CA magazine

www.camagazine.com

August 2010

MIDAS TOUCH

A CA discovers an El Dorado in West Africa P.18

Benoit La Salle, president and CEO of mining company SEMAFO Inc.

Publications Mail Agreement No.40062437 R09829

CA magazine

August 2010 Volume 143, No. 6

CAmagazine is published 10 times a year (with combined issues in January/February and June/July) by the Canadian Institute of Chartered Accountants. Opinions expressed are not necessarily endorsed by the CICA. Copyright 2010.

Toronto: 277 Wellington St. West, Ontario M5V 3H2
Tel. (416) 977-3222, TDX 103, Fax (416) 204-3409.
Montreal: 680 Sherbrooke St. West, 17th floor, Quebec H3A 2S3. Tel. (514) 285-5002, Fax (514) 285-5695.
Subscription inquiries: Tel (416) 977-0748 or 1-800-268-3793
Fax (416) 204-3416
On the Internet: http://www.camagazine.com
E-mail: camagazine@cica.ca
letters.editor@cica.ca
advertising.camagazine@cica.ca

Annual subscription rates: $28 for members; $25 for CA students; $28 for non-members. Single copy, $4.75. Outside Canada: $72 for a one-year subscription; $6.50 for a single copy. GST of 5% applies to all domestic subscriptions. For subscription inquiries, call (416) 977-0748 or 1-800-268-3793 from 9 a.m. to 5 p.m., Monday through Friday; fax: (416) 204-3416. GST registration number R106861578. Publications Mail Agreement No. 40062437. PRINTED IN CANADA: Return undeliverable Canadian addresses to: *CAmagazine*, Canadian Institute of Chartered Accountants, 277 Wellington Street West, Toronto, Ontario. M5V 3H2. *CAmagazine* is a member of the Canadian Business Press and Magazines Canada.

The gold standard: communication

Even if companies are ready for IFRS, they need to make sure their stakeholders are familiar with the new standards

Canadian publicly accountable entities have devoted considerable financial and human resources over the past few years to meet the January 2011 deadline for the transition to international financial reporting standards (IFRS). But that may not be enough: a recent KPMG survey shows that a majority of financial analysts — whose comments drive stock performance — are not fully familiar with IFRS and are not much interested. As unpleasant a surprise as this is, it sends out a powerful message. Companies need to communicate their state of readiness, accounting choices and other key financial information to all their stakeholders to avoid negative impact. In "Stakeholders and IFRS," p. 26, John Lorinc reports on what firms are doing or should be doing to address the situation.

Occasionally, we hear about CAs who seize opportunities not in their normal sphere of work. Benoit La Salle is one such CA. He quit his Montreal public practice firm to launch a gold mining firm operating in West Africa. In "A mine of goodwill," p. 18, writer Yan Barcelo tells La Salle's story, which started with a humanitarian visit to Africa in 1994 as a board member of Plan (formerly Foster Parents Plan).

Our Regulars section features articles on taxation for small business (p. 30), taxation (p. 33), standards (p. 36) and fraud (p. 39).

In this month's Netwatch, Jim Carroll looks at the location intelligence industry, based on GPS technologies. The industry, he writes, is changing business models on the consumer and the corporate sides at a dramatic pace (p. 12). Remember the proposed bank mergers quashed by Ottawa 12 years ago? They should be a reminder, writes Marcel Côté in Outlook (p. 48), that bigger rarely means better and that investors should be wary of look-alike mergers.

I would like to welcome David Malamed, CA•IFA, CPA, CFF, CFE, CFI and a partner in forensic accounting at Grant Thornton in Toronto. With this issue, Malamed will be *CAmagazine*'s technical editor for Fraud, replacing Roddy Allan, whom I thank for his contribution over the past eight years.

Finally, I would also like to extend my thanks to the *CAmagazine* staff, the CICA, all the contributors and you, the readers, for your support during my 19 years with the magazine — as French editor in Montreal and editor-in-chief for the past 14 years. The profession has changed dramatically over this period, and your professional publication has tried to mirror these changes to help you understand and navigate them efficiently and effectively. By the time you read this, I will have joined Financial Executives International Canada. Thank you again for the opportunity to serve you all these years.

Christian Bellavance, Editor-in-chief

CA magazine

Contents

PHOTOGRAPHY BY LEDA + ST. JACQUES/KLIXPIX

regulars

news

professional directory

Breaking news, tax updates, job postings, archives, more articles: you'll find them all at **www.CAmagazine.com**

Mailbox

CONTINUING EDUCATION

I read "A portfolio that adds value" (Personal financial planning, April) with interest. My 20 years' experience as a financial planner correspond with the findings of Deborah Wetmore in her excellent article. More than ever, people are looking for objective and independent advice in investing and insurance. However the statement, "CAs are the right ones to offer a second opinion" should be "CAs with a financial planning designation are the right ones to offer a second opinion." While not clear in the article, the CAs quoted, Tim Coakwell and Karen Slezak, have the CFP designation.

Unless programs have changed since my days of studying, CAs do not get training in investment, insurance or retirement issues en route to the CA designation. CAs must obtain the appropriate training before offering credible services in these areas. I did not realize how much there was to know about financial planning that was not part of my CA training until I took financial planning courses. As CAs, we expect clients to accept no less than a professional accounting designation for the accounting and tax advice we offer, and the same holds true for financial planning. I recommend the RFP designation, offered by the Institute of Advanced Financial Planners, and the CFP, issued by the Financial Planning Standards Council (FPSC), to demonstrate well-rounded competence in financial planning. In addition, as a founding member of FPSC, the CICA should insist that CAs have the appropriate credentials before holding themselves out as financial planners.

CAs in public practice should consider studying for additional credentials as part of the requirement for continuing education and expand their abilities while meeting their educational requirements.

We face the challenge that clients pay us a fee for advice and inevitably pay a broker to buy product. This puts us at a competitive disadvantage with other financial planners who do both because the Rules of Professional Conduct prevent us from accepting referral fees from brokers. However, I find my financial planning advice often leads to opportunities for personal tax preparation and business services.

Thanks for a thorough article that should be helpful to CAs considering upgrading their skills and offering services in this rewarding area.

Blair Corkum, CA, RFP, CFP
Charlottetown

CICA's reply:
Blair Corkum provides an important message to the profession. As CA professionals, when we hold ourselves out as experts in a particular area of competence, we are expected to have the necessary competence, knowledge and skill in that area. The CA qualification process and the UFE, as demanding as they are, are intended to prepare a student to enter the CA profession. Although the UFE Candidates' Competency Map includes elements of financial planning, it is fair to say that our prequalification education is not intended to provide all that is necessary to hold oneself out as an expert in financial planning. This is true of many areas in which our members practice — investigative and forensic accounting, information technology, business valuation, corporate finance, etc. Formal postqualification credential programs such as the CFP are excellent opportunities for CAs to supplement their CA training with the knowledge and skills required by their chosen area of practice and to identify their expertise to the public.

CAmagazine welcomes letters to the Editor. Please write to us at 277 Wellington Street West, Toronto, Ontario M5V 3H2
e-mail address: letters.editor@cica.ca
Letters may be edited for space and clarity

Big wheel

As the owner and operator of River Valley Cycle, CA Tom McKee is at the hub of Edmonton's cycling community

JIMMY JEONG/KLIXPIX

Almost 10 years ago, Tom McKee changed gears on his professional life. A competitive cyclist since the late 1980s, the Edmonton CA turned a passion for pedaling into a vocation when he invested a severance package from Telus Corp., where he worked as a senior financial adviser, into the purchase of River Valley Cycle, the shop where he bought much of his biking gear. Even though he had no prior retail experience, the 48-year-old McKee felt confident he could make a go of it, both because he had a solid knowledge of bikes and because of his business acumen gained by being a CA. "It gives me extra credibility when I'm dealing with banks and insurance people," he says.

For McKee, however, the products his store sells are almost secondary. Instead, his goal is to create a community of cyclists. "We're not really selling just bicycles," he says. "We're selling cycling and the lifestyle that goes with it." That includes organizing bike clinics, tours and meet-and-greets among the Edmonton cycling community. McKee himself is a proponent of this attitude: he's traveled to more than 40 countries, often with his bike in tow.

Creating a community, however, has also been a boon to the business. The shop has grown from a 2,000-sq.-ft. space in 2002 to 11,000 sq. ft. in its current location. He also expanded to a second location, but lost that in 2007 when a fire burned the shop to the ground. He again credits his experience as a CA in surviving this catastrophe: "I had a disaster plan prepared, and I was able to deal swiftly and efficiently with the insurance adjusters."

While McKee competes in races, he doesn't try to peddle any misconceptions about his accomplishments. "I've been a good local cyclist, nothing more." His real talent, he insists, is on the volunteer end, pointing to stints on the executive boards of the Alberta Bike Association and the Canadian Cycling Association. And, he should add, on the retail end, where his love of cycling is paramount to the shop's success. "It's a business that's enthusiast-driven," he says. John Shoesmith

Résumé

1987 obtains CA designation (Alta.)
1989 hired as internal auditor, Telus (Edmonton)
2002 purchases River Valley Cycle

Your magazine is golden

CAmagazine took home more gold awards than any other publication, including the top prize for best issue, at the 2010 Kenneth R. Wilson Awards, which recognize excellence in the Canadian business press.

In addition to five gold and two silver awards (see below), *CAmag* received nine top-10 honourable mentions.

- **Gold - Best issue** "The heat is on" (January/February 2009)
- **Gold - Best how-to or series of how-to articles** "Tax breaks" (April 2009)
- **Gold - Best one-of-a-kind article** "The wine sellers" (October 2009)
- **Gold - Best profile of a person** "Harmony at the top" (October 2009)
- **Gold - Best illustration** "The business of climate change" (December 2009)
- **Silver - Best illustration** "Containing financial contagion" (January/February 2009)
- **Silver - Best art direction of a complete issue** "Weathering climate change" (December 2009)

MORE SKILLS NEEDED IN INTERNAL AUDIT

Changes needed in internal auditors' capability and depth of knowledge	Increase	Stay the same	Decrease	Not applicable
Critical thinking and analysis	68%	31%	1%	1%
Knowledge of risk management approaches	67%	31%	1%	1%
Communication	63%	36%	0%	0%
Understanding of organization's strategy and business model	61%	39%	1%	0%
Specific technology experience (i.e., security, ERP)	60%	36%	2%	3%
Leadership	54%	44%	1%	1%
Experience in the business outside of internal audit	53%	42%	3%	3%
Collaboration and teamwork	50%	49%	1%	0%
Qualifications (CPA, CIA, BSA, CISA, etc.)	49%	50%	1%	2%
Other specific industry skills	27%	9%	0%	64%

Source: PricewaterhouseCoopers, 2010

The role of the internal audit function is expanding and will continue to broaden in the future, according to a Pricewaterhouse-Coopers survey of more than 2,000 internal auditors. In addition to an expanded role in corporate governance, the internal audit function will also be responsible for elevating the role of risk assessment by identifying and communicating strategic and emerging risks to the CFO and board. Internal audit is also expected to take on an expanded role that goes beyond value protection to value enhancement.

To fulfill this expanded role, the survey found that the capability and knowledge of the internal audit function must increase. Respondents identified critical thinking and analysis, and knowledge of risk management approaches as the top areas to improve (68% and 67% respectively) . The need for increased capabilities and knowledge extends beyond these, however, with at least 60% also seeing a need to improve capabilities in communication, understanding of the organization's strategy and business model, and experience with technology. About 50% of respondents also see a need to increase leadership, experience in business outside of internal audit, collaboration and teamwork, and qualifications. The majority (58%) intend to close this gap through training, while 29% intend to hire new staff.

John Tabone is CICA's manager of member value and research services

Q + A

ASK AN EXPERT

HOW CAN I TAKE TIME OFF WITHOUT FALLING BEHIND ON MY WORK?

It's important for workers to utilize their full vacation benefits. Time off allows you to recharge your batteries, which is even more important today as staffs have shrunk over the past 18 months and workers are dealing with added responsibilities and pressure. When planning a vacation, follow these tips to ensure your time off is a true break from the office:

Get it on the calendar today. Companies are operating with smaller staffs and having more than one person out of the office can negatively impact productivity. Be flexible and work with your coworkers to schedule vacation time before booking anything.

Train a coworker. Before you leave, start recording important information, key contacts and any deadlines that will come up while you are gone and give it to a coworker who you have trained to fill in for you. Remember to return the favour to the coworker when he or she takes vacation.

Schedule a set work time while on vacation. While it's best to leave the office at the office, if you must do work, set limits and boundaries for yourself and your coworkers. Don't let activities on vacation be interrupted by work.

Lead by example. If you are a supervisor, you should go through all the steps of planning and executing a successful vacation away from the office. That way, your workers will be more comfortable doing the same.

Rosemary Haefner is vice-president, human resources for online job search site CareerBuilder.com

NUMBERS Game

Typo tab When the Dow Jones industrial average dropped nearly 1,000 points in a span of minutes in May, the mistyping of a single trader was initially blamed. A slip of the fingers can be costly

2.13 Millions of dollars the exclusion of a comma initially cost Rogers Communications after the CRTC ruled in 2006 that a contract could be terminated because of a grammar mistake. The following year, the commission overturned the ruling.

3.5 Percentage drop in London's benchmark FTSE 100 index in May 2001 after a Lehman Brothers trader mistakenly executed a trade for £300 million instead of £3 million. Lehman was subsequently fined £20,000 ($44,000) for the mistake.

225 Estimated loss in millions of US dollars to a Japanese securities firm after a trader mistakenly sold 610,000 shares at 1 yen each instead of one share at 610,000 yen.

732 Total pages in a contract for a Manhattan condo in which a typo ultimately allowed buyers to walk away from their units and claim back US$15-million down payments in April of this year.

2,000 Passengers who took advantage of an error in 2006 that reduced an Alitalia Toronto to Cyprus airfare from US$3,900 to US$39.

11 Cost in millions of US dollars to Prudential insurance after the figure US$92,885 was typed into a loan agreement instead of US$92,885,000. When the deal went sour in 1988, the borrower leveraged the mistake into a multimillion-dollar bonus.

7,000 Copies of an Australian cookbook pulped earlier this year after it was discovered a recipe called for "freshly ground black people," instead of black pepper. The mistake cost Penguin Australia about $18,000. Steve Brearton

Going Concern

ADRIAN ISAACS, CA
PRESIDENT & CEO
STARTUPSHOP.CA

COMPANY PROFILE: If Adrian Isaacs' company StartUpShop.ca were a book, it would be called *Everything You Always Wanted to Know About Starting a Business but Were Afraid to Ask*. Since 2008, the website has been helping would-be entrepreneurs turn their business dreams into reality with practical strategies and access to service providers. With more than 350 subscribers and two full-time and two part-time staff, it is also a living laboratory for its four-step entrepreneurial success ladder — viability assessment, pilot and percolate, setup and startup. Like Google, the website provides free content to users and earns advertising revenue from business services sponsors.

HOT FACTOR: Today's tough economic times have driven up web traffic. Everyone from bright-eyed graduates to second-career seekers is looking for reliable ways to reduce risk and increase success. Based on his experience as an insolvency and restructuring practitioner, Isaacs wanted to prevent such financial tragedies by alerting fledgling self-starters to business and marketplace realities at an earlier stage. From there, they can take college and other courses.

COOL PROJECTS: The firm has chosen YouTube to help spread the word. From its website, the firm has set up a link to a two-minute video that serves as a trigger for viewers to get up and do something about turning their bright ideas into a going concern. It also makes use of Google Analytics to provide basic demographic data on visitors to the site.

IN HIS OWN WORDS: "Cash is king. The biggest mistake business owners usually make is to confuse profitability with cash flow. On paper, companies can show profit. But when they run out of money to pay their bills, they become insolvent, which often leads to bankruptcy. People need to test before they invest. Then they can roll out their idea in bite-sized pieces and ask for help as needed." Ken Mark

SETH

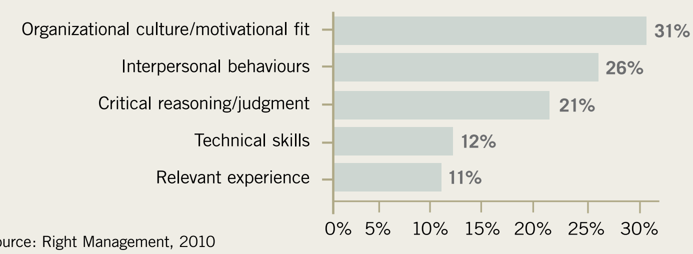
Employers value fit over skills

Job seekers who focus on selling their experience or technical skills may be missing out in today's job market, according to research by human resources firm Right Management. In a North American poll of nearly 900 senior human resource professionals and other business leaders, 31% of respondents indicated they are looking for workers with a good motivational fit with the team and the organization's culture, citing it as the factor that contributes most to accelerated performance. In comparison, just one in 10 cited technical skills and relevant experience as the key factor.

"Immediate on-the-job performance is so essential these days, new hires need to get up to speed fast and make a smooth transition into the new environment," says Michael Haid, senior vice-president of global solutions at Right Management. He advises job seekers to highlight in their résumés and during interviews how their interpersonal and work skills will align with the company's culture. "Share examples of how your motivation or interpersonal skills helped you overcome barriers or solve problems. And if appropriate, look for opportunities to share how your values are aligned with those of the organization," he says.

Will new hires hit the ground running?

HR professionals and other business leaders were asked what factor contributes most to accelerated performance. Their responses:



Source: Right Management, 2010

Tax blast from the past

The total tax bill of the average Canadian family has increased by 1,624% since 1961 — a faster increase than any other single household expenditure — according to a study by the Fraser Institute. In contrast, expenditures on housing increased by 1,198%, food by 559% and clothing by 526% from 1961 to 2009.

And while family incomes have increased significantly over the past 50 years, the total tax bill has grown at a much higher rate. Here's a comparison of the average Canadian family's income, taxes and other expenditures then versus now.

1961 Income: $5,000. Total taxes paid: $1,675 or 33.5% of income. Food, clothes and housing: 56.5% of income.

2009 Income: $69,175. Total taxes paid: $28,878 or 41.7% of income. Food, clothes and housing: 37.1% of income.

FIRM BELIEFS

Accounting firms are the most trustworthy financial institutions, a Harris Interactive poll finds. Two-thirds (67%) of Americans surveyed believe statements made by representatives of accounting firms, more than those who believe banks (62%), investment firms (55%), mortgage companies (49%) or credit card companies (36%).

HAVE RÉSUMÉ, WILL TRAVEL

More than eight in 10 (82%) global executives polled are willing to relocate to a different region, state or country, according to a survey by international recruiter Korn/Ferry. Interestingly, a similar number of respondents (81%) have already relocated to a different region, state or country during their careers.

KEEN FOR GREEN

Canadian CEOs are more likely to agree that going green makes smart business sense than their global counterparts, according to a survey by PricewaterhouseCoopers. Nearly 70% of CEOs polled will focus on preparing for the impacts of climate change initiatives in 2010, compared with 61% of CEOs worldwide.

SETH

Canada ranks second in tax friendliness

Canada has the second-lowest tax cost for businesses among 10 countries that were studied by KPMG for a special report on tax included in Competitive Alternatives 2010, the firm's guide to international business location.

Special Report: Focus on Tax assesses the general tax competitiveness of 95 cities in 10 countries, focusing on 41 major cities with populations of more than two million, and compares the total tax burden faced by companies, including income tax, capital tax, sales tax, property tax, miscellaneous local business taxes and statutory labour costs.

Mexico took first place in the country rankings, with Canada second and the Netherlands third, followed by Australia, UK, US, Germany, Italy, Japan and France. Canada has moved up from third position in 2008's special report on tax. In fact, our business taxes are now the lowest of those in the G7 countries.

Among the major international cities compared for tax competitiveness, Vancouver takes first place, Montreal fourth and Toronto fifth. The second- and third-ranked cities are in Mexico.

The report compares the total tax cost between countries and cities using a Total Tax Index (TTI) score for each individual location, expressed as a percentage of total taxes paid by corporations in the US. A lower score is better because it means lower tax costs for businesses.

The report also compares tax costs between industries, which vary widely. In a breakdown by business sectors, Canada comes second in manufacturing with a score of 67.7, compared with 100 for the US, and Vancouver, Toronto and Montreal are in the top five cities. For the corporate and IT services sector, Canada comes in second behind Mexico and, again, the three major Canadian cities studied place in the top five.

Tax costs in the R&D sector vary significantly from other sectors owing to the impact of tax incentives targeted to foster R&D activity. In this industry, Canada ranks second after Australia, and Montreal, Vancouver and Toronto rank second, fourth and seventh among the 41 large international cities.

The overall study, Competitive Alternatives 2010, compares business costs in 10 countries by measuring 26 significant cost components that are most likely to vary by location, including taxes, labour, real estate and utilities as they apply to 17 business operations over a 10-year planning horizon, as well as a range of non-cost competitiveness factors.

Canada ranks second behind Mexico in this comprehensive study. The results also show Canada holds a 5% business cost advantage over the US — an improvement over the virtual break-even position reported in the 2008 edition.

The report points out that Canada has done well in reducing corporate tax rates at both federal and provincial levels. These changes, combined with the harmonized sales tax (HST) in Ontario and BC, contributed to Canada's improved ranking in this year's report.

This is a summary. For an expanded article on the findings in the report, please visit camagazine.com/taxsurvey2010.

Greg Wiebe, FCA, is the Canadian managing partner for tax at KPMG

Results by country

Rank	Country	Total tax index			2008 Rank
		2010	2008	Change	
1	Mexico	59.9	70.2	-10.3	1
2	Canada	63.9	78.8	-14.9	3
3	Netherlands	76.4	78.3	-1.9	2
4	Australia	80.8	95.9	-15.1	4
5	United Kingdom	88.0	101.6	-13.6	6
6	United States	100.0	100.0	0.0	5
7	Germany	124.1	128.2	-4.1	8
8	Italy	129.6	172.0	-42.4	9
9	Japan	138.0	120.8	17.2	7
10	France	181.4	185.3	-3.9	10

Source: Competitive Alternatives 2010 Special Report: Focus on Tax

the CA Member Savings Program

Starwood Hotels & Resorts
Lowest rates on Westin, Sheraton and other Starwood Hotels.

Dell
Save 7-12% off Dell's current best price including Dell promotional prices.

Tempo
Preferred pricing on high-quality custom frames for members.

Hertz
Save 5-15% on daily, weekly and monthly rates.

Loudring Wireless
Save over $200 when you buy a Blackberry Smartphone with a plan from Rogers.

Genesys
Member rate of only 6 cents a minute for tele- and/or web-conferencing.

Wiley
Save 35% off Wiley publications when your order from Wiley.ca

Chase Paymentech
Preferred rates on transaction processing and a $200 signup rebate.

TrackItBack
Receive a 40% discount on the retail price of ID labels that offer 85% recovery on lost items (laptops, phones)

Bose
Receive a free Acoustic Wave® connect kit for iPod® ($124.99 value) with the purchase of an Acoustic Wave® music system II

Take advantage of these offers and more including CA Research Plus, Pitney Bowes and VIA Rail by visiting www.camembersavings.ca.

CA Chartered Accountants of Canada

Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

Location is the new intelligence

It's big, and it's getting bigger. The location intelligence industry, that is. It's growing as a result of the rapid dominance of location-aware mobile devices, the rapid emergence of massive sources of spatial data (geographic-oriented information, i.e., Google Maps), the rapid user adoption of location-based applications (i.e., iPhone Apps) and a significant amount of innovative thinking as to how to capitalize on these very fast-paced trends.

What will all this lead to? Significant business-model innovations, for one. For example, it's only a matter of time before someone rolls out an app that lets you quickly identify a list of real estate properties on your iPhone, which then guides you to each of those properties as you drive through a neighbourhood. Maybe you won't need that agent to tag along with you after all.

There are a lot of people building a lot of businesses around these trends. And it's happening extremely quickly.

- In a just-announced test of location-based advertising in Finland, McDonald's has reported that location-relevant mobile ads resulted in a 7% click-through rate. Of those who clicked through, 39% then used the click-to-navigate option to find the closest restaurant.
- One in four Americans uses location-based mobile services and nearly half of those who noticed an ad while using such services took some action.
- There has been a 68% increase in the use of mobile mapping and direction services in Europe in one year, according to comScore, a research firm that focuses on Internet trends.
- A report by Coda Research Consultancy Ltd. on Market Research.com predicts increases of 37% compound annual growth for mobile advertising and 65% for mobile commerce between 2009 and 2015, influenced by the speed of adoption of location-based services.
- Juniper Research suggests that location-based service revenue will top US$12.7 billion by 2014, compared with US$3 billion last year.
- Another survey by technology research firm RNCOS suggests that the mobile locations technologies market will grow at annual compound rates of 20%, reaching US$70 billion by 2013, which includes both consumer and business intelligence (survey, mapping, etc.) applications.
- GPS-enabled mobile phone devices will comprise 66% of all GPS devices by 2013, according to RNCOS.
- Based on the convergence of these trends, I estimate that one billion people will access social networks by 2014 through a mobile device. Most of them will use some form of location-based application as they do so.

This is pretty significant stuff. Actually, it's more than significant — it's huge. Location intelligence is set to lead to significant industry transformation; some pretty dramatic business-model disruption (think real estate); changes in consumer behaviour (product promotion and uplift) and new business models (mobile text-message based banking). There's a huge amount of velocity out there.

There are two angles to the emerging market: consumer-driven applications (i.e., iPhone) that will involve marketing, branding, product promotion, customer loyalty, point-of-purchase sales and a huge variety of other opportunities. The second involves corporate applications such as risk minimization (i.e., mortgage risk analysis based on spatial data), which is an example of the type of opportunity for CAs to begin to apply their unique knowledge and skills.

Regardless of how you look at it, the overall impact of location intelligence is going to be dramatic.

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at jcarroll@jimcarroll.com or log on to his website at www.jimcarroll.com

WHERE IT'S AT

World GPS Market Forecast to 2013
www.rncos.com/Report/IM035.htm

Directions Magazine
www.directionsmag.com

Mobile Marketing Association
http://mmaglobal.com/main

Standards digest

Want to be kept informed? Log on to www.cica.ca/subscribe

RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	Date issued†
2010 Edition of International Financial Reporting Standards (Part I)	June 2010
2010 Improvements to IFRSs	July 2010
CICA Handbook – Assurance	
Reporting on Controls at a Service Organization, CSAE 3416	August 2010
Communications with Law Firms under New Accounting and Auditing Standards, AuG-46	August 2010
CICA Public Sector Accounting Handbook	
Amendments Resulting from the Adoption of IFRSs in Canada	June 2010
First-time Adoption by Government Organizations, Section PS 2125	August 2010
Liability for Contaminated Sites, Section PS 3260	June 2010

RECENTLY ISSUED DOCUMENTS FOR COMMENT (to July 31, 2010)

	Accounting	Comment deadline
ED	Accounting Standards for Not-for-Profit Organizations	July 15, 2010
ED	Adoption of IFRSs by Investment Companies	August 23, 2010
EDI	Conceptual Framework: Reporting Entity	July 16, 2010
EDI	Defined Benefit Plans (Proposed amendments to IAS 19)	September 6, 2010
DPI	Extractive Activities	July 30, 2010
EDI	Fair Value Option for Financial Liabilities	July 16, 2010
EDI	Presentation of Items of Other Comprehensive Income	September 30, 2010
	Auditing	
ITC	AASB 2010-2013 Strategic Plan	July 31, 2010
ITC	Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus	August 20, 2010
	Public Sector	
ED	Financial Reporting by Government Not-for-Profit Organizations	July 15, 2010
rED	Government Transfers	September 15, 2010

WATCH FOR

Documents for Comment IASB proposals regarding Consolidation: Investment Company Exemption; Insurance Conracts; Financial Statement Presentation; Leases; Revenue Recognition; Termination Benefits

Legend

ED – Exposure Draft
EDI – ED issued by the IASB
rED – Re-exposure Draft
DPI – Discussion Paper issued by the IASB
ITC – Invitation to Comment

† Refer to each Handbook pronouncement for the effective date and transitional provisions.
The information published above reflects best estimates at press time. Please visit our website for the most recent information.

CRA working paper policy statement

A long-awaited Canada Revenue Agency (CRA) policy statement dated May 31, 2010 — Acquiring Information from Taxpayers, Registrants and Third Parties — was first issued to CRA staff and is now on its website (www.cra-arc.gc.ca/tx/tchncl/cqrngnfrmn/menu-eng.html). The policy statement sets out the CRA's current policy approach to acquiring, inter alia, auditors' and accountants' working papers. An annex more fully describes the CRA's basket of compliance tools found in the Income Tax Act, the Excise Tax Act and other legislation. The policy statement is required reading for anyone involved in audit or review of financial statements or in the tax return process.

In response to a CRA roundtable question at the Canadian Tax Foundation's 2004 annual conference, the CRA announced a review of its existing policy. The CRA also said it recognized the importance of its policy regarding access to auditors' and accountants' working papers and thus before issuing a new policy it intended to conduct broad-based consultation in partnership with the tax, accounting and business communities.

Since then, the CICA and the CRA have had extensive and ongoing discussions on the issue, which is extremely important for both taxpayers and Canada's CAs in industry and professional practice. CICA obtained its members' views through a survey. Auditors' and accountants' working papers are critical to the integrity of the financial statement, audit/review and corporate governance processes as a whole. If the CRA regularly sought access to auditors' and accountants' working papers, such a policy change could undermine the preparation of documents required to support financial reporting and inhibit the essential frank and open discussions between auditors/accountants, audit committees and management.

Some key elements of CRA policy set out in the policy statement

1) From CICA-CRA discussions, CICA officials understand that the CRA does not view the policy statement as reflective of a significant policy change, but rather as an affirmation of its longstanding policy and a framework for compiling and discussing in one document all legislative and compliance tools available to it.

2) Not surprisingly, the CRA states that with the exception of privileged communications, it has the authority to examine the records and documents of the subject person under review and any other person's records and documents that may relate to the subject person's tax liability. (See subsection 231.1(1) of the Income Tax Act.)

3) The policy statement includes several extremely important overrides to the second point.

- Tax compliance disputes should be resolved primarily between the CRA and any specific taxpayer, thus the CRA always tries to collect information from the most direct source and in the least intrusive manner possible.
- Information from third parties is sought when the taxpayer cannot or will not provide information.
- Access to tax accrual working papers and auditors' or accountants' working papers may be required occasionally, but not routinely.
- The CRA believes that a more effective and efficient relationship with taxpayers and their advisers can be achieved by grounding its actions on an understanding of the taxpayer's business and by applying the key principles of transparency, impartiality, proportionality, and responsiveness.

Until all other avenues to obtain relevant information have been exhausted, taxpayers should not expect to routinely see requests for tax accrual working papers

Until all other avenues to obtain relevant information have been exhausted, taxpayers should not expect to routinely see requests for tax accrual working papers and auditors and third-party accountants should not expect to routinely receive requests for their working papers. In particular the approach outlined in the policy statement suggests that requests for information from third parties should not occur at the commencement of a CRA audit. The CICA urged the CRA to clearly state that in order for the CRA to maintain its objectivity and impartiality, it would restrict requests to factual information and not routinely seek access to subjective analyses (including opinions) prepared by taxpayers or third parties. Unfortunately, the policy statement instead only declares that "officials will not be influenced by any subjective analyses, comments or opinions contained in the information or documentation reviewed."

Other countries have developed policies for access to working papers. For example, in the US the IRS has stated it will not request a taxpayer's tax accrual working papers unless the taxpayer has engaged in a listed transaction. In Australia, only in defined exceptional circumstances is it Australian Tax Office policy to request working papers and subjective analyses from a taxpayer or an adviser. In Canada, the CRA, taxpayers and tax professionals have little experience with the interpretation of the phrase "not routinely required" as it is used in the policy statement; moreover, it is clear that a policy built on that phrase is much less precise than the bright-line tests used by the Australian Tax Office and the IRS.

The Audit Professional Services Directorate of the CRA's Compliance Services Branch is responsible for monitoring nationally consistent compliance with the policy and for the development of further guidance. The policy statement encourages taxpayers and their representatives to discuss with the CRA any material differences of opinion between them and the CRA regarding the policy's application. The CICA will track its members' input to closely monitor the policy's application in the field. The CRA has agreed to periodically review and discuss the policy's application with interested parties, including the CICA.

Kevin Dancey, CICA president and CEO
(Originally published in *Canadian Tax Highlights*, June 2010)

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

NOTICE OF ANNUAL MEETING

Calgary, Alberta, September 22, 2010

The 108th Annual Meeting of the members of The Canadian Institute of Chartered Accountants will be held in the Wildrose South Room of the Sheraton Suites Eau Claire, 255 Barclay Parade S.W., Calgary, Alberta, on Wednesday, September 22, 2010 at 09:00 hours (local time) for the reception of the reports of the Chair and the Board of Directors; the reception of the financial statements of the Institute for the fiscal year ended March 31, 2010, together with the auditor's report thereon; the appointment of an auditor for the current fiscal year; and for the transaction of such other business as may properly come before the meeting.

Subsection 20(3) of the by-laws permits members to be represented by proxy at any annual or special meeting of members of the Institute and provides that no proxy shall be exercised by a person who is not a member of the Institute. If any member wishes to be represented by proxy, any proper form may be used. As a convenience to members, however, a form of proxy has been posted on CICA's website. Proxies for use at the meeting should be returned promptly to the attention of Mr. Walter Palmer, Fasken Martineau LLP, 66 Wellington Street West, Suite 4200, Toronto-Dominion Bank Tower, Box 20 Toronto-Dominion Centre, Toronto, Ontario M5K 1N6.

Dated this 22nd day of June, 2010

Kevin J. Dancey, FCA
President & CEO

Douglas N. Baker, FCA
Chair of the Board of Directors

Impact of IRS tax preparer registration rules on Canadian CAs

The Internal Revenue Service (IRS) is proceeding with proposals to require any person who prepares a US tax return for compensation to be registered with the IRS and to obtain a unique registration number. As part of this process, all such paid preparers (also referred to as preparers here) will need to meet a minimum standards test in order to continue to be registered as a preparer.

These changes come in response to a perceived need to increase public confidence in paid preparers and to increase taxpayer compliance.

Some states, such as New York, California and Oregon, have already implemented their systems for paid preparer registration. (In this article, we discuss changes applicable to the preparation of US federal tax returns only.)

Based on information released, preparers living outside the US will also be subject to this new system of registration and testing. Here we highlight the new requirements and discuss the impact on chartered accountants in Canada who prepare US tax returns for a fee.

Some key items of these proposals

- Specific instructions for foreign preparers (i.e., preparers living outside the US) have not been released and are currently in development by the IRS. There is no indication that foreign preparers will be exempt from the new requirements.
- The focus of this IRS initiative appears to be paid preparers of US personal tax returns, but the rules do not appear to exclude those individuals paid to prepare other types of US returns, such as corporate, trust and estate returns. It is unclear whether the new requirements will apply only to the preparer who signs the return or to all preparers who were significantly involved in preparing the return.
- All US returns filed after December 31, 2010 will require a Preparer Tax Identification Number (PTIN). This requirement is a bit problematic for foreign preparers, as only individuals with a US social security number can currently obtain a PTIN.
- Registration of preparers is to start in September 2010. Practitioners who currently have a PTIN will also be required to register. (They will be allowed to keep their current number.)
- Tax return preparers will need to meet a minimum standards test to qualify to continue to be registered as a preparer. Only US attorneys, certified public accountants (CPA) and enrolled agents who are active and in good standing with their respective licensing agencies will be exempt from the testing. Testing will not be implemented until after registration and mandatory PTIN usage are in place.
- Tax return preparers will be required to meet a continuing professional education standard of 15 hours per year with the exception of attorneys, CPAs and enrolled agents.
- The IRS will conduct periodic tax compliance checks on all tax return preparers and expect all preparers to meet high ethical standards.
- Registration will require the payment of a fee. The amount has not been announced, but the IRS estimates it to be in the range of $25 to $100 annually per individual (or $75 to $300 for the three-year renewal period of a PTIN).
- Paid tax preparers will be required to register as individuals, even those employed by an enterprise in the business of preparing tax returns. Note that individuals who only prepare returns for their employer will not be affected by these requirements.

It's expected that Canadian CAs who prepare US returns will have to register with the IRS as preparers and will need to meet testing and education requirements

As a consequence of these proposals, it is expected that Canadian CAs who prepare US returns for clients, where such returns are filed after December 31, 2010, will be required to register with the IRS as tax preparers and will also be required to meet the testing and continuing education requirements outlined above. Those CAs who are also CPAs and are in good standing with a state licensing board should be exempt from the testing and continuing education requirements as long as they maintain their CPA licence in good standing.

These plans have been put forward in proposed legislation and are subject to the implementation of such legislation. Consequently specific application of these rules, the date of implementation of the registry of preparers and date after which returns filed will require a PTIN are subject to change.

Canadian CAs who prepare US tax returns should be aware of these imminent changes and watch for further clarification from the IRS regarding the registration process for preparers living outside the US.

Jennifer S. Horner is a senior manager with BDO Canada LLP

Changeover to IFRS: we're in the home stretch

With the formal adoption of a new financial reporting framework for publicly accountable enterprises and government business enterprises less than four months off, it is critical that affected organizations take stock of their current state of readiness for these important changes.

When the Accounting Standards Board announced its five-year international financial reporting standards (IFRS) transition strategy, the changeover date was far enough away to allow for an orderly transition but near enough to provide a sense of urgency. However, the ensuing international economic crisis caused many adopters to put transition planning on the backburner. Recent surveys and anecdotal evidence suggest a significant number of adopters may still be lagging behind.

Those entities may now require an aggressive IFRS plan to make up lost ground. Each case is unique, but generally companies that are not past the half-way point in their changeover preparations risk falling behind schedule in meeting the January 1, 2011 deadline.

Those that are in catch-up mode should be aware of a number of potential pitfalls.

Entities that plan to hire external consultants with IFRS expertise to help beat the clock are forewarned that those services will be at a premium in the coming months; availability and cost should be considered.

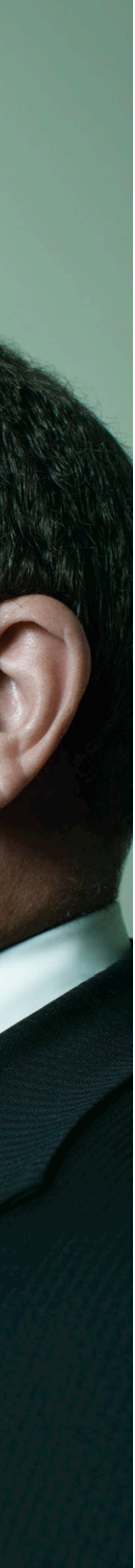
Additionally, entities that have run out of time to make required changes to information technology and data systems should be cognizant of the risks involved in becoming overly reliant on spreadsheets and other ad hoc measures. It would be prudent to start planning more sustainable systems at the earliest possible time.

Communicating with investors: As the changeover date approaches, careful consideration must also be given to communicating with the investment community and other users of financial reports. IFRS does not change business performance but may present the organization's financial story in a different way. Users will need help determining whether changes in reported results are due to the changeover to IFRS or a real change in the business.

A new CICA resource, The IFRS Changeover — A Guide for Users of Financial Reports, discusses some of the most common differences between existing Canadian GAAP and IFRS and the potential effect on performance metrics. Although the resource is aimed at users of financial reports, issuers will also find the information useful. It is a free resource — available in print and electronic formats — on the CICA's designated IFRS website: www.cica.ca/IFRS.

The CICA's IFRS website provides resources for adopters at virtually every stage of the transition process. These include: Get to the Point, a downloadable IFRS tool for small and midsized companies; In the Loop e-posts that provide timely insights to support your transition, as well as convenient podcasts, webinars and e-learning opportunities.

Most of these resources are available for free and can provide just-in-time support for IFRS adopters who may be quick-stepping to prepare themselves and their stakeholders for the new reporting framework.



There is nothing in Benoit La Salle's professional past to suggest he would be CEO of a thriving gold mining firm By Yan Barcelo

A mine *of* GOODWILL

Benoit La Salle sits on a gold mine — three mines, in fact, in West Africa. One of these, the Mana production unit in Burkina Faso, is up there among the most promising and rich gold deposits in the world. La Salle's mining company, SEMAFO, of which the 55-year-old is president and CEO, has a market value of about $1.5 billion and an employee count of about 2,000.

Not bad for a company that started out as a simple exploration outfit in 1995 and worked up to 2001 with a minimal geological team in the three countries — Burkina Faso, Niger and Guinea — where it is now in operation. But since the first production unit opened in 2002 in Guinea, the head count has exploded, from 40 to 700, along with revenue that reached $241 million at the end of 2009, a 42% increase over the previous year.

Benoit La Salle assumes the spirit of Burkina Faso by wearing a local ancestral mask

Photography by LEDA + ST. JACQUES/KLIXPIX

LEFT, gold ingots from a May 2010 gold pour at SEMAFO's Samira Hill Mine in Niger. Each ingot weighs between 14 kg and 16 kg. The 17 gold bars represent approximately $9 million

It's not so much the presence of gold that's impressive — after all, there's a lot of it all over the world — but rather its concentration. The average gold mine shows a concentration of about 1.5 grams of gold per ton of rock. At the Mana site, concentration is up to 5 grams per ton, which means that extraction process costs are extremely low, about US$350 an ounce — against a selling price of about US$1,200 an ounce. "We have in hand what the industry calls a world-class asset," says La Salle with relish.

Such a level of concentration is valid for the first Mana site, which covers a chunk of only 5 km on a deposit that stretches more than 90 km and to which SEMAFO holds exclusive rights. Of course, the concentration found at the Mana site does not guarantee it will hold over the next stretch of 85 km, but it certainly carries promise.

There's absolutely nothing in La Salle's past that suggests he would end up in the gold-mining business. After all, developing world-class mines in little-known parts of West Africa is not a standard item on a CA's résumé. And until the end of his accounting studies at McGill University, to which he added an MBA from IMD, a business school in Lausanne, Switzerland, La Salle's progress was quite standard. Add to that his stay at Ernst & Young, which was also quite typical and where he stayed exactly two years and one day. His lifelong friend and business associate Yves Grou, also a CA, says, "He added one day to his stay at Ernst & Young to make very sure his next move would be perfectly legitimate and legal." The very next day, in 1980, he and La Salle opened their own accounting practice in Ville Saint-Laurent, north of Montreal, in the same region where SEMAFO now has its headquarters, and in the same neighbourhood where Grou and La Salle grew up and went to high school together.

This was the moment when La Salle's defining trait — his entrepreneurship — began to stand out. Perhaps it is something he inherited: his great-grandfather, Charles Romulus La Salle, founded F.X. Lasalle in 1894, a celebrated shoe store chain in Quebec. In a province dominated by the church at the beginning of the 20th century, which looked askance at anything that smelled of commerce and money, La Salle's ancestor had boldly gone against the grain.

La Salle was only 25 years old when he began his venture with Grou. To make ends meet in his fledgling firm, he applied for a teaching job at McGill University and, unexpectedly, got it. For the next 10 years he would teach corporate finance in McGill's executive MBA program. "Not only was I the youngest member of the professorial staff, but I was the youngest one in my classroom, facing rows of seasoned managers sitting in front of me," he says.

In 1993, La Salle joined the board of Plan (then called Foster Parents Plan), probably his most fateful move. In 1994, Plan arranged for its administrators to attend a board meeting not in Toronto — as it had usually done since its founding in 1937 — but in Africa. So a dozen of them, La Salle included, boarded a plane to the capital of Burkina Faso, Ouagadougou.

"From that moment on, I became a great fan of Benoit," says Carol Wilding, FCA and CEO of the Toronto Board of Trade who was head of Plan at the time. "He was always ready to ask the difficult questions that would push the work in the right direction." She remembers him as one of the gems among the many great volunteers she worked with, the very busy man you can always ask for an additional service and you know it will get done. "You could always count on him for delivery."

Wilding also acquired what she called a stripped sense of who La Salle is during their time in Burkina Faso. "You see it

ABOVE, open pit mining at the Mana site, Burkina Faso. LEFT, La Salle presents educational and recreational items to the village chief in Tambella, Burkina Faso. RIGHT, SEMAFO senior management confer with La Salle, second from right

in [his] way of dealing with families, kids, the elderly," she says. "It gave me great respect for Benoit. He came through as a caring and authentic person."

And success hasn't changed these traits, if we believe Manon Gohier, administrative and operational coordinator at SEMAFO, who has been with the company since its start and who now shares La Salle's life. "Each time we land in Africa, you discover that Africans adore Benoit, and he returns the love," Gohier says. "He's always distributing little gifts and he gives each person his full attention, whether it's the chauffeur, the hotel's porter or a government official."

The turning point in La Salle's professional life happened as the people of Plan were having a meeting with Burkinabè officials, among whom was the president of the country, Blaise Compaoré. Because Compaoré is francophone and La Salle was the designated francophone spokesperson for Plan, the two men often chatted unofficially. At one point when they were standing on the steps of the presidential palace with other members of Plan, "the president turned to me," La Salle says, "and said that I should come back to his country with Canadian expertise to help his country develop its mining sector."

La Salle came home and quickly took action. He contacted people he knew in the mining sector and some of his accounting firm's clients. The typical responses he got were: "Do business in Johannesburg? Way too dangerous. Forget it." (Johannesburg and Ouagadougou are 2,000 km apart.) Faced with the distressing fact that Africa was still the Dark Continent in the eyes of most people, even in 1995, La Salle decided to get a move on.

He turned to his associate, Grou, to see if he was ready to give

Niger's regime was recently overthrown by the army, but it re-established the democratic process after the president's attempt to tamper with the constitution. Does this translate into vulnerability for SEMAFO on the political front?

mining exploration a try. Grou thought the precious metal, with a price of about US$350 an ounce at the time, certainly made business sense. "And we saw mining as a sector in which chartered accountants could distinguish themselves," says Grou, "since it's a very financially oriented business with all the capital frameworks and structures it requires."

So the partners found two shell companies listed on the Vancouver exchange that were gathering dust in a drawer, put in money from four Montreal investors and La Salle landed in Ouagadougou with a geologist by his side.

All La Salle and his geologist had to go by were sketchy indications from backwoods gold diggers about the gold potential of the land. La Salle also knew that the United Nations had conducted geological surveys in the 1950s. "So I found myself in the archive vaults of the country's library," says La Salle, "trying to locate old maps that nobody knew where they were, finally finding them at the bottom of big boxes and poring over them for hours, on all fours, in the archive room."

Most importantly, the ministry of mining, quarry and energy gave La Salle 18 exploration permits that practically covered all the potential zones of the country. The team, which had grown to a few geologists, systematically canvassed the territories and eliminated one region after another, until they ended up with one final permit — their last find. But what a find.

"We landed on what would be the equivalent of the potential of the Red Lake region in Ontario, or Abitibi in Quebec," says La Salle, "but with the difference that in those territories, you have 200 companies. In Burkina Faso, we're the only operator. And the same goes for Niger and Guinea, where we also made finds."

As you might expect, La Salle is very bullish on gold and isn't hesitant in forecasting that the mythical commodity could reach highs of US$2,000, US$3,000, even US$5,000. "It's perfectly clear in my mind that it is the next world currency," he says. "In fact, it already is to a certain extent. So many countries are buying it, like Saudi Arabia, Russia and China. Meanwhile, the US, which has the largest reserves in the world (8,000 tons), is not selling a single ounce."

La Salle is not the only one who believes in the future of gold. Many investors share his assessment, notably SentrySelect's Kevin MacLean, vice-president and a senior portfolio manager who specializes in mining. His fund company, located in Toronto, has $4.3 billion in assets under management and is the largest investor in SEMAFO, with a 15% stake. "It's not a difficult argument to make that the price of gold should be much higher," says MacLean, "especially given declining gold-mine supply, the US's irresponsible monetary policy and [Federal Reserve chairman Ben] Bernanke's statement that he's quite ready to print all the necessary money to fix his country's predicament. If the market demands that the US pay double-digit interest rates to fund its debt, it's a level it could probably not afford and it would have to pay back with something other than the printing press. And gold would be a natural vehicle."

The question then becomes, can SEMAFO continue to deliver and supply the market's insatiable hunger for the yellow metal? "I feel that SEMAFO's ability to grow its reserves is excellent," MacLean says, adding that La Salle "has put together one of the most impressive operating teams in the business. They are very well connected in Montreal with daily operations in Africa."

What about dealing in Africa with small countries, some of which have gone through political instability in the past two years? For example, Niger's regime was recently overthrown by the army, but it re-established the democratic process after the president's attempt to tamper with the constitution. Does this translate into vulnerability for SEMAFO on the political front?

La Salle denies it, asserting that he has put in place an operating structure that ensures SEMAFO a strong anchoring in the three countries in which it operates. To begin with, the company is represented in each country not by expatriates but by locals who at one time or another occupied high positions in government or in public service. These people know intimately the corridors of power. When the government changed after the Niger coup, for example, they knew exactly how to go about re-establishing links with the new political leaders.

But most of all, the company has established deep roots in the countries thanks to years of enlightened policies and practices. The most striking of these is undeniably the creation of the SEMAFO Foundation in 2009.

That a mining company would create a foundation to come to the aid of the countries it operates in, and of the people it employs, is unheard of, says Chantal Guérin, general manager of the foundation, who has spent her career in the world of philanthropic organizations.

The foundation, which is incorporated as an independent nonprofit organization, is very active in various projects aimed at populations in regions around the mines. "Our interventions aim at allowing people to take charge for themselves," says Guérin. "We support and help, but we don't do things for them." For example, the foundation is working on a project involving the production and sale of sesame in partnership with the Common Fund for Commodities (based in Amsterdam, Netherlands). The project would include, within three years, the building of a plant that would transform the sesame into oil. Also in Burkina Faso, the foundation is working on a $2-million project to build a medical centre with surgical capabilities in Wona.

But the most striking contribution of the foundation is the amount of material it sends to schools, hospitals and various community projects: books, blackboards, pencils, clothing, etc. In 2009, the foundation shipped a total of 172,910 materials. The word is spreading. In one case, a biopharma company in Montreal that was closing down called the foundation and donated a truckload of laboratory, office and computer material, which SEMAFO picked up, to be sent to West Africa.

Such contributions are what La Salle is most proud of. "Our programs contribute in a way that is far superior to anything that's being done elsewhere in the country," he says. "We make a real difference.

"In schools, it's typical for a class of 60 students to have only one writing pad," he says. "That means that, while one student is writing down a sentence, the other 59 sit and wait. We've supplied pads and pencils to make sure that all 60 students have them. Just with that, we've multiplied teaching productivity by 60."

SEMAFO has committed to giving 2% of its after-tax profits to the foundation every year. Last year, its contribution amounted to $750,000, with $95,000 added by public and corporate donations. In 2010, its contributions should reach $1 million. And La Salle is quite open to working with any company interested in developing a humanitarian initiative. "If other companies are willing to pitch in a portion of their profits, we'll go in with them," he says. "We've developed the expertise."

But the foundation only formalized a way of doing things that the company had been practising since it opened its first production unit in 2002. All three mines have their own hospital, for example, and SEMAFO takes great pains to make sure that village life will go on even after each mine closes (that water supply, schools, infrastructures, etc. remain). "When we built our first mine, we had to displace 500 houses in the village," says Benoit Desormeaux, SEMAFO's executive vice-president and chief operating officer, who is also a CA. "We built houses of a superior quality, and we took great care to make sure that one guy's house was next to his cousin's, for example, and only so far from his parents. If we hadn't preserved this order, we would have been looking for trouble."

Ever the entrepreneurial philanthropist, La Salle is finding new ways to contribute and to be grateful to his African hosts. This fall, his company will begin building a 20-megawatt solar power plant consisting of a 2-km by 2-km field covered with mirrors, the first public-private partnership project to be developed with West African governments. SEMAFO will buy 16 of the generated megawatts to power its Mana mine, thus substituting the one million litres of oil it consumes monthly with clean energy. "Our mine will be the first in the world to run on solar energy," says Grou. "You have to give Benoit credit for thinking


TROUBLE FINDING THAT PERFECT BALANCE?
WE CAN HELP — WITH CICA WORK/LIFE TOOLS AND RESOURCES ONLINE

“We saw mining as a sector in which chartered accountants could distinguish themselves,” says Grou, “since it’s a very financially oriented business with all the capital frameworks and structures it requires”

this up, because it’s quite revolutionary.”

And the next step in his mini-solar plant undertaking is to multiply it all over West Africa in an $80-million project involving governments and a few international development organizations such as the World Bank. “We would like to be the Tim Hortons of solar energy,” says La Salle.

And that’s only one of the projects La Salle has come up with. “Energy is the most pressing problem in West Africa,” he says. It’s the reason why another of his projects involves building a hydro plant in Guinea, the design phase of which will begin at the end of 2010.

Is La Salle a sort of corporate Mother Theresa, too good to be true?

He’s certainly not naive and he knows that all these social and economic projects he carries out, whether directly through SEMAFO or indirectly through the foundation, develop huge goodwill and serve his own interests. “Our community action is part of our strategic positioning,” he says. “If you’re not supported by the communities you work in, you might have all the permits in the world [but] they will oppose you at every turn: block the roads, not come to work, whatever.”

But La Salle could certainly do a lot less and still get away with it. There’s more than corporate self-interest at work here. “It comes from a true generous impulse in him,” says Grou. “That’s how he is. What he does has to contribute.”

“He’s not in West Africa only to take,” says Gohier. “His aspiration is not fake. It’s not just to look good in the annual report.”

La Salle’s philanthropic drive is obviously combined with a huge capacity for work, in good part, says Gohier, because he has turned his work into his pleasure. “Benoit doesn’t ‘work,’” she says. “He’s having fun.” Says Desormeaux: “You can’t kill the guy. He has incredible perseverance and resilience. You give him bad news, and he’ll just turn it around and see the opportunity it presents.”

Yet, at the core of his success are La Salle’s accounting talents. First of all, his father was an accountant and worked for 20 years at his son’s firm after selling the family shoe business. And the accountant’s virtues set the foundation of the company. “When we started, people said to us: ‘you’re a bunch of accountants, what are you doing in mining?’” says Grou. “But today, people stick with us because this place is managed with the well-informed accountant’s eye. We share the same philosophy, Benoit, Desormeaux and I: we only spend the money we have, we stick to our core, and we don’t spread ourselves thin in all sorts of exploration projects.”

And last but not least, La Salle’s success is built from more than the accountant’s virtues. He’s a mining promoter with a visionary mind and a heart of gold.

Yan Barcelo is a Montreal-area journalist

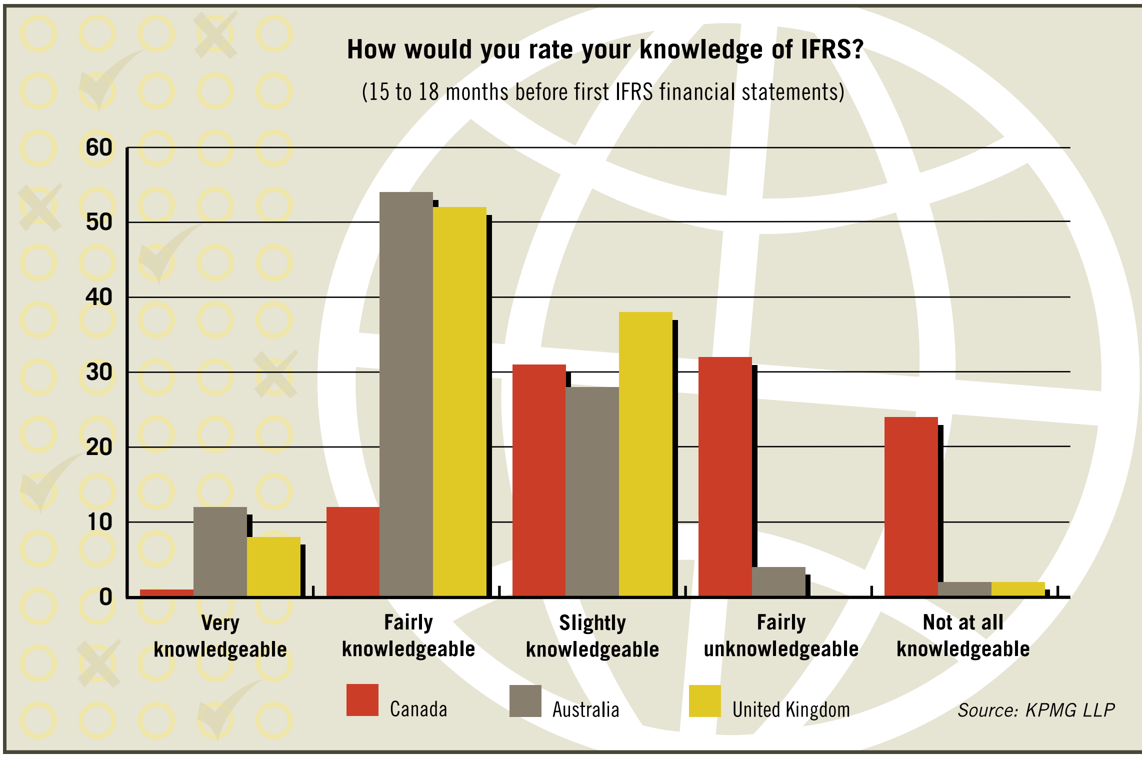
With IFRS, financial results should be more transparent to analysts, investors and regulators. But have Canadian companies done their part to help external stakeholders make sense of IFRS? by John Lorinc

Stakeholders and IFRS

In November 2009, Waterloo, Ont.'s DALSA Corp., a digital imaging and semiconductor firm with 2009 revenue of $162.5 million, invited financial analysts to an investor presentation with CFO Wajid Ali. One discussion topic was the new international financial reporting standards (IFRS) and the anticipated impact on the firm's numbers.

At varying speeds, all Canadian publicly traded companies have been moving through the transition from Canadian GAAP to IFRS over the past two-and-a-half years in anticipation of the January 1, 2011 launch. The process has involved the creation of new accounting and IT systems, bulked-up financial teams, enhanced disclosure and employee training.

At DALSA, at the time pushing to recover from a tough recessionary year, Ali's group and an outside consultant had scrutinized the new standards to determine their impact on cash flow, depreciation, amortization and even management compensation plans.



But that day spent with analysts proved to be an eye-opener. "They didn't have a lot of knowledge about IFRS," Ali says. "Their big concern was what would be the impact on operating earnings. I think what's more valid is looking at its impact on cash flow."

In its annual financial statements, DALSA had published a six-page qualitative summary of each of the 12 items that would be affected, and the company's executives used a day-long session last summer to explain the relevant details and stress which were the important metrics. A few months later at the end of their November meeting, they made an in-company pledge to reconvene in the fourth quarter of this year, at which point Ali will provide the analysts with a guided tour of the expected impact on the opening balance sheet and the elections DALSA has taken.

As corporate Canada headed into the final pretransition year, however, such stories of proactive outreach appear to be the exception and not the rule. Many companies, still scrambling to deal with the fallout of the 2008 credit crisis and last year's recession, have been slow to launch their internal IFRS conversion systems and slower still when it comes to explaining what they're doing.

At the same time, the consumers and disseminators of financial information — shareholder groups, investor relations managers, financial analysts and business journalists — haven't exactly been clamouring for information about the shift to a global standard that promises greater transparency and broader coverage of publicly traded shares.

"I think some people [in the stakeholder community] will be caught unawares," says Irene Wiecek, FCA, co-director of the ICAO Rotman Centre for Innovation in Accounting Education at the University of Toronto.

Certainly, the changeover hasn't made headlines in the investment press — both the *Globe and Mail* and the *Financial Post* have published only a handful of stories about IFRS. "It's kind of a big black hole," says one investment reporter, who asked not to be identified. "There doesn't seem to be any systemic attempt to educate journalists about this."

The point about the information gap was brought home in no uncertain terms by the Ontario Securities Commission in February. In May, 2008, the OSC guided issuers to begin disclosing information on their IFRS transition plans, as part of satisfying their securities act requirements to disclose accounting policy changes in the Management Discussion and Analysis (MD&A). The conversion "is not just an accounting exercise," the regulator said, noting the importance of explaining its impact on business functions to investors.

But an OSC review of 2008 and 2009 filings of 106 issuers found that fully 40% had failed to include anything on the transition in their MD&As. Of the 60% that did provide IFRS information to investors, half offered nothing more than boilerplate language, while four-fifths failed to provide time lines or other milestones about the conversion process. As the OSC warned, "While the focus of our current review was education and awareness, we caution issuers that we may request re-filings of MD&A in the future if disclosure obligations are not met." Says OSC chief accountant Cameron McInnis: "This is a critical year for providing disclosures of IFRS transition information given the lim-

BAIBA BLACK

ited amount of time that remains before the 2011 changeover."

The regulator's critique is reflected in the sobering results of a KPMG survey of Canadian financial analysts conducted last November. The findings, the report notes, "drive home how little this community currently knows about IFRS." Researchers in Australia, which converted to IFRS in 2005, concluded in a study published last year that companies providing a greater level of proactive IFRS disclosure benefitted from more accurate analyst forecasts. "The reality," says KPMG's national IFRS practice leader Doug Reid, "is the state of readiness was not there."

Canada's analysts seem to have less understanding of IFRS than their UK and Australian counterparts did in the run-up to the 2005 changeover in those countries. Eighteen months before the transition, KPMG found that almost a quarter of Canadian analysts said they were "not knowledgeable at all" about IFRS compared with 2% for UK and Australian analysts surveyed.

In fact, Canadian preparedness seems to be more on par with what happened in Europe in the run-up to 2005, says Michael Welker, KPMG faculty fellow in accounting at the Queen's School of Business. "Companies didn't do a great job of letting analysts know of the changes that [were] coming."

Other key findings from the Canadian KPMG survey:

- 57% of the Canadian analysts didn't know if they understood the impact IFRS would have on the companies they follow;
- 53% felt IFRS would improve investment decision-making in capital markets and 70% believed IFRS would boost the reliability of financial statements;
- 96% said it was fairly or very important for publicly traded companies to communicate "actively" with investors and analysts about the changes.

The report recommends that issuers place a high priority on stakeholder communications, learn from early adopters, understand the impact of key performance indicators, and focus on issues the markets care about, such as explaining key issues of 2010 opening balance sheets and quarterly financial statements restated in IFRS from Canadian GAAP. As Reid says, the regulatory minimum disclosure isn't sufficient. "It needs to be supplemented by a lot more" information and stakeholder education.

George Kesteven's priority in the lead-up to the IFRS transition year is figuring out "how to explain the delta." As manager of corporate and investor relations for Calgary's Sterling Resources, Kesteven deals mainly with a relatively small group of sophisticated institutional investors who have bought into the offshore oil and gas exploration firm. With a large project coming on stream in 2012, the significant shift in Sterling's financial statements will move from full-cost accounting to successful effort. But he knows that Sterling will have to restate some 2010 results and explain its exemptions when the firm releases its opening balance sheets for 2011. "That's when the explanations are going to come," he says.

Even though it's small and closely held, Sterling isn't leaving the communications issues up to chance. "We've tried to mitigate the surprise factor by mentioning IFRS in every report to warn people it's coming," Kesteven says, noting that the board's audit committee chair has led an effort to educate Sterling directors with geophysics or geological backgrounds. "Usually, [accounting] changes happen first in the US and we can learn from their mistakes. This time, we are leading instead of following."

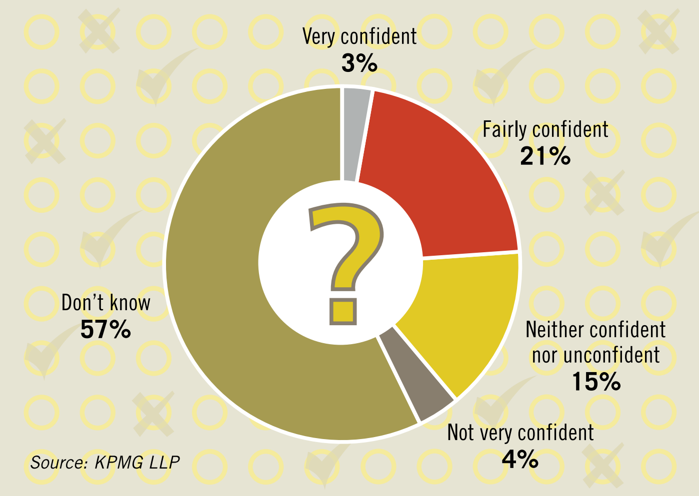
Yet as firms increasingly turn their attention to reporting the anticipated impact of IFRS, some appear to be struggling to find the right balance between prudent disclosure and risky prediction. "Some companies have to be cautious about what kinds of [forward-looking] statements they'll put out there because they'll be judged later," says Wiecek, noting that this tension may explain why so many firms have opted to rely on boilerplate language when discussing IFRS in their MD&As.

In general, Wiecek points out, investment analysts, many of whom have CA or CMA designations, are trained to strip away these sorts of accounting explanations and figure out what's happening in the underlying business. Those who follow cross-listed companies or have US clients will also have experience quantifying and explaining the differences between Canadian GAAP and other standards.

But this transition is a different story as it involves the identification of the important IFRS elections and

> **Some companies may take advantage of the confusion by trying to slide through writedowns that have nothing to do with IFRS restatements. "An analyst who isn't savvy may think this is just an IFRS change"**

How confident are you that you understand what the impact of IFRS will be on companies you invest in or follow?



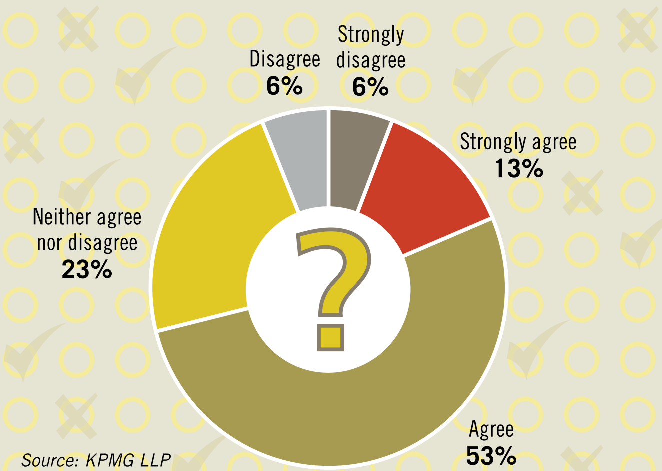
Source: KPMG LLP

exemptions for each issuer, then an analysis of whether the difference with Canadian GAAP represents anything more than an accounting change.

Wiecek is concerned that some companies may take advantage of the confusion by trying to slide through writedowns on assets during the transition year that have nothing to do with IFRS restatements — an example of the so-called big bath theory. "An analyst who isn't savvy may think it's just an IFRS change," she says.

The OSC in recent months has organized investor roundtables with the Canadian Financial Analysts Institute and other groups to provide input on important aspects of the proposed securities rules to accommodate IFRS changeover "so we can understand what their needs are," says Kelly Gorman, the OSC's deputy director of corporate finance.

In your view, do you agree or disagree the introduction of IFRS will facilitate better investment decision making in capital markets?



Source: KPMG LLP

At Toronto's Veritas Investment Research Corp., efforts to prepare its supply-side analysts for the changeover have been underway much longer, although the company's executive vice-president Anthony Scilipoti, CA, CPA, freely admits his firm is a bit unusual. Perhaps it's because he sits on the Canadian Accounting Standards Board and because accounting disclosures is a fundamental part of Veritas' research process so its analysts have been preparing for IFRS since the transition was announced. "We're a poor example of what the average [firm] is doing," he says.

In his assessment, the short-term focus of most analysts has prevented many from paying more attention to next year's transition. "What analyst teams should be doing is beginning to familiarize themselves with the changes," Scilipoti says. "You don't want any surprises come the changeover." He has urged his colleagues to scrutinize the financial statements of companies that are further along in the conversion, and there are a growing number of early adopters. "I think we've started to see some companies give better disclosure," he says.

The sluggish response may actually prove to be a competitive disadvantage to Canadian investment analysts. Lorne Gorber, vice-president of global communications and investor relations for CGI Group in Montreal, notes that Canadian equity analysts will want more US and international clients. "They'll need to create a primer for where the changes are," he says. "That will take some work for some of the big investment shops."

(Welker's research suggests that IFRS transition yields only a modest increase in the number of foreign-analyst coverage for issuers. A study of firms in 25 countries that moved to IFRS in 2005 showed that firms had, on average, 26% to 46% increase in foreign analysts before the transition.)

In fact, it's unclear how larger investment research shops are managing the transition. Requests for interviews with equity research managers at two major bank-owned underwriters (RBC Dominion Securities and BMO Nesbitt Burns) went unanswered, while CI Investments, the large fund firm, declined to comment. But KPMG's Reid says his firm has noticed that major investment banks are starting to provide more training and education to their in-house equity analysts.

Banks have also benefited from the intensive regulatory scrutiny applied by the Office for the Superintendent of Financial Institutions (OSFI), which has focused on a handful of key issues, such as financial instruments and loan impairment, that relate to its mandate to protect depositors. "We knew not to take it lightly," says Karen Stothers, CA, senior director of OSFI's accounting policy division, adding that her team consulted counterparts in France, UK and Australia. "We feel very comfortable that our institutions are well prepared. We'll be ready to accept new IFRS financial data [from financial institutions] in January, 2011."

Indeed, in its 2010 second-quarter report, BMO informed its investors that the main accounting areas IFRS was expected to impact were securitization, consolidation, pensions and other employee benefits, as well as capital ratios. In 2008, it established a corporation-wide project with an executive steering committee to oversee the transition and organize its implementation activities into 25 separate work streams. By the end of this second quarter, the bank had worked through almost seven of the identified areas and found no major red flags.

Regulators and those who have studied other IFRS conversion say the key is that firms must recognize that it is to their benefit to educate stakeholders properly. "Issuers that provide sufficient information about their conversion process and its effects prior to the changeover will reduce the level of investor uncertainty," the OSC said in its February directive. "Ultimately, this should lead to a more stable and less disruptive transition to IFRS, which will be beneficial to both issuers and their investors."

For his part, Reid is cautiously optimistic that such messages, and the results of the firm's survey, are beginning to sink in as the countdown to 2011 grows shorter. Audit committee agendas increasingly include updates on IFRS projects, and larger firms are reporting increasingly granular detail to investors. In the past, disclosure was slow, but now it's accelerating. There will be a sea-change by the third quarter, Reid predicts.

John Lorinc is a freelance writer based in Toronto

By Jeff Greenberg

All in the family

Strategies to maximize the value of your business and minimize tax on the succession of a family business

GARY CLEMENT

The old adage "shirtsleeves to shirtsleeves in three generations" too often holds true even today. While many business owners in Canada hope to see their children or family members take over the business when they are ready to retire, one of the greatest risks to a family business is succession.

Transferring a business to the next generation can be a complex process, as it involves business, ownership and family considerations. While business owners want their children or grandchildren to be successful, the desire for future success also has its roots in a business owner's wish to validate all the work that has been put into building the business into what it is today.

The high failure rate of intergenerational business transfers can be attributed to a combination of factors, including a lack of a formal succession plan, leaving planning too late and the absence of clear communication. All these can result in business owners leaving money on the table.

Effective planning and tax strategies, particularly those put into place at least three to five years in advance, can make a significant impact on the future bottom line of Canadian family businesses.

One of the keys to success is helping your clients build the right team of advisers. In addition to a CA, other professionals should be considered part of the business succession team: a financial adviser with investment, credit and insurance expertise; a lawyer; key family members;

a professional business valuator; a family business facilitator and a business mentor.

Many business owners avoid or delay implementing a business succession plan because their top priority is running and building their businesses. However, many business owners feel such a plan has helped them provide for their family's future, helped minimize future tax liabilities and improved their businesses' financial stability.

Factors that should be incorporated into the plan include, but are not limited to, answering the following questions:
• Who in the family is a potential successor and is this person ready to take on the role?
• Is there a financing plan in place to acquire the required funding for the business succession?
• How does the business succession plan fit in with overall family goals and what is the impact on all the members of the family (especially those not directly benefitting from the business succession)?
• How much will it cost to fund the retirement and other important goals of the business owner and will sufficient funds be made available through the business succession to meet these costs?
• Have all the necessary tax and legal issues and opportunities been considered in the plan to at least provide required funds?

It is important that business succession plans take into account the many family considerations that have an impact on the business owner's overall life plan and long-term goals. It's also important to determine the tax strategies that business owners can implement, in collaboration with their advisory team, to reduce their overall tax burden.

As in life, in business succession there is always more than one path for business owners to reach their goals. When trying to minimize taxation, often several strategies will be used in combination to create the most tax effective plan. A multistep, multifaceted plan can help get the best result for your client. A number of ideas in combination can enhance the ability of your client to transfer his or her business to family members while minimizing tax to the fullest extent possible.

Streamline the business — remove noncore assets

It is not uncommon for successful family businesses to accumulate noncore assets over time. Such assets can include real estate or an investment portfolio of marketable securities. There are a number of strategies to consider in order to purify the company, including repayments of shareholder loans and the payment of salaries or a dividend. Further, the addition of a holding company to the overall corporate structure can facilitate the movement of noncore assets out of the company on a tax-deferred basis through intercorporate dividends and/or butterfly transactions.

By removing noncore assets from the company, two key tax savings opportunities on the business succession may result. The first, purification, may allow the business to qualify for the $750,000 capital gains exemption on the disposition of the shares of the company. With succession to a family member, there is a greater likelihood of a share sale than there may be with the sale of the business to a third-party purchaser. The second, is by reducing the assets of the business to its essentials, it is very likely that the valuation for purposes of the sale will be reduced, thereby reducing any gain realized by the business owner and any associated taxes on the sale.

In addition to the potential to transfer excess funds to the holding company on a tax-free basis as an intercorporate dividend, a holding company may also provide a degree of protection from creditors of the operating business.

Individual pension plans

Individual pension plans (IPP) have grown in popularity over the past few years. Under the right circumstances they can provide a number of favourable benefits for your business owner clients planning their business succession to a family member and help secure the retirement income needs of the owner. The IPP is a creditor-protected registered pension plan that generally enables greater annual contributions than an RRSP permits and for business owners that have been incorporated as far back as 1991, the funding of a significant past service contribution may be possible. Funding of the IPP is also tax deductible to the corporation, providing another potential way to reduce noncore assets in the company. IPPs or possibly a retirement compensation arrangement can also be used as a tool to retain nonfamily key employees who are vital to the success of the business after the transfer to a family member.

Business succession plans should take into account family considerations that have an impact on the business owner's overall life plan and long-term goals

Pay a retiring allowance

If the business owner is planning on retiring from his or her business, it is possible to pay a retiring allowance in recognition of his or her long-term service, reducing noncore assets in the company. While the amount paid by the company would be taxable to the business owner, under paragraph 60(j.1) in the Income Tax Act, it may be possible to roll the amount into an RRSP and take an offsetting deduction against income. The amount that qualifies as an eligible amount is limited to the sum of $2,000 for each year of employment with the company up to and including the year 1995, plus an additional $1,500 for each year of employment up to and including the year 1988, for which there were no employer contributions to a registered pension plan or deferred profit-sharing plan that have vested for the employee.

The advantage of using a retiring allowance is that it allows for an extra RRSP contribution over and above the regular RRSP contribution limit, which will give the opportunity for more funds to grow on a tax deferred basis. If the business owner will be in a lower tax bracket in the future, the withdrawal may also be at a lower tax rate than would have occurred had these funds been paid directly to the business owner.

Implement an estate freeze

For many business owners, the structure of their business has remained constant since the day it was set up. In many cases the business is owned through a single corporation entirely by the business owner. On occasion this ownership of the company may be shared with a spouse. In most cases the ownership shares have a nominal adjusted cost base and paid-up capital.

The implementation of an estate freeze is often an essential step in minimizing tax as part of the business succession plan. Through an estate freeze, the value of the business owner's shares subject to tax can be frozen, thus limiting the potential future tax liability on a transfer to family or deemed disposition tax at death.

Further, when well structured, successors can be brought into the ownership of the business, either directly through share ownership or indirectly through a family trust. A family trust can also be used for income splitting purposes.

Implement a family trust for income splitting purposes

Inter vivos trusts (family trusts) are often set up by business owners as a way to facilitate income splitting with their spouses and minor children or grandchildren have the option of facilitating income splitting among family members. Another advantage in setting up a family trust, especially within the framework of an estate freeze, is that when properly structured, the family trust can help minimize the business owner's future taxes on a business succession.

