

CA

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June/July 2009

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18 months to go...

before we shed GAAP
and switch over to IFRS.

Will you be ready on time? P. 28



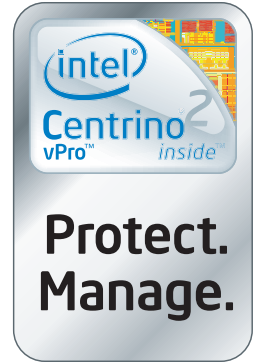
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Time to get serious – really

Day 1 of IFRS is fast approaching. Are you ready for this new era in standards?

So much to do, so little time. In early 2008, when the Accounting Standards Board (AcSB) announced that Canada's publicly accountable entities (PAEs) would have to report under international financial reporting standards (IFRS) as of January 1, 2011, many entities did not take it too seriously, thinking there was ample time to plan the transition and to assign adequate resources to the project. Sixteen months later, these companies find themselves in the middle of a global financial crisis and recession, many fighting for their lives, with half the time gone by.

In April 2008, CAMagazine published a special issue on the transition, outlining various implementation scenarios and pointing out available resources. Since then, many more articles have been published on critical issues regarding this historic transition. Meanwhile, the US Securities and Exchange Commission and the US standard-setter, the Financial Accounting Standards Board, have all but confirmed a date for the US to also adopt IFRS. Our own AcSB confirmed in spring that it was not moving the adoption date of January 1, 2011. We asked freelance writer Jeff Buckstein to go out in the field and report on the state of



Canada's readiness for IFRS. Don't miss his "Conversion checkup" article (p. 28).

One of the more serious sources of anxiety for accountants involved in the transition to IFRS is comparability with current GAAP. To help with this, the CICA has published 2009 Financial Reporting in Canada under IFRS, and we asked two of the authors, Nadi Chlala and Andrée Lavigne, to compare the major elements of the two standards ("Seven key differences," p. 36).

Our Regulars skip IFRS-related topics this month. The section features articles on taxation ("New tax savings opportunity," p. 44); taxation for small businesses ("A few green measures," p. 54); assurance ("Realistic strategies," p. 48); standards ("Going global," p. 51); and people management ("Management myths," p. 57).

In his Netwatch column, Jim Carroll talks about "Accountancy in the Twitter era" (p. 14), while Michael Burns explains that downtime created by the recession can be an opportunity to train employees instead of letting them go (p. 16). As for Marcel Côté, he reflects on "Corporate compensation" (p. 68).

Finally, I would invite you to visit our redesigned website, www.camagazine.com. More user-friendly, it offers up-to-date content on finance, business and accounting issues, and a powerful search engine to help you find articles of interest. Let us know what you think; drop me a line at christian.bellavance@cica.ca.

PAUL ORENSTEIN

Christian Bellavance, Editor-in-chief

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Syd Pallister learned the art of lure making from his grandfather, a legend in the business. Although he worked the night shift at his grandfather's firm while articling, Pallister opted for public practice instead of the family firm. But 19 years later, he took the bait and bought a tackle manufacturing business

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The clock is ticking and time is moving on inexorably. And the profession is rushing headlong to the groundbreaking event of conversion to IFRS. As January 2011 draws closer, it's time to examine just how far you've come in the preparations for the switchover

BY JEFF BUCKSTEIN

36 Seven key differences

In the transition to international standards, publicly accountable enterprises will have to deal with a few common issues. In some cases there are a few significant differences between IFRS and Canadian GAAP. Here's a comparison of the old way and the new way

BY NADI CHLALA + ANDRÉE LAVIGNE

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



Mailbox

CONTAIN THE CAUSE

While appreciating Peter Hatges' guidance for dealing with the current economic climate ("Containing financial contagion," January/February), the goal should be eliminating the cause of financial contagion, or at least containing it. The cause of the disease is greed — the making of money and not the making of wealth. The cure likely has more to do with values and ethics than anything else. Is it ever thus?
Trevor Shaw, CA, CMC
 Ottawa

LETTERS ABOUT LETTERS

As a retired Life Member of ICAO, I can empathize with *CAMagazine* reader H.A. Sherman (Mailbox, "Retaining readers," April) regarding the magazine's readability. I refer to what I view as lack of contrast between foreground data and background in *Going Concern* (April, p. 10); *Standards digest* (p. 15); and the chart "IFRS conversion maturity model" (p. 37); and indistinct contrast in the background sections of charts and graphs in general. A handy

magnifying glass helps me with the font size. And yes, to answer the obvious rebuttal, I have had these old eyes checked recently.
William Betsworth, CA
 Toronto

The editor's reply to H.A. Sherman's letter about legibility of the magazine shows that your priority is not respect for the readers but some inexplicable requirement to "respect the design of the magazine."
Jo Menkus
 Hillsboro, Tenn.

ALL WORK, NO PLAY

Regarding the "Tax Breaks" story and the snow angel team (April), I have a maxim — if employees insist on playing while at work, they have no leg to stand on if their employer insists they work when they are at play.
 On the other hand if an employer insists employees play while at work, then the employer has absolutely no leg to stand on if employees refuse to work when they are at play.

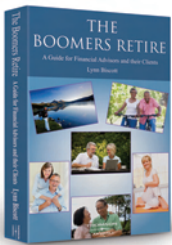
The latter appears to apply to Bennett Gold and therefore good luck to them. Either you like the work or you do not. I do, so I stay.
John E. Schmidt, CA
 Kitchener, Ont.

ALL IN THE LABEL

In March's Assurance regular, "Transparency and accountability," the regulations issued by the Canadian Securities Administrators were referred to as Multilateral Instrument 52-109. This regulation was issued several months ago using the nomenclature National Instrument 52-109 to indicate that all the provinces and territories agreed to adopt the legislation. A multilateral label informs the user that the instrument has not received unanimous approval.
Philip Maguire, CA
 Toronto

IT'S NOT ONLY THE MEDIA

I disagree with most of Lionel S. Such's arguments in his letter (Mailbox, "Media-made problem," April) about global warming and how, he says, it is made up by the media.
 Over the past 30 years, average temperatures on the planet have been increasing. There is a consensus in the scientific community that this process has accelerated in the past 10 years. Whatever happened in 2008 should be considered in a 10-year trend. A local event such as a volcano eruption could be responsible for a slight decrease in world temperatures.
 The Arctic ice cap is melting: 2007 was the worst year ever recorded and 2008 was only slightly better. Overall, the Arctic Sea could be free of ice in summer



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Mailbox

in the next 10 years. This is why countries such as Canada are making great investments to protect and patrol the Arctic region: it is becoming accessible because there is less ice. Glaciers all around the world are also melting and this is widely documented.

In response to Such's argument about the eventual cooling of Europe: the Gulf Stream is a warm ocean current that carries heat to Northern Europe. In some climate change scenarios, this current is believed to be weakening, which could explain the long-term cooling of countries

in this region. This is believed to be largely compensated by warming in most parts of the globe.

Today's temperature is not an indicator of climate change. Climate encompasses large-scale and long-term trends of atmospheric parameters. Cold days are still expected to occur in a global warming scenario.

Much time is wasted trying to convince people like us to at least believe in science (as scientists would trust accountants in our field of competence). We are way past the stage of believing or not believing in

climate change. We are now evaluating the consequences and adaptations required to face this problem.

Rima Khouri, CA
Quebec City

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e-mail address: letters.editor@cica.ca
Letters may be edited for space and clarity

it takes one to know one



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UP FRONT

News, people, briefs, trends + tips

Hooked on lures



Big fish: Lure maker Syd Pallister owns and runs Canada's largest and oldest manufacturer of fishing tackle

For Syd Pallister, owner and president of Delta, BC-based Gibbs Fishing Tackle, the lure of making fishing lures was cast early on. "My memory for events in my childhood isn't all that good," he says, chuckling, "but I remember almost everything about my family fishing trips." The native of Balcarres, Sask., particularly recalls one excursion: in 1972, the first time he had the chance to travel with "the men," which included his father, grandfather and their friends. "We drove for 23 hours in a motor home to northern BC. We fished during the day on the Skeena River system and watched the Canada/Russia hockey series at night. It was special."

The 57-year-old CA comes by his passion and vocation honestly: he's the grandson of the legendary Len Thompson, founder of Len Thompson Lures of Alberta. "He left the affinity deep within me," says Pallister, who wrote in his high-school yearbook that his goal in life "was to make thousands and thousands of fish hooks." While articling, he spent two years working the night shift at his grandfather's firm, learning the skilful art of lure making. Still, he didn't go into the family business, largely because his younger brother had already joined the firm full time.

After 19 years in public practice, he took the bait when a colleague told him about the opportunity to purchase

Gibbs in 1989. He was intrigued by the company's history — it is Canada's oldest manufacturer of tackle, founded by outdoorsman Rufus Gibbs in 1908 — and was excited about returning to his family's professional lineage. The work continues to be a challenge for the longtime angler. Because catching fish is difficult, he says a successful lure maker needs to think like a fish. "You want to present a lure to a fish like you would dinner to a human — if it looks appealing, you are at least going to taste it." John Shoemith

Résumé

- 1975** obtains CA designation (Alta.)
- 1976** purchases CA firm Pallister, Cookson, Carr and Campbell (Lacombe, Alta.)
- 1989** buys Gibbs/Nortac Industries Ltd.
- 2008** celebrates Gibbs' centenary

Meaningful work, not more money

Good news for recession-hit employers. The majority of Canadian workers are prepared to accept a lower wage or a lesser role if (and here's the catch) their work contributes to something more meaningful.

In a survey of nearly 100,000 people in 34 countries conducted by staffing firm Kelly Services, 58% of respondents said they would give up some of their salary or status to do something that is important to them and their organization.

"They place value on work that is personally satisfying, builds competence and self-belief, and helps advance long-term career goals," says Karin French, vice-president and managing director of Kelly's Canadian operations.

A full 90% of those polled say the work they perform gives them a sense of pride, while 84% say it raises their self-confidence.

C-SUITE CAs CONTINUE TO DELIVER RETURNS

Each year, the CICA checks to see how many CAs occupy top positions at companies in the *Globe and Mail's* Report on Business 1000. As usual, this year's study shows CAs not only hold many of these top jobs (chair, CEO, president, CFO, chief operating officer and corporate secretary), but also bring significant advantages to their employers.

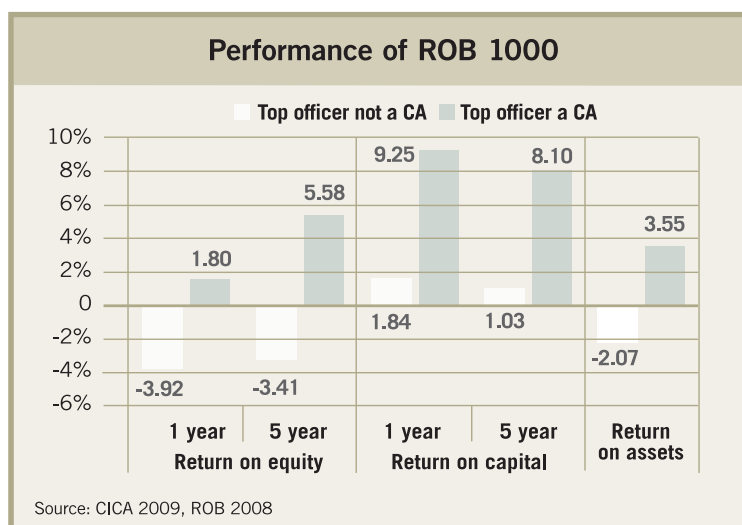
ROB 1000 companies with a CA at the helm (generally CEO or president) performed better on several key financial measures including return on equity, return on capital and return on assets. These findings are not a fluke — they have been consistent since the study's inception in 1998. Companies with top financial officers who are CAs also outperformed businesses with non-CA CFOs.

Not surprisingly, the executive position CAs are most likely to hold is that of CFO. Nearly six in 10 (58.7%) CFOs in the 2008 ROB 1000 are CAs. This compares with 59.6 last year, 57.9% in 2006, 58.1 in 2005, 56.8% in 2004, 55.1% in 2003, 54.5% in 2002 and 53% in

2001. Although the percentage of CFO CAs dropped slightly in 2008 from 2007, it remains higher than in prior years.

Other C-suite positions frequently held by CAs include chair (11.1%), CEO (9.9%), president (9.2%), secretary (15.3%) and chief operating officer (7.5%).

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



ASK AN EXPERT

WHEN IN THE HIRING PROCESS IS IT APPROPRIATE TO ASK ABOUT PAY/BENEFITS?

General salary requirements should be discussed early on — during the first or second interview — to avoid surprises later. Be prepared to hear a broad range, as employers want to get a sense of your qualifications and fit for the position before extending a formal offer. Be sure to highlight your accomplishments and the value you can bring to the employer before discussing compensation, and watch out for the following pitfalls:

Going in unprepared. Base your request on strong supporting evidence, which you can get from professional journals and industry publications, searching online salary sources and consulting with members of your professional network.

Over- or under-estimating your leverage. Consider the job market as well as your expertise and experience when establishing a desired salary range.

Being inflexible. While there may be some aspects of an offer you'll be unwilling to negotiate, be prepared to compromise on less critical items.

Fixating on base salary. Look at the total compensation, including nonmonetary but highly desirable components such as healthcare benefits, paid time off and flexible scheduling.

Failing to get it in writing. Once you've agreed on terms, ask the employer to draw up a letter of agreement that outlines the specifics of the offer, such as the position's key responsibilities, salary and any special arrangements that resulted from the negotiations.

Max Messmer is chairman of Accountemps (www.accountemps.com) and author of *Job Hunting For Dummies* (John Wiley & Sons, Inc.)

#NUMBERