirement obligations, free rent arrangements, and deferred interest payments on discounted long-term obligations. These items are non-cash operating transactions until funded. The funding of such amounts may be determined by contract, such as free rent obligations which are deferred until rent is paid, or by the conclusion or termination of a contract, such as accrued interest on a debt instrument originally issued at a discount, which is paid at redemption. Such discretionary management of these operating items may have a significant effect on the entity's periodic cash flows from operating activities and its Standardized Distributable Cash.

The effect of such discretionary items on cash flows from operating activities and on periodic Standardized Distributable Cash should be explicitly disclosed. To the extent that changes in short-term obligations occur, they should be analyzed in accordance with

recommendation 4 below. To the extent that changes in long-term operating obligations occur, they should be analyzed in accordance with recommendation 5 below.

In addition to being affected by the discretionary management of operating activities, distributions, funded in whole or in part by Standardized Distributable Cash, may compete with or be complemented by other investing and financing transactions. Accordingly, for the investor to understand the significance of the periodic Standardized Distributable Cash, the entity should also provide an analysis of the effect of investing and financing transactions on its distributions.

4. Analysis of the relationship between Standardized Distributable Cash and changes in working capital

The starting point of the Standardized Distributable Cash measure is the periodic amount of cash flows from operating activities. Changes in working capital may be a significant source of variation in such operating cash flows. Users should understand the extent to which changes in an entity's working capital have produced or consumed cash.

To provide a context for such changes, it is necessary to have some benchmark data so that the effects of say, seasonality, can be distinguished from those of growth, or, in challenging times, excess investments in working capital. To enable such analyses, which are important to the determination of expected future cash flows from operations, an entity should disclose its history of seasonality in working capital, if any, and its policies or benchmarks for days sales outstanding in receivables, inventory turnover, and similar matters that are germane to the analysis of working capital movements. Such information would enable a user to assess the impact of seasonality on interim Standardized Distributable Cash measures. Annualized benchmarks for working capital management would enable a user to determine if an entity was consuming or generating cash through expected or unexpected growth in working capital.

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Flow-through entities should disclose:

- (a) **their working capital policies, specifically identifying:**
 - **any history of seasonality in working capital requirements; and**
 - **benchmarks for days sales in receivables, inventory turnover, and other working capital items; and**
- (b) **an analysis of periodic changes in the working capital and their effects on Standardized Distributable Cash.**

If short-term items in working capital affect an entity's distributions, these amounts should be quantified and disclosed, and, when an adjusted distribution base is reported, recognized in the entity's calculation of that base.

The Standardized Distributable Cash calculation is only comparable to other entities' Standardized Distributable Cash measures if it is consistently computed on a cash basis. Nonetheless, if an entity's distributions are affected by transactions that are embedded in its working capital positions, such as payables and receivables that are very short-term in nature, those amounts should be reflected in the entity's calculation of its adjusted distribution base.

5. Analysis of the relationship between Standardized Distributable Cash, distributions, and investing and financing activities

Financing and investing activities (other than capital expenditures) are not an element of the calculation of Standardized Distributable Cash. They either provide complementary sources of cash or may compete with distributions as uses for the Standardized Distributable Cash. For example, outside debt financing may fund all or a portion of the capital expenditures of an entity, and hence complement the Standardized Distributable Cash. Conversely, the repayment (rather than refinancing) of maturing debt or lines of credit may compete with cash distributions to unitholders as a use of Standardized Distributable Cash.

In effect, Standardized Distributable Cash is a reorganization of the GAAP Statement of Cash Flows to reflect the interaction between an entity's cash flows from operating activities and its capital expenditures, the latter outflows being the entity's periodic investment in

productive capacity. Cash distributions to unitholders are only one potential use of the remaining cash: understanding the entity's policies and actions with respect to the other sources and uses of cash provides a more complete basis for the analysis of Standardized Distributable Cash.

Flow-through entities should provide an analysis of the relationship between periodic amounts of Standardized Distributable Cash, distributions, and investing and financing activities, including changes in long-term unfunded operating obligations. When such activities have a significant impact on cash that is distributable to unitholders, for example, when investing activities generate cash from the sale of capital assets or when financing activities require the significant outflow of cash, their impact should be reflected in an analysis of the use of the Standardized Distributable Cash.

The relationship between the periodic amount of Standardized Distributable Cash and changes in long-term unfunded operating obligations that ultimately will result in future operating outflows or inflows should be explicitly addressed. In particular, the amount and expected timing of the reversal of any significant deferrals of unfunded operating transactions, such as pension contributions, ARO's, or accrued interest in each of the next five years, should be specifically identified.

Cash distributions include not only distributions directly to unitholders but also unit repurchases through normal course issuer bids or any other unit transaction executed in exchange for cash in the normal course of business.

The specific discussion of unfunded operating obligations recognizes that there are embedded financing activities in amounts that are conventionally recorded in the GAAP financial statements as operating activities. These include pension contributions that result from short-run operating activities but which may be funded over a longer time period. A similar situation involves the incurrence of long-term asset retirement obligations that are essentially financed by the entity until cashed out. Free rent in leasing situations is essentially the landlord financing the tenants' initially "free" rent on a long-term

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basis, i.e. the payback being over the period of the cash lease payments. Similarly zero-coupon bonds are not interest free, but provide the investor with compound interest at the time of repayment of the face amount of the obligation.⁴ The analysis should explain the extent to which such obligations have been deferred from the current period and when such deferrals are expected to affect Standardized Distributable Cash in the future. In particular, the analysis should identify the amounts expected to be needed to fund these obligations and the amounts expected to be paid in each of the next five years. This disclosure would be similar to that required for conventional financing transactions.

C. ADDITIONAL DISCLOSURES TO ACCOMPANY STANDARDIZED DISTRIBUTABLE CASH

Standardized Distributable Cash is understandable by users only if its context is understood. Specifically, the following disclosures are recommended to provide a context for the comprehension of an entity's periodic Standardized Distributable Cash: information on the entity's productive capacity (including its history and the strategy for its management); its debt management strategy (including unfunded operating obligations); information about compliance with debt covenants; per unit and ratio disclosures; and information about the entity's tax attributes. This additional information is essential to understanding relative amounts of Standardized Distributable Cash and the level of distributions.

6. Definition and history of productive capacity

To recognize the cost of the consumption of capital assets, GAAP provides for measures of depreciation, depletion and amortization in arriving at net income. Standardized Distributable Cash does not include a provision for the use of capital assets. Rather, it deducts the total amount of capital expenditures in the period to recognize the entity's use of cash to support its productive capacity. To understand the consequences of the amount of cash used in capital expenditures

⁴ See for example the requirement of EIC 47 to classify the repayment of interest charges reflected in the repayment of discounted obligations as operating outflows in the period of payment of the principal.

(rather than in distributions), the recommendations require a discussion of the impact of the capital expenditures on an entity's productive capacity.

Conceptually, the periodic cost that an entity would incur to simply maintain its productive capacity could be provided instead of the actual amount of capital expenditures. However, such measures suffer from several potential defects. First, they are inherently forward looking, and therefore are generally incompatible with the institutional framework which challenges such forward-looking information. Second, such measures may not reflect the strategy of the entity, which may be not to replace or maintain the capacity consumed. Finally, it may be difficult to discriminate between the amounts needed to maintain an entity's capacity and to grow the entity's capacity to produce goods and services in the future, particularly if the nature of such goods and services changes over time.

While a provision for productive capacity maintenance may not be capable of being expressed in financial terms, it is nonetheless necessary to have some information to assess whether the cash the entity expends on capital expenditures is in fact maintaining, growing, or otherwise transforming the entity's productive capacity. An explicit measure of the productive capacity of the entity, together with an historical record of changes in that capacity, would provide the user with the ability to assess whether the entity's potential to produce future operating cash flow has been maintained or otherwise transformed by its capital expenditures.

This is unlikely to be a one-size-fits-all analysis. There are many dimensions to productive capacity, including comparative costs of production, vintage of technology, and flexibility to produce alternative outputs. Those dimensions that describe the competitive nature of productive capacity are usually the most important to investors.

Instead of requiring a financial measure of a provision to maintain productive capacity, these recommendations mandate disclosure of the entity's physical measure of productive capacity, by segment if appropriate. Entities can express the notion of productive capacity in a number of different ways, varying by industry and entity, although attributes are generally expressed in physical, technological, and economic terms. Intangible as well as tangible assets should be included

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in the notions of productive capacity. Information should include not only physical measures of productive capacity, but also indicators of the relative competitiveness of the capacity, as expressed in cost per unit output, vintage, or other competitive attribute.

The periodic change in productive capacity should be reconciled to the entity's capital expenditure element of its Standardized Distributable Cash calculation. Specifically a recent history of the entity's productive capacity should be provided to enable a reader to assess whether productive capacity, as defined by the entity, has been growing, maintained, or in decline.

Flow-through entities should disclose information concerning the productive capacity of the entity, or its segments, including:

- (a) a definition and measure of productive capacity that reflects the principal business operations, or that of their significant segments, if appropriate. This discussion should include relevant physical, technological and economic attributes;**
- (b) a recent history of the measure of productive capacity as defined, identifying significant changes in productive capacity, separating those arising through acquisitions and dispositions from those arising from capital expenditures;**
- (c) identification of any intangible assets, such as customer contracts, long-term purchase and supply agreements, and patents or trade marks that are a significant input into the productive activities of an entity, whether or not they are recorded for financial statement purposes;**
- (d) an analysis of the historical record of both total productive capacity and fully diluted per unit productive capacity and trends for such capacity; and**
- (e) a reconciliation of the change in productive capacity in the period with the period's total capital expenditure.**

In manufacturing entities, productive capacity may be measured in units of production per unit time, such as tons of output/day. In service industries, the measure may be one of physical capacity, such as ton-miles or seat-miles, or some other measure of through-put. In the

resource sector, it would be proved and probable reserves or barrels of oil equivalent (BOE) per day. In real estate it would be square footage of a real estate property. In retail distribution, it would be store measures. Such measures should represent the fundamental units of production enabling an entity to competitively produce output.

To understand the relationship between productive capacity and operating cash flow potential, such data will need to be supplemented with financial measures that provide additional insights into the economic characteristics of the capacity, for example cost per ton of output, or similar indicators of the vintage or competitiveness of the capacity. All these measures provide an indication of the extent to which the entity can generate throughput or production in the broadest sense. The productive capacity history should be put into context by discussion of inherent risks in that measure of capacity. For example in the energy sector, when an entity elects to define productive capacity in terms of volumes of reserves, the definition and history of productive capacity may be accompanied by or cross-referenced to a sensitivity analysis that sets out the impact on reserves of changes in oil and gas prices.

For many entities, the definition of productive capacity will need to be complemented with a discussion of related intangibles. For example, the information technology infrastructure will often be a significant determinant of an entity's competitiveness. Any data-intensive operation will likely have its capacity affected by this element of productive capacity. Another example is a long-term fixed-price supply contract that determines sales revenues for a significant portion of an entity's output and that on expiry or renewal, could significantly change the entity's operating cash flows. The remaining term of such a contract may be a critical attribute of its capacity, as well as the periodic volumes and prices of output the contract specifies.

7. Productive capacity management strategy

Capital expenditures compete with distributions for the use of an entity's cash. An investor's expectations of future cash flows will be affected by the entity's strategy for managing its productive capacity. The productive capacity management strategies in flow-through entities may range from the simple maintenance of a basic service (e.g. simply maintain rental premises) to growth strategies that enable the entity to grow cash flows through the deployment of the latest

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technology. The strategy may be opportunistic: capacity is maintained when it is affordable and expected to yield positive returns and permitted to deplete when market conditions indicate that it would not be fruitful to maintain. In some circumstances, the entity's strategy may be not to replace capacity at all, but to permit the capacity to be consumed. Any one of these strategies may make sense in the context of a flow-through entity, and it is impossible to understand the implications of an entity's Standardized Distributable Cash that is measured net of its capital expenditures without a statement of its strategy on management of productive capacity.

Flow-through entities should provide:

- (a) a clear statement of their strategy with respect to productive capacity management, their activities to implement this strategy, and the risks related to its accomplishment. The diminishment or expansion of productive capacity from such factors as production or use, technological change and obsolescence, changing input or output prices, and the effects of changes in information technology, should be identified, as well as the entity's planned response to such factors;**
- (b) the strategy with respect to the management of intangible assets that affect the ability of that productive capacity to produce operating cash flows; and**
- (c) the potential risks associated with such strategies, such as the ability to replicate the capacity, emphasizing the timing as well as the effect of such risks.**

When different business segments have different strategies, each segment's strategy should be explained.

Such strategies may include "opportunistic" approaches, i.e. capacity management strategies that are contingent on product and capital asset prices, financing and market conditions.

For some entities, such as mining operations, the productive capacity management strategy discussion might describe the entity's strategy for the exploration and development of new reserves. In some circumstances, the ability to develop new capacity on a competitive basis

may be subject to considerable uncertainty, such as when finding costs per BOE are highly variable. In those circumstances, the historical record of capacity and of the results of previous capital expenditure programs would be highly useful.

To the extent possible, the discussion of productive capacity management strategy should include an outlook for the foreseeable future, but not necessarily in the form of a financial outlook. In those businesses where cyclical maintenance occurs only once every few years, it would be appropriate to provide an explanation of the maintenance cycle and its impact on operating cash flows and capital expenditures. This should include the timeframe contemplated by the outlook, which will likely not exceed five years.

Different productive capacity management strategies will involve different risks. Examples include the risk of technological change, obsolescence, and changes in prices in product or input prices that challenge the competitive position of an entity's capacity. For some circumstances, the resolution of an uncertainty may take a considerable period of time. For example a long-term fixed price supply contract may not be renewable for many years. Entities should provide a discussion of both the likelihood and timing that a risk related to maintaining productive capacity will mature as well as the consequence of a matured risk and risk mitigation strategies.

8. Financing strategy

While financing transactions do not explicitly enter into the measure of Standardized Distributable Cash, such transactions may complement or compete with distributions as a use of Standardized Distributable Cash. Users need to understand the entity's strategy for debt management and the risks associated with the strategy in order to formulate expectations of future cash distributions. Some entities may plan to continually roll over debt as it matures, while others may plan to discharge debt in the normal course of business. In some industries, an entity's financing strategy may largely depend on external factors, such as the impact of commodity prices on the value of the entity's asset base. In other circumstances, an entity may plan to amortize the principal amounts of its debts as its asset base depletes over time. In yet other circumstances, the debt management strategy may

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not stipulate specific targets, e.g. debt/equity ratios, but rather consider the terms and amounts of funds available and needed at any given time.

As noted above, some entities may have significant amounts of long-term unfunded operating obligations, such as pension plan liabilities, asset retirement obligations and free rent that may also require the allocation of future operating cash flows. In circumstances such as these, the entity should discuss its strategy for funding these obligations as part of the debt management strategy. This would include quantification of the amounts involved, time period over which funding is likely to occur, and the planned source for funding, particularly those amounts that are expected to be due or payable within the next five years.

Each strategy has a different impact on an investor's expectations of an entity's distributions. Accordingly, entities should discuss their debt management strategy for the next five years. As well, entities should discuss their recent history of the issuance and repayment of debt. This analysis should be reported by segment when leverage varies.

Flow-through entities should discuss their strategy for managing the debt element of their financial capital structure for the next five years. This would include:

- **the manner and time period over which the entity intends to repay or refinance existing obligations; and**
- **the extent to which debt financing may complement or compete with distributions.**

The debt management strategy discussion should include income tax liabilities and unfunded operating obligations, such as unfunded pension obligations, asset retirement obligations, and free rent.

Flow-through entities should explain the relationship, if any, of their productive capacity management strategy with that of their debt management strategy indicating the risks to cash distributions that arise from that relationship.

As noted above, an entity's debt management strategy may impact its distributions and thus the relationship between distributions and Standardized Distributable Cash, generally referred to as its pay-out ratio. Accordingly, any effect of the entity's recent debt history on distributions should be discussed as part of the discussion of the pay-out ratio (see 10 below).

9. Extent of compliance with financial covenants at the parent or subsidiary levels

Debt obligations may contain provisions that restrict the discretionary uses of cash under certain conditions and accordingly limit the entity's financial flexibility and potentially its distributions. These limitations may arise because of financial covenants of the parent entity, or financial covenants of a subsidiary that limit distributions to a parent even though consolidated operating cash flows are positive. Such limitations are important for users to know when trying to establish the degree of flexibility an entity has to make distributions.

Flow-through entities should disclose the significant terms of their financial covenants and the extent to which they meet or exceed the most restrictive covenants that would affect their ability to distribute cash to unitholders, or in the case of incorporated subsidiaries, shareholders. This would apply to covenants in effect at both the parent and subsidiary entities, and apply to intra-entity as well as third party obligations.

The terms discussed should include:

- (a) the significant conditions of default that would accelerate the maturity of the obligation and/or limit an entity's ability to pay distributions to unitholders; and**
- (b) the extent to which the entity exceeds or is not in compliance with the threshold for such conditions, as at the balance sheet date, or, if relevant, later.**

Entities should provide details of default triggers on debt covenants whether or not they are restrictive at the time of reporting, and any other potential restrictions on the distribution of cash by virtue of

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covenants, as well as the extent of the entity's degree of compliance with such provisions as of the date of the MD&A. Users can then make their own assessment of the likelihood of default.

10. Per Unit and ratio disclosures

Users want to understand the per unit amounts of Standardized Distributable Cash in a period and the quantitative relationship between distributions and Standardized Distributable Cash, commonly known as the "pay-out ratio."

Flow-through entities should:

- (a) disclose Standardized Distributable Cash in total, on a weighted average per unit basis, and on a fully diluted per unit basis;**
- (b) compute and report a pay-out ratio, where the numerator is the aggregate cash distributions of the period including the amounts dispersed on the repurchase of units and the denominator is Standardized Distributable Cash of the period; and**
- (c) disclose the cumulative cash distributions since inception and cumulative Standardized Distributable Cash over the same period of time and compute and report a cumulative pay-out ratio.**

When an entity discloses an adjusted distribution base, it should also report these per unit and ratio disclosures for the adjusted distribution base.

Disclosure of Standardized Distributable Cash in total and on a per unit basis

Information about the weighted average Standardized Distributable Cash per unit and per fully diluted unit enables users to understand the impact of the issuance of units and the impact of all potentially dilutive units on Standardized Distributable Cash. A fully diluted calculation should be based on the effect of potential issuances of units on the Standardized Distributable Cash per unit calculation.

Disclose cumulative Standardized Distributable Cash and distributed cash

Given the potential volatility of Standardized Distributable Cash, the relationship between Standardized Distributable Cash and the actual rates of distribution may vary as the result of seasonal factors, non-recurring items, and other random factors. Disclosing both an entity's cumulative Standardized Distributable Cash and cumulative distributions since inception accumulates the effects of short-term swings such as those arising from seasonal changes in working capital. If such items are truly seasonal or cyclical, they should effectively offset each other over time. This should be evident from the long-term pay-out ratio. In addition, trailing twelve-month measures may be calculated to eliminate the most recent seasonal effects.

Pay-out ratios

A pay-out ratio is employed to eliminate the effects of size of different entities' Standardized Distributable Cash and distributions and so enable comparisons of the relative distribution levels between entities. On a periodic basis (quarterly and year-to-date) the payout ratio should be computed as the ratio of aggregate distributions to the aggregate Standardized Distributable Cash. Distributions would include cash payments to unitholders as well as unit redemptions or repurchases. As a long-run measure, the cumulative pay-out ratio should provide a longer-term perspective on the relationship between Standardized Distributable Cash and cash distributions.

Any variance between the short-term pay-out ratio and the long-term ratio or any target ratio should be explained. The variance between consecutive periods should also be explained. This explanation would include a discussion of the impact of any significant operating, financing and investing activities or changes in strategies that might change the reported ratios.

Time period for determining cumulative amounts

Whenever possible, disclosure should be made of cumulative Standardized Distributable Cash and cumulative distributions since inception. When this information is not readily available, for example on initial adoption of this guidance, the cumulative period should be the lesser of 10 years or the life of the entity.

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Other disclosures

When an entity reports an adjusted distribution base, it should discuss the historical relationship and trend between distributions and that base.

11. Tax attributes of distributions and the entity's assets

Historically, a significant motivation for the use of flow-through vehicles is their ability to minimize the incidence of taxation by distributions of taxable income to investors. Flow-through entities can distribute their taxable income and avoid a tax liability, but the extent to which distributions are potentially taxable in the hands of the unitholder can only be determined through disclosure. Hence an entity should disclose information about the tax attributes of distributions as soon as they are reasonably determinable.

In addition, to the extent that an entity has operating cash flows that are not sheltered from income tax, there will be a higher motivation to pay out such cash flows in the form of distributions.

Flow-through entities should:

- (a) disclose the tax attributes of distributions; and**
- (b) disclose, quantify, and discuss significant differences between the tax bases of significant classes of assets and the carrying values of those assets that may shelter future operating cash flows from tax and affect future distributions.**

The tax bases of an entity's assets will frequently determine the extent to which future distributions may be sheltered from income tax or potentially be subject to tax. Accordingly, if there are significant differences between the book and tax values of assets that may affect the nature and timing of taxable income to the entity and to its unitholders, that information should be disclosed. When a flow-through entity anticipates a significant change in its tax situation in the foreseeable future, this should not result in an adjustment to Standardized Distributable Cash, but should nevertheless be disclosed as it will have an impact on future distributions.

APPENDIX

SUMMARY OF RECOMMENDATIONS

A. GENERAL

1. Compliance with guidance

- (a) When a flow-through entity uses a non-GAAP financial measure to report the cash available for distribution to unitholders, the entity should report Standardized Distributable Cash and related disclosures in accordance with these recommendations.
- (b) Whether or not a flow-through entity uses a non-GAAP measure to portray cash available for distribution to unitholders, the entity should discuss in its MD&A its definition and history of productive capacity, and its productive capacity management and financing strategies.
- (c) Flow-through entities should make a statement that their MD&A is in compliance with this guidance.

2. The definition and disclosure of Standardized Distributable Cash

Standardized Distributable Cash is defined in these recommendations as the periodic cash flows from operating activities as reported in the GAAP financial statements, including the effects of changes in non-cash working capital and any operating cash flows provided from or used in discontinued operations, less adjustments for:

- (a) total capital expenditures as reported in the GAAP financial statements; and
- (b) restrictions on distributions arising from compliance with financial covenants restrictive at the date of the calculation of Standardized Distributable Cash and limitations arising from the existence of a minority interest in a subsidiary.

No other adjustments for “one-time” or “unusual items” should be made to cash flows from operating activities in the calculation of Standardized Distributable Cash.

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Flow-through entities should disclose each of the elements of the definition of Standardized Distributable Cash separately, in the form of a reconciliation between periodic cash flows from operating activities determined in accordance with GAAP and Standardized Distributable Cash.

3. Adjustments beyond items in Standardized Distributable Cash: non-recurring items, non-cash items and Funds from Operations

When additional entity-specific adjustments are made that are outside the definition of Standardized Distributable Cash, these amounts should be separately disclosed after the computation of Standardized Distributable Cash and the adjusted amount reported as an adjusted distribution base.

When an entity reports an adjusted distribution base, the components of each adjustment should be disclosed and analyzed. For example, when an adjustment is made for working capital, the elements of the adjustment, such as seasonality and growth, should be analyzed by their nature and the impact of each element on working capital explained.

B. RELATIONSHIP OF STANDARDIZED DISTRIBUTABLE CASH TO THE ENTITY'S OPERATIONS AND INVESTING AND FINANCING ACTIVITIES

4. Analysis of the relationship between Standardized Distributable Cash and changes in working capital

Flow-through entities should disclose:

- (a) their working capital policies, specifically identifying:**
- any history of seasonality in working capital requirements; and**

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- benchmarks for days sales in receivables, inventory turnover, and other working capital items; and
- (b) an analysis of periodic changes in the working capital and their effects on Standardized Distributable Cash.

If short-term items in working capital affect an entity's distributions, these amounts should be quantified and disclosed, and, when an adjusted distribution base is reported, recognized in the entity's calculation of that base.

5. **Analysis of the relationship between Standardized Distributable Cash, distributions, and investing and financing activities**

Flow-through entities should provide an analysis of the relationship between periodic amounts of Standardized Distributable Cash, distributions, and investing and financing activities, including changes in long-term unfunded operating obligations. When such activities have a significant impact on cash that is distributable to unitholders, for example, when investing activities generate cash from the sale of capital assets or when financing activities require the significant outflow of cash, their impact should be reflected in an analysis of the use of the Standardized Distributable Cash.

The relationship between the periodic amount of Standardized Distributable Cash and changes in long-term unfunded operating obligations that ultimately will result in future operating outflows or inflows should be explicitly addressed. In particular, the amount and expected timing of the reversal of any significant deferrals of unfunded operating transactions, such as pension contributions, ARO's, or accrued interest in each of the next five years, should be specifically identified.

**C. ADDITIONAL DISCLOSURES TO ACCOMPANY
STANDARDIZED DISTRIBUTABLE CASH**

6. Definition and history of productive capacity

Flow-through entities should disclose information concerning the productive capacity of the entity, or its segments, including:

- (a) a definition and measure of productive capacity that reflects the principal business operations, or that of their significant segments, if appropriate. This discussion should include relevant physical, technological and economic attributes;**
- (b) a recent history of the measure of productive capacity as defined, identifying significant changes in productive capacity, separating those arising through acquisitions and dispositions from those arising from capital expenditures;**
- (c) identification of any intangible assets, such as customer contracts, long-term purchase and supply agreements, and patents or trade marks that are a significant input into the productive activities of an entity, whether or not they are recorded for financial statement purposes;**
- (d) an analysis of the historical record of both total productive capacity and fully diluted per unit productive capacity and trends for such capacity; and**
- (e) a reconciliation of the change in productive capacity in the period with the period's total capital expenditure.**

7. Productive capacity management strategy

Flow-through entities should provide:

- (a) a clear statement of their strategy with respect to productive capacity management, their activities to implement this strategy, and the risks related to its accomplishment. The diminishment or expansion of productive capacity from such factors as production**

or use, technological change and obsolescence, changing input or output prices, and the effects of changes in information technology, should be identified, as well as the entity's planned response to such factors;

- (b) the strategy with respect to the management of intangible assets that affect the ability of that productive capacity to produce operating cash flows; and
- (c) the potential risks associated with such strategies, such as the ability to replicate the capacity, emphasizing the timing as well as the effect of such risks.

When different business segments have different strategies, each segment's strategy should be explained.

Such strategies may include "opportunistic" approaches, i.e. capacity management strategies that are contingent on product and capital asset prices, financing and market conditions.

8. Financing strategy

Flow-through entities should discuss their strategy for managing the debt element of their financial capital structure for the next five years. This would include:

- the manner and time period over which the entity intends to repay or refinance existing obligations; and
- the extent to which debt financing may complement or compete with distributions.

The debt management strategy discussion should include income tax liabilities and unfunded operating obligations, such as unfunded pension obligations, asset retirement obligations, and free rent.

Flow-through entities should explain the relationship, if any, of their productive capacity management strategy with that of their debt management strategy indicating the risks to cash distributions that arise from that relationship.

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9. Extent of compliance with financial covenants at the parent or subsidiary levels

Flow-through entities should disclose the significant terms of their financial covenants and the extent to which they meet or exceed the most restrictive covenants that would affect their ability to distribute cash to unitholders, or in the case of incorporated subsidiaries, shareholders. This would apply to covenants in effect at both the parent and subsidiary entities, and apply to intra-entity as well as third party obligations.

The terms discussed should include:

- (a) the significant conditions of default that would accelerate the maturity of the obligation and/or limit an entity's ability to pay distributions to unitholders; and
- (b) the extent to which the entity exceeds or is not in compliance with the threshold for such conditions, as at the balance sheet date, or, if relevant, later.

10. Per unit and ratio disclosures

Flow-through entities should:

- (a) disclose Standardized Distributable Cash in total, on a weighted average per unit basis, and on a fully diluted per unit basis;
- (b) compute and report a pay-out ratio, where the numerator is the aggregate cash distributions of the period including the amounts dispersed on the repurchase of units and the denominator is Standardized Distributable Cash of the period; and
- (c) disclose the cumulative cash distributions since inception and cumulative Standardized Distributable Cash over the same period of time and compute and report a cumulative pay-out ratio.

When an entity discloses an adjusted distribution base, it should also report these per unit and ratio disclosures for the adjusted distribution base.

11. Tax attributes of distributions and the entity's assets

Flow-through entities should:

- (a) disclose the tax attributes of distributions; and**
- (b) disclose, quantify, and discuss significant differences between the tax bases of significant classes of assets and the carrying values of those assets that may shelter future operating cash flows and affect future distributions.**