By freezing the value of the business owner's shares, future growth in the business accrues to the next generation. The estate freeze also enables the $750,000 capital gains exemption to be multiplied many times over the beneficiaries of the trust when that future growth has increased. As well, the use of a family trust as part of an estate freeze allows for dividends from the after-tax profits of the business to be paid to adult beneficiaries of the family trust and be taxed in their own names at a potentially lower tax rate than the business owner would have.

Consider vendor take-back financing

In many family business succession situations, the successors do not have adequate funding to purchase the business at the time of the transition. Provided the business has the potential to continue to produce sufficient profitability to support the successors' additional debt load, supplying some of the debt financing in the form of vendor take-back financing for the business succession may be a tax advantageous strategy to consider for your business owner client.

The capital gains reserve found in Sec. 40(1) of ITA allows for the deferral of the recognition of capital gains on the sale of the shares of the business to the extent that payment is not received for those shares, subject to certain limitations. The reserve typically allows for a maximum deferral of capital gains equal to 80% of the total unpaid amount in year one, 60% of the unpaid amount in year two, and so on until the deferral is exhausted in year five. With the transition of a family business to a child or grandchild, the maximum deferral time period under Sec. 40(1.1) ITA is doubled to 10 years, effectively allowing for a 90% deferral in year one, 80% deferral in year two, and so on.

Corporate-owned life insurance

Insurance is another idea that should be considered to help your client minimize the cost of taxes through the business succession. That is, allocating surplus assets in the corporation to a tax-exempt life insurance policy can achieve the following benefits:

- reduces taxes on corporate investment income;
- helps pay for taxes at death of the owner so the business is not disrupted; and
- provides cash to help equalize children not active in the business to help maintain family harmony.

Business succession can be complex, but well-thought out planning can maximize the value of the business, minimize tax and preserve family wealth and harmony

Disability insurance for children taking over the business and key-person insurance for management should also not be forgotten as important components of developing a succession and contingency plan.

Conclusion

Business succession can be complex, but well-thought out planning can help maximize the value of the business, minimize tax and preserve family wealth — and harmony. The strategies utilized will depend on the business owner's specific circumstances and should be implemented in collaboration with a team of professional advisers.

The need to be able to adapt as circumstances and legislation change is key. It is also important that you and your clients' other advisers keep your clients' overall goals in mind — to provide the means to fund the next stage in their lives, have the resources available to take care of their loved ones, and to ensure that their business survives and prospers into the next generation and beyond.

Jeff Greenberg, CA, is vice-president, financial advisory support, RBC wealth management services in Toronto

Technical editor: Brigitte Alepin, M.Fisc., MPA, CA, president of AGORA

By Bruce Sprague + Ted Bell

Tax, climate change and technology

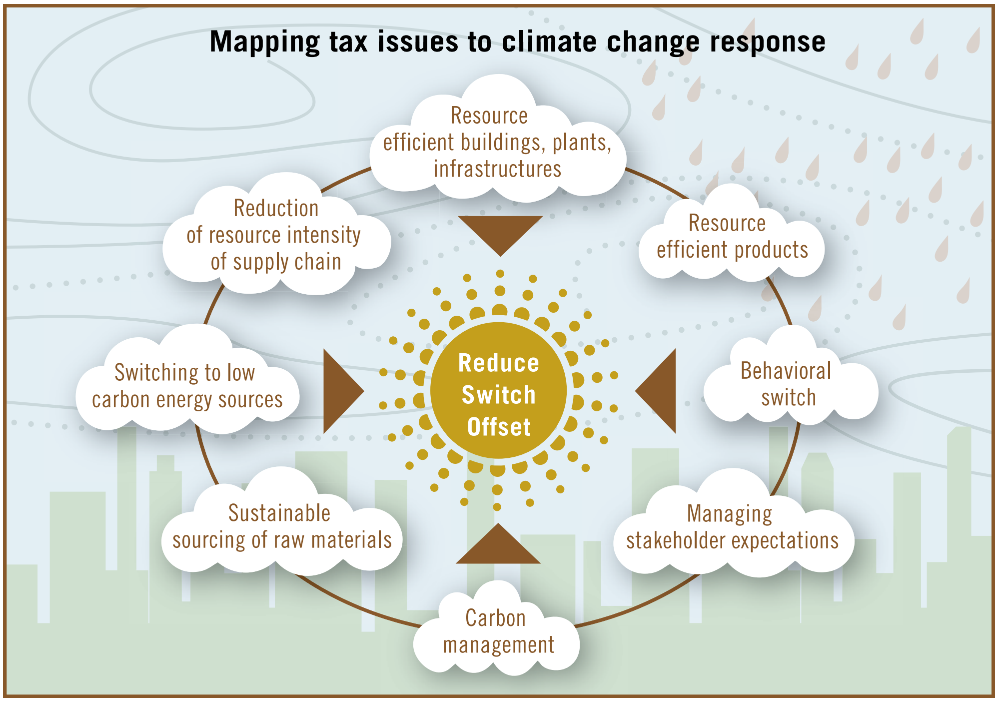
Tax professionals need to be aware of the challenges and opportunities that will result from the climate change agenda

Since Canada ratified the Kyoto Protocol in December 2002, climate change has become a hot topic in the media and in water-cooler conversations in corporations across Canada. While the topics of discussion are broad, the focus is generally related to the legislative efforts to achieve reductions in greenhouse gas (GHG) emissions and how climate change issues will affect corporate strategy. Now that the most recent round of climate negotiations has been completed in Copenhagen, the future landscape with respect to climate change remains somewhat uncertain. There was optimism that Copenhagen would include strong incentives for massive investment in new technologies and new climate solutions, and while there is agreement on some principles, the results do not include hard commitments.

GHG emission reductions can be achieved in a number of ways, including introducing new and innovative technologies, acquiring new assets that reduce GHG emissions or building on and improving existing technologies and assets (as outlined below). For corporations that don't have the ability to directly affect emissions, there are market-based alternatives, such as trading offset credits or similar strategies, evolving with the changes in the regulatory framework for GHGs.

Alberta has implemented a cap and trade system for facilities with emissions in excess of 100,000 tonnes CO_2 a year. Facilities under the program that cannot significantly reduce emissions or buy offsets pay into a fund at $15 per tonne of carbon. BC has created the Pacific Carbon Trust, which was set up initially as a vehicle to buy offsets for the purposes of BC's Carbon Neutral Government commitment. BC and Quebec also have carbon taxes. Many provinces have joined with US states in climate change organizations such as the Western Climate Change Initiative. Recently, the federal government stated that no implementation will occur without harmonizing Canada's approach with the US.

As corporations consider the right solution for their



BAIBA BLACK

business, they often look to alternative energy and related technologies and to the buying and selling of offsets. As goods, services, tangibles and intangibles trade hands, there are tax implications.

Tax departments must team with other organizational groups and remain vigilant to ensure that the resulting tax implications of each alternative to reducing or offsetting GHG emissions is adequately addressed. While this may appear simple in concept, the regulatory framework around climate change in Canada and other countries continues to develop as governments try to make the right decisions for their economy. This creates challenges for the tax practitioner in evaluating the issues and options for their business.

The effects of climate-change-related operational changes have both income tax implications and provide tax opportunities. Tax practitioners will find that the breadth and depth of tax issues around climate change are broad. At a high level, the effects include:

- the income tax consequences of acquiring, holding and trading offsets;
- the international and transfer pricing tax considerations on crossborder participation in carbon trading programs and greening the supply chain in the most tax-efficient manner; and
- the alternative treatments of the expenditures incurred in connection with GHG emission reduction to understand the most cost-effective choice: accelerated capital cost allowance (CCA) classification, eligible scientific research and development expenditure (SR&ED), or other federal and provincial incentive programs.

For the tax professional working within the current challenging and changing economy, climate change creates the need to have a global view of the organization from the tax and legislative perspective and with an understanding of what the corporation is doing in each jurisdiction with regard to technology and climate change. Long-term planning and consideration of the likely legislative scenarios and operational actions will provide the perspectives required to avoid unintended effects and make strong decisions for a tax-effective organization. Teaming with operations and climate change and sustainability champions is a must.

Income tax consequences of acquiring, holding and trading offsets

A carbon offset, also known as an emission reduction credit or a carbon credit, represents a GHG emission reduction of a specific quantity of carbon emissions. Offsets typically are generated through projects whose primary objective is to reduce, avoid or sequester GHG emissions from fossil fuels or through the use of renewable energy projects such as solar or wind energy projects or reforestation.

Once credits have been created, depending on the jurisdiction, they may be used by the corporation in meeting its emission reduction targets or may be sold to third parties. Recently, BC has proposed to expand its definition of international financial activities to include certification and trading of carbon credits to a nonresident person or on behalf of a nonresident person, thereby providing a significant provincial corporate tax benefit to eligible corporations.

Currently, there is nothing in Canada's Income Tax Act that specifically addresses the expenditures for emission allowances and credits. The Canada Revenue Agency has acknowledged in Income Tax Technical News No. 34 that:

- it is expected that any outlays relating to the acquisition of these credits will normally be made or incurred for the purpose of gaining or producing income from the business; and
- the income tax consequences relating to the acquisition and disposition of emission credits must be determined based on existing tax principles established under the legislation and jurisprudence.

In other words, the appropriate income tax treatment for such transactions can only be determined following a review of all the facts relating to the particular transaction, including the legal rights and obligations created under any agreements.

For the Canadian and international tax professional, scenario analysis will be improved through obtaining perspectives from other countries' and other companies' experiences in tax authority reviews and in the courts. Input from broader experiences will be an asset both in terms of calculating the return on investment for a project or transaction and in supporting the tax treatment.

Regulatory framework around climate change in Canada and elsewhere continues to develop as governments try to make the right decisions for their economy

International and transfer pricing considerations

There are two fundamental concepts evident when considering the international tax, transfer pricing and tax-efficient supply chain implications of climate change:

- assessment of the potential impact of climate change initiatives on the supply chain, including intercompany transactions and existing transfer pricing policies, and;
- climate change regulations and initiatives can trigger supply-chain planning opportunities or threaten existing supply-chain structures because of change to the distribution of functions and risks; development of new intangibles; and creation of new intercompany transactions.

The decision to adopt climate-change-related supply-chain management, known as the greening of the supply chain, will require many companies to change how they operate. These changes may impact the crossborder physical flow of goods, as well as manufacturing and distribution activities. It will be necessary to revisit the business model and operational structure and consider whether any changes have occurred to the distribution of functions, assets and commercial risk related to the intercompany transactions between associated parties within the multinational group, which might impact the intercompany transfer prices. These changes can also create opportunities to design and implement tax-efficient structures. Many organizations are initiating a full product life-cycle review of their supply chain in order to identify GHG emissions both within their operations and that of their suppliers.

Other transfer pricing issues and/or opportunities that might arise include:

- funding, managing and bearing the risks of climate change initiatives, which might have an impact on the profitability of various entities within the corporate group;
- determining the effective legal and economic owners of new and innovative assets and intellectual property; and
- participation in carbon trading programs.

Alternative treatments of the expenditures incurred in connection with GHG emission reductions

One strategic approach a company can use to reduce GHG emissions is to consider whether innovative technologies exist or can be developed that would reduce GHG emissions. Technologies can be related to product or process, including existing technologies, eureka new technologies or improvements to an existing technology. For such projects, companies should be considering government incentives and accelerated CCA classes to help fund the project or improve return on investment.

To adopt climate-change-related supply-chain management, known as greening of the supply chain, many companies will have to change how they operate

Accelerated CCA classification and Canadian renewable and conservation expense (CRCE): Recent budgets have introduced a new capital CCA class, Class 43.2, to accommodate investment in new capital assets designed to reduce GHGs or improve environmental efficiency. Class 43.2 provides an accelerated 50% annual deduction for specified equipment that generates energy in the form of electricity or heat using a renewable energy source, using specific waste fuels or making efficient use of fossil fuels acquired after February 22, 2005 and before 2020.

In addition, certain depreciable assets included in Class 43.2 acquired to reduce GHG and used in specific provinces may also be eligible for investment tax credit (ITC).

Certain expenditures related to the development of a project may also be eligible for treatment as a CRCE. A CRCE affords the same treatment as Canadian exploration expenses (CEE), which are deductible at up to 100% of the unclaimed balance per year. These expenditures can be carried forward indefinitely or transferred to investors using flow through shares.

SR&ED: Many corporations that pursue activities to reduce GHG emissions will also be performing SR&ED, which can result in ITC, generally 20% at the federal level and may be eligible for a refundable ITC at 35% for qualifying Canadian-controlled private corporations. Provinces also have ITC programs that supplement the federal amounts and are usually 10% or 15% and refundable.

Other discretionary incentives: The federal, provincial and municipal governments offer incentives to support clean technology and going green. Discretionary incentives can be categorized as:

- Grants: for example, Sustainable Development Technology Canada administers two grant programs, the SD Tech Fund to support late-stage development and pre-commercial demonstration of products and processes that contribute to clean air, water and land, and the NextGen Biofuels Fund to support development and production of biofuels using next generation processes.
- Repayable contributions (i.e. loans): for example, the Green Infrastructure Fund offers repayable contributions to the private sector to encourage the creation of infrastructure that promotes clean energy generation and transmission, carbon capture and wastewater management.
- Rebates: for example, many hydro companies throughout the country offer rebates on proven, measurable energy savings and reduced energy consumption initiatives and equipment replacement/upgrades. The rebates differ depending on the hydro company and the energy savings realized. Renewable energy power calls and feed in tariff programs are also becoming more common.

Incentives can provide excellent support for past, current and future initiatives; however the lists are long and not necessarily additive, making it difficult to identify what incentives make the most sense for a business. A top-down strategic approach to identify corporate activities for which discretionary incentives opportunities are possible is a potential approach. A good list and understanding of the incentives landscape is key to stretching a project's budget and improving the project's cost recovery.

In summary

Tax professionals need to be aware of the regulatory challenges and opportunities relating to their business that will result from the climate change agenda, whether it be dealing with emergent regulatory requirements, accounting and taxation issues relating to carbon offsets, the implications or opportunities that new technologies or new renewable energy sources provide, incentive opportunities such as SR&ED or other tax credits or examining the organization's supply chain for cost-reduction and tax-efficiency opportunities along with the associated transfer pricing issues. The tax professional will need to be plugged in to the operational areas of the organization in order to participate in these carbon-related projects and to increase the understanding of the full affect on the organization of these new issues and opportunities.

Bruce Sprague, CA, is a partner and Ted Bell, P.Eng., is a senior manager with Ernst & Young in Vancouver. They are part of the climate change and sustainability services tax team in BC

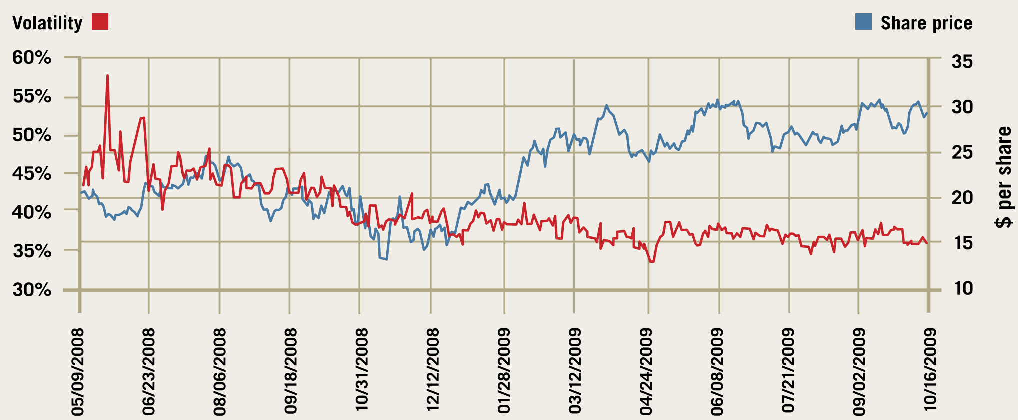
Technical editor: Trent Henry, chairman and CEO, Ernst & Young

By John Ross

Warrants are not stock options

Historical stock-based volatility appears to significantly overstate stock-option valuations

FNV share price versus implied warrant volatility over time



Stock option and warrant valuation is becoming more important. Valuation is no longer just a noncash cost of issuing options. In Canada, publicly traded companies require certification by the CEO and CFO as to the reasonableness of the financial statements. Since stock options can be a material expense for some companies, CEOs and CFOs need to know if stock option accounting exposes them in their certifications. Warrants can be a significant component in public company financings and need to be properly allocated. Canada Revenue Agency's current position is that warrants that expire unexercised are taxable. Individuals may consider holding stock options or warrants in their tax free savings accounts and need to know that these investments are properly valued. Stock options need to be valued properly on the breakdown of a marriage.

Issue

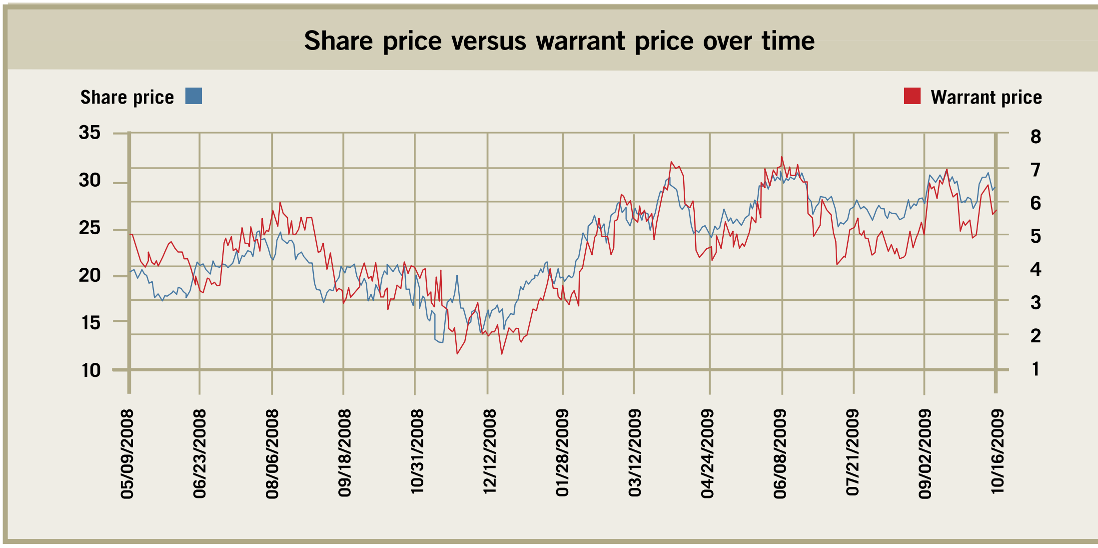
CICA Handbook Sec. 3870 provides guidance for stock option accounting. Sec. 3870.07(c) defines fair value as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act."

Guidance

Guidance in Sec. 3870, Appendix paragraphs A12-A14, dealing with expected volatility, suggests that stock-price volatility is an appropriate measure of stock-option volatility. However, Paragraph A6 cautions that historical numbers should not be used "without considering the extent to which historical experience reasonably predicts future experience."

Current practice

In Canadian GAAP the current practice is to determine the historic stock volatility and to survey a peer group to confirm a suitable stock-based volatility is being used by the company. Once determined, this volatility number is then used to price the stock-option expense, using the Black-Scholes method in most cases. This practice assumes the warrant volatility is identical to the stock volatility. The use of beta in the capital asset pricing model suggests that the identical volatility assumption for different security classes may not be appropriate.



Research methodology

A test of the reasonableness of the volatility number can be made by calculating the historic volatility for a publicly traded share with publicly traded warrants. While warrant volatility is not completely appropriate for determining stock option volatility, warrant volatility can be used to set a ceiling or upper bound on the stock option volatility number, which can be discounted as required. Publicly traded warrants hold all the upside characteristics of stock options without the restrictive stock-option characteristics such as vesting, blackouts and employment mortality risk.

Franco Nevada (FNV) is a publicly traded company with a publicly traded $32 warrant and will be the securities used for comparative purposes. By using the Numa Financial Systems Ltd. — a web-based Black-Scholes model where you input the variables and get the unknown item — option calculator, the warrant volatility over time can be determined by comparing the daily stock price with the daily warrant price. The historic share volatility can be determined and compared against the market-based implied warrant volatility over time. This comparison will provide a good basis to determine the reasonableness of the historic stock-based volatility number as an input for stock-option valuation for similar companies.

The FNV study covered the period of December 3, 2007 to October 16, 2009 for shares. Warrants were studied from their introduction on March 13, 2008 to October 16, 2009.

Warrant volatility was calculated based on a $32 strike price, 1.15% risk-free rate, 0% dividend and full term to maturity. The daily closing share price and warrant price were input in the NUMA.com stock option calculator (Black-Scholes model) to determine the implied daily volatility of the warrant.

Current practice in Canadian GAAP is to determine the historic stock volatility and to survey a peer group to confirm a suitable stock-based volatility is being used

Results

The historic stock-option volatility was 82% over the 1.9-year period of the study. The study could not be extended back any further due to the recent listing of FNV. However, stock-based volatility continued to increase with time during the period of review. By comparison, the implied volatility for the FNV warrants with 2.4 years remaining to expiry was 36%, increasing to about 50% at the four-year to maturity mark (see chart on page 36).

The chart indicates that warrant volatility increases over time and volatility is more a function of time to maturity than share price.

Decreasing the time to expiry of the warrants increases the volatility if all other inputs are held constant. If the 2.4-year implied volatility inputs were used and the term to maturity was reduced by 180 days (to 1.9 years), the implied volatility would increase by 5% to 41%, roughly half the historical stock-price volatility over the same time frame. This 2.4-year period (far left area of the chart representing items 1 to 25) for implied volatility is important, as the share price was about $30, very close to the strike price of the warrants.

Stock options are generally priced at or above market when issued and this evaluation period refutes the concept that warrants and stock options significantly out of the money could have a different volatility than those close to or in the money.

At the four-year to maturity mark, a decrease of 180 days in term to maturity results in an increase of 3% in the implied warrant volatility, while a 365-day decrease in time to maturity results in a 7% increase, assuming all other input variables are static (note that volatility would decrease with a reduction in term under normal circumstances). This sensitivity analysis is important, as expected investor behaviour would not result in warrants being held to the absolute end of their life; important information in trying to establish a ceiling for the implied volatility for stock options.

Warrants are not stock options

This implied volatility number is related to a publicly traded, investor-owned warrant and not a private stock option with a significant number of restrictions (vesting, potential to early terminate the option through loss of employment, nontransferable and subject to blackout periods). Although it may be difficult to quantify the value of these differences, they would negatively affect the fair market value of the stock option when granted as compared to the FNV warrants. As volatility is the most significant variable that drives stock-option pricing, the conclusion must be that to fair value a stock option as compared to a warrant (a superior investment vehicle in every respect as compared to a stock option), a reasonable investor would discount the volatility of a warrant of similar time to maturity to value the lesser security offering at the appropriate fair value (decreasing volatility decreases the Black-Scholes option price). Such a discount from the implied warrant volatility is required to meet the fair-value requirement of Sec. 3870.07 (c).

By studying the implied warrant volatility of a firm with shares and warrants subject to public trading, a ceiling for stock-option volatility can be determined

The company preparing the reasonability test for stock-option volatility would have to assess its fit against FNV to determine whether this warrant analysis was useful for the company in question. Adjustments would be needed for comparative size, industry and liquidity of share trading. At the extreme, another more comparable company would be chosen for analysis and comparison.

Specific items considered for the volatility discount included vesting period, blackout period and employee mortality risk. Other potential factors could include illiquidity of share trading, stock-price momentum and conservatism inherent to the modelling methodology.

Vesting

Warrants are freely tradable, generally on the date of issue where stock options are generally only tradable after they vest in the hands of the holder. Using a weighted average to determine tradable option availability, only a percentage of the options are fully available to the option holder over the time to maturity as a direct result of restrictive vesting provisions. As a result, the implied warrant-based volatility should be discounted to reflect the inferior characteristics of the stock option.

Blackout periods

Certain periods may be restricted for trading due to insider trading rules. Examples of such restrictions include release of material press releases, various interim and annual reporting periods and periods of corporate activity such as merger or takeover discussions. A reasonable estimate for blackouts could be 20 trading days a year for some individuals. Based on 200 work days in a year, this could amount to 10% (or more, or less, depending on the company and the individual) of the life of the stock option.

Employment mortality risk

Cutbacks and workforce reductions are a reality that needs to be addressed in the valuation to the holder. Current published unemployment rates are 10%, excluding the discouraged-worker component. As some industries have greater employment volatility than others and some companies are more financially solid than others, this item will vary with company and industry.

Discount

As any individual risk could impair the value of the option, the discount rate applied should reflect the cumulative and multiplicative effect of all the risks. Each company would have to assess and value its restrictions to arrive at a discount to the implied warrant volatility, adjusting the number for a fair-value valuation. This valuation needs to be prepared with consideration of the company used to determine the baseline volatility (FNV in this case).

Conclusions

Warrant volatility is not stock volatility. Historical stock-based volatility appears to significantly overstate stock-option valuations. This conclusion confirms what many CFOs and audit committee chairmen have suspected for a long time.

By studying the implied warrant volatility of a company with both shares and warrants subject to public trading, a reasonable ceiling for stock-option volatility can be determined. This ceiling for the implied warrant volatility number needs to be discounted to adjust for inferior characteristics of stock options against warrants and for comparison of the company issuing warrants or stock options against the company used for comparative pricing. This approach should provide a valuation much closer to fair value than the present practice of basing valuation on historical stock-based volatility.

John Ross, CA, is the CFO of Tri Origin Exploration Ltd. in Aurora, Ont.

Technical editor: Ron Salole, vice-president, standards, CICA

By David Malamed

Fraud never sleeps

Although the economy has improved, a diligent approach to fraud prevention and detection remains as important as ever

The recent worldwide economic downturn severely affected many industries in Canada, among them a large and successful Canadian electronics manufacturer. In order to survive, in 2008 the company resorted to drastic measures such as laying off almost one-third of its administrative staff and management team, freezing all salaries, eliminating bonuses for senior management, reducing business travel as much as possible and drastically restricting expense budgets. Hard as it was, its strategies paid off. As the economy improved, the manufacturer recovered and by early this year, it had weathered the crisis and was once again doing well.

As senior management looked back on a stressful 18 months, it decided some of its survival decisions were worth preserving. The CEO in particular believed the company could continue to function effectively with the smaller staff. He opposed reinstating the positions that had been eliminated as he believed the company could function without them, thus achieving higher profits.

The CFO wasn't sure this was a good idea, however she knew once the CEO made up his mind he was hard to dissuade. She supported the CEO's decision but suggested, as a cautionary measure, they hire consultants to assess the pros and cons of moving forward with a leaner team. The CEO reluctantly agreed.

As part of the consultants' assessment, they brought in a forensic accountant to examine the company's performance during the recession. And this is when things came to light. To him, some things didn't look right.

"Your sales have gone way up," the accountant told the CFO, "but one area of your expenses has not." He showed her a series of journal entries that started just after the layoffs and continued to date. The entries dealt with payments to several companies that supplied specialized parts to the manufacturer. The invoices were virtually for the same amounts that day as they were when times were bad, which didn't add up. They should have increased proportionately with the new sales levels, the accountant explained.

BLAIR KELLY

The CFO agreed it was unusual but cautioned against leaping to conclusions. The person in charge of the entries was a long-term comptroller. "He's one of our best people," she said. She also noted he was a lay minister who had won civic awards for his volunteer work at a homeless shelter. "I'm sure he can easily clear this up."

She telephoned the comptroller and told him what the forensic accountant had found. The comptroller calmly proposed the three of them get together first thing the next morning. But he never showed up. In fact, he never returned to the firm.

This disturbing behaviour triggered a full-scale investigation that uncovered a large-scale fraud that began when the company initiated its downsizing. As a result of the layoffs, the comptroller was left to work without oversight. Because of his outstanding reputation within the company, he had been trusted to approve cheques and reconcile bank statements on his own.

The investigation revealed that this arrangement coincided with a major change in the comptroller's life. He had begun an affair with a younger woman who pressured him into spending lavishly on her. "It was a case of a guy who had lived a seemingly perfect life, done everything he was supposed to do, then one day decided he wanted a taste of adventure, a taste of what he had never allowed himself to have," the forensic accountant said. "This young woman played him."

To finance the affair — which included paying for a furnished apartment in a luxury condominium for the unemployed woman, an expensive car lease, bloated credit-card bills for designer clothes and meals at the finest restaurants — the comptroller created several fake companies and had them invoice his company. He approved the cheques, which were sent to the rented apartment.

Although he was defrauding his employer, the comptroller was still a decent, though misguided, man at heart. He never took more than he needed to pay his illicit expenses. When the economy improved and his employer began doing much better, he didn't increase the amount he was stealing. And that was his undoing. "It just didn't look right to me," the forensic accountant said to the CFO. "And when something doesn't look right, that's a big red flag."

In total, the comptroller had taken almost $1 million. Not surprisingly, there was virtually nothing left to recover. The forensic accountant prepared a report that was used to terminate the comptroller and, if the company wanted, to assist in prosecuting him.

Needless to say, the CEO reconsidered his ideas about restaffing his company. He made sure the new comptroller did not have sole authority to approve cheques. It was a wise change of mind. It was also a lesson that all companies could learn from.

Now that the economy has improved (or seems to have improved; it's not yet true across the board), companies need to ensure they don't let their guard down in terms of fraud prevention and detection just because the good times seem to be back. If cutbacks resulted in a reduction or elimination of oversight during the recession, it's important to replace those positions. Even if no fraud took place when the oversight was removed, that's no reason to assume that will be the case in the future.

It's human nature to relax after enduring tough times, especially if survival was at stake. It's also natural to focus on whatever is required to ensure the recovery continues. But as the tensions ease and a sense of renewed prosperity returns, the potential for fraud to occur has to remain front-of-mind. And the possibility that fraud took place during the hard times must be considered and perhaps explored.

It's generally thought that fraud increases during tough times. And the reasons seem obvious: a greater pressure on individuals and companies to perform or stay in business, and, as noted, layers of controls are often reduced. Consequently, it makes good business sense for companies to conduct a fraud risk assessment to determine what, if anything, might have occurred in the recent past.

Several schemes arise during any fight for survival. One involves false-revenue recognition. A company in Western Canada, for example, took this route to meet its quarterly earnings. With sales slipping drastically, it decided to set up a phony company in a nearby town. It sent itself false orders and sent inventory to a warehouse it owned in the town. It recognized the transactions as completed sales, when in truth it was simply moving product from one of its locations to another.

Another scheme involves high writeoffs. It's not uncommon for a company to experience higher writeoffs in difficult times. However, it's also possible that fraudsters might exploit that perception to create false writeoffs for their advantage.

That's exactly what two owners of a medium-sized professional services firm concocted. Strapped for cash, they purchased several company cars and new office equipment, including computers and photocopiers. To raise revenue they then sold the acquisitions at a fraction of their value and wrote off the losses.

Companies need to ensure they don't let their guard down in terms of fraud prevention and detection just because the good times seem to be back

In fact, the two owners made the purchases themselves and then resold the goods for an amount closer to their actual value and used the profit to pay off their personal debts.

A fraud risk assessment should also look for customers who didn't exist prior to the bad times and who disappeared when the tide turned. This could be innocuous, but it's a red flag worth examining as it's possible the customers never existed. One means of detection is to compare the addresses of vendors to the home addresses of employees. It's amazing how often a dishonest employee simply uses his or her own address when creating a false entity.

Once a company examines the past, it should also turn its attentions to the present.

If the recent recession was particularly tough on a company, the present would be a good time to redistribute a corporate values statement and specific codes of conduct, which everyone should have to sign. This is especially important if a significant number of new people are hired. Obviously, if no such codes exist, they should be created as soon as possible.

Expense account protocols should also be given careful consideration. That's because expense account abuse is a rampant problem. In 2006, *Business Week* reported that companies throughout the world spend tens of billions of dollars every year on travel and entertainment. Most expenses are legitimate, but some less so.

Obviously, spending on travel and entertainment declined during the past recession. Now that times are improving, it's reasonable to assume restrictions on expenses have abated.

The most common schemes include billing for personal expenses, such as meals and travel for family members or friends; billing for expenses that never occurred (such as car mileage); and inflating legitimate expenses by altering or falsifying invoices and/or receipts. One of the most common scams is falsely claiming for taxi rides. Cab drivers routinely offer customers blank receipts in hope that by doing so they will receive a greater tip. This may seem like penny ante fraud, and in many cases it is just that. But in a large company the small amounts can add up. It also can make a person submitting the false claim think that if it's this easy to get away with a small fraud, perhaps a larger one is just as simple to pull off.

Some expense account fraud is anything but small stuff. One high-ranking executive billed close to $500,000 over five years for false expenses. A high flyer, he routinely requested and was given large cash advances prior to a long trip or series of flights. He understood his company's system well enough to know that he could then bill for his expenses as if the cash advances had never occurred without being detected. He also built up his expenses, submitting a large batch at once. He was counting on the idea that an avalanche of paper would not be scrutinized too carefully. Often he would include an original and photocopy of the same receipt, with a few details altered by him, in the belief both would be approved without careful examination.

One safeguard against such fraud is to implement a system that carefully reviews all claims, no matter who submits them, and requires all expenses to be approved by supervisors.

A final note about fraud in so-called "good times" is to make sure that any concessions imposed when the going was tough are not kept in force if they are no longer necessary. One significant motivator for fraud is a sense that the wrongdoer deserves the money taken. If wages were reduced, bonuses frozen or benefits reduced to survive the economy, be mindful such measures will likely have been reluctantly accepted. If employees realize the circumstances have improved but none of the concessions returned, they might decide that they deserve to take whatever they can to replace what was lost.

The bottom line is that fraud never sleeps. It occurs no matter whether the economy is flourishing or stagnant. But when things suddenly ease after a long spell of struggle, that's when diligence is perhaps most important.

David Malamed, CA•IFA, CPA (Ill.), CFF, CFE, CFI,
is a partner in forensic accounting at Grant Thornton LLP
in Toronto.
He is also *CAmagazine*'s Technical editor for Fraud

PROFESSIONAL OPPORTUNITIES

Accounting Practices Wanted – We are a growing professional services firm (accounting and taxation, wealth management) looking to add to our existing accounting practice and welcome any opportunities in B.C., Alberta or Ontario. We offer flexible succession options allowing current owners to, at their discretion, remain involved in the practice in an advisory capacity. We also offer a premium for practices that, like us, are run with integrity and share a commitment to providing exceptional client service. Please forward details of your practice to accounting@firstleaside.com.

Accounting Practice Sales – Please see our website at www.accountingpracticesales.com. Are you ready to sell your practice now? Sell your practice through Accounting Practice Sales for a fixed price without an earn-out deal that will carry on for years. After all, if you wanted to stay in practice, why sell out? BUYERS – registration with us is simple and free via our website. North America's leader in Accounting Practice Sales. Contact Brannon Poe for a confidential discussion at: 1-888-246-0974 or via email poe@knology.net

Midtown Toronto CA seeks to acquire block of accounts for up to $50,000 with mix of T1, T2 and NTR only. Please email midtownca@gmail.com to discuss.

WESTERN ONTARIO CAs – ECAL (Entrepreneurial CAs London) offers 12 monthly luncheon meetings + 12 exclusive PD hours for $120 p.a. inclusive. Half day PD courses for $95 or less. 75 members, growing monthly. Unbeatable value. Contact Ken Cossoy 519-672-0924 kcossoy@cossoy.com

Accounting Practice Sales Current Listings:
Ottawa, ON – $275,000
Southwest of
Lloydminster, AB – $725,000
Calgary, AB – $450,000
Calgary, AB – $300,000
Central Alberta – $145,000
To view the most up to date listing information, please visit www.accountingpracticesales.com

OTTAWA CA FIRM looking to expand by purchasing practice / block of accounts in Ottawa. Would consider retirement options / merger. Contact Bruce Johnston at Ginsberg Gluzman Fage & Levitz, LLP at 613-728-5831.

Edmonton CA Firm is interested in purchasing an existing practice or block of accounts with gross billings from $50,000 up to $1,000,000. We prefer to acquire a practice or block of accounts that are focused on year end accounting, assurance, and compliance tax work for owner managed businesses. Please contact us at albertaca10@yahoo.ca

Wanted to purchase – Block of accounts in smaller BC community. Gross revenues of $100,000 to $300,000 per year. Recently qualified CA with young family seeks to leave the city. Three to five year succession plan. Reply to purchasepractice@gmail.com. Replies received in strict confidence.

Opportunity for experienced, technically sound CA to perform challenging and rewarding audit work at boutique firm in Mississauga specialized in auditing cooperative and not-for-profit organizations. Be a leader in transitioning the practice and clients to international standards. Interesting work with the balance of a small firm environment. Path to partnership for the right person. Please reply with resume to Box 692, CAmagazine.

Energetic CA (GTA) with 5 years of experience in public accounting is interested in future partnership or acquisition of a CA practice with flexible succession arrangement. Please reply to capractice01@gmail.com

Are you an Edmonton practitioner contemplating retirement? If so, we are an established firm in a position to assist you with an outright acquisition or succession arrangement over several years. For more information, please inquire through Box 690, CAmagazine.

CA looking to acquire a practice in west part of GTA with gross billings of up to $350K. Please respond to Box 691, CAmagazine.

HAMILTON/BURLINGTON, ON FIRM looking for entrepreneurial committed CA with at least ten years public accounting experience with strong tax, small/medium business background to join regional firm to manage a book of business with significant audit/review component. Early partnership opportunity. Please reply to Box 687, CAmagazine.

ACCOUNTING SERVICES

Canadian CA, more than 28 years of experience, available now for per diem and contract assignments within the GTA and surrounding areas. Need help with getting ready for your upcoming practice inspection, year-end files, corporate or personal tax work? Then please call me and get it done right the first time! Proficient with all major acc-ounting and tax software. Call now at 905-598-2800 and sleep well tonight.

IFRS Implementation – CA/MBA, based in west GTA, with 20+ years of industry experience is available for freelance engagements including IFRS Implementation. If you require an experienced professional to complement your current staff, contact me. Per Diem, short or medium term. See www.proclaimconsultants.com or call Carl at (905) 815-5431.

TORONTO CA with 10 years of public accounting experience (private and public filers) in Big 4 and other, available for per diem and contract work. Accounting, working-paper preparation, financial statement preparation. Experience in various industries, including oil & gas, mining, financial institutions, consumer products, other. Please call 647-376-7610.

CA sole practitioner, Big firm training with very neat and organized files looking for challenging assignments for the Fall, ideally 2 – 3 days per week. Outstanding communication and client relation skills. Working with CaseWare and all tax software. Please email midtownca@gmail.com.

CAREER OPPORTUNITIES

You are looking for an opportunity to take up an equity position in a CA firm where quality and work-life balance are valued. Located in West Mississauga, serving a broad base of clients including some audits and reviews, with an emphasis on owner-managed business. You are an experienced CA with a strong resume in public practice and looking for that final place to get established and develop relationships and build a strong client base. Like you, we share a strong sense of commitment to exceptional service and have proven technical competence in tax and accounting. Let's talk. Please send resume to Wendy Raymond at ca@wormald.ca

CA Required for Toronto firm – Five years minimum Canadian accounting experience. CaseWare and Taxprep a must. Partnership opportunities. Please send your resume to: lorry@dpsgroup.ca

READY to bring your strong leadership and relationship skills to a firm where a future partner/succession plan is a reality not a mirage? Hamilton sole practitioner is aggressively growing and looking for a successor. The CA should possess strong growth, leadership skills and preferably have a block of accounts or the ability to obtain new clients. Please reply in confidence to joe truscott@josephtruscott.com or call Joe Truscott at 905-528-0234 Ext 224.

OFFICE SPACE

Hwy 401/Hwy 427 Airport Corporate Centre – CA firm has office space available immediately. Use of boardroom, reception, admin staff, IT support, internet, telephone line(s), copier, fax and software available. Ideal for sole practitioner. Please contact Carlo at 905-629-4047.

Highways 401/404/Sheppard – CA firm, with in-house tax specialist, has prestigious, first-class office space available at a building with premium gym facilities. Offers a flexible mix of 3 (2 window partner-size) offices, 2/3 work stations, boardroom with panoramic view, shared reception and kitchen, and filing/storage area. Ideal space for accounting firms, law firms, and firms with expertise in valuation, insolvency, or investigative and forensic accounting looking to share costs, enjoy inherent synergy and cross-referrals. Please contact Peter at 416-499-3112 ext.318, or Sonja at ext.309.

Planning retirement? Wish to focus more on your practice or growth? Need high-end office space or professional support staff? Need to take more time for leisure or family? If any business evolution thoughts are crossing your mind, talk with Sloan Partners LLP Chartered Accountants. www.sloan group.ca/steps. STEPS is a transition program, with the goal of providing high-end office space or ongoing support while guaranteeing that your practice will be in capable hands when you finally leave. It is well planned and profitable for you. STEPS is completely customized to your needs – you maintain complete control of your practice, your transition, your goals and time frame. For high-end office space in North Toronto or a way to transition call Allen Sloan. Tel: 416-665-7735*222

Toronto, King & Yonge – Office share arrangement. Executive and assistant's offices in suite shared with small professional services business. Internet & phones. On the subway. Terms flexible. See www.cambridgeforums.com/office space.php or contact officespace@cambridgeforums.com

WEB DESIGN

Website Design – Do you need a website? Is your existing site in need of an upgrade? Do you lack the time to develop and maintain your website? Do you want a professional site at an affordable price? Visit us at accountantswebdesign.ca

CA magazine

CAmagazine's Annual IT issue September '10

This issue is one of *CAmagazine*'s anticipated and highly read issues.

"Top 10 tech issues" plus our annual "ERP software survey".

CAmagazine's popular ERP software survey will be featured in this issue, with more than 40 products from vendors of all sizes. As always, readers can use our handy online chart to compare up to four products at a time. This year, they can also complete an online survey about their requirements, then view the 10 best ERP systems for their particular needs based on percentage fit calculations.

Some interesting facts you should know about *CAmagazine*

- *CAmagazine* recently received the most awards at the 56th Kenneth R. Wilson Awards, winning five Gold and two Silver medals, including the "**Best Issue**". In fact *CAmagazine* has won the "Best Issue" award 9 out of the last eleven years!!!
- In a world where media fragmentation is increasing, ratings are declining and advertising is easier to zip and zap, magazines are proving their worth.
- Two key measures of magazine ad effectiveness are on the rise, "Ad recall" is up 6% and "actions taken" has increased by 10% over the past four years.
- Magazines are:
  — #1 in engagement
  — #1 in driving consumers to websites
  — #1 in driving word-of-mouth
  — #1 in driving purchase intent

Source: Affinity's VISTA Print Effectiveness Rating Service.

CAmagazine reaches your target audience

A high percentage of CAs are directly involved in all types of business purchasing decisions. Our survey shows:

- Computers 82%
- Business solutions 72%
- Financial Software 63%

Truly a targeted audience with a paid circulation of over 89,000 and a readership of 186,900.

For advertising opportunities, please contact
Darcey Romeo, Advertising Representative
at darcey.romeo@cica.ca or 416.204.3257

Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

Elephants on the march, again

In 1998, the Royal Bank of Canada proposed to merge with the Bank of Montreal. A few months later, CIBC and Toronto Dominion Bank followed suit. The banks cited the pressure of globalization and an increasing consolidation of their markets to justify their mergers. Their reasoning, in short, was that they had to be bigger to be better. At the time, the Royal, the largest bank in Canada, was ranked 30th among North American banks. Merging with the Bank of Montreal would have seen it rise to 10th place.

Fortunately for us, the federal government refused to approve both mergers. Today, Royal, TD, Scotiabank and Bank of Montreal are respectively ranked 7th, 8th, 9th and 10th in North America in terms of assets. What's more, if you had bought $100 worth of Royal shares in 1998, your investment would now be worth $500. If instead you had decided to buy $100 worth of shares in the Bank of America, the largest US bank at the time, you'd have only $57 to show for it. But you could still consider yourself lucky. If you had invested the same amount in Citibank, your investment would be worth a meager $16 today.

The meltdown of the US financial system only partly explains the relatively strong performance of Canadian banks. They outperformed and caught up with banks south of the border thanks mostly to better strategic management. In particular, Canadian banks avoided the trap of growth through mergers, a trap that created, at great cost, huge monsters of inefficiency in the US. In the 12 years since the aborted Canadian mergers, the growth of Bank of America, JP Morgan Chase, Wells Fargo and other large US banks was driven by mergers between large financial institutions. This strategy is difficult to implement successfully over the longer term. In Canada, during the same period, the growth of banks was primarily organic and through small acquisitions. A comparison of the results of Canadian and US banks speaks for itself.

When growth at all costs becomes the objective, profitability rarely follows and promised economies of scale are never guaranteed. Bigger is better does not hold. In fact, the most profitable businesses are not the largest ones. Growth is only advantageous when it stems from profitability. Profitability stimulates growth, not vice versa.

Investors should be wary of mergers between similar-sized companies that are active in the same sector and serve the same markets. Known in the trade as like-alike, such mergers seldom create value. I generally recommend that investors sell their shares in the new companies formed by such mergers.

Canadians should also be concerned by such like-alike mergers, as they often create a supply squeeze that drives prices upward. Value is created by less competition, not by gains in efficiency and by economies of scale, which seldom materialize. The big winners in these mergers are the sellers and the intermediaries that participate in the transaction.

We should be wary of mergers between businesses in the same sector that target the same markets

The collapse of the US banking system illustrates the perverse effects of the consolidation of a sector essentially motivated by short-term financial gain. In the current context of a rising stock market, a new round of mergers is on the agenda in North America. There are sure to be many profitable transactions for sellers, but buyers won't necessarily come out ahead unless mergers take place between complementary businesses serving different markets.

We should be wary of mergers between businesses in the same sector that target the same markets. We must not be taken in by the argument that bigger Canadian businesses will be better equipped to face international competition. Marriage between elephants is seldom a recipe for success. Not only do investors risk having to foot the bill, but all Canadians will suffer from decreased competition.

Marcel Côté is founding partner at SECOR Consulting in Montreal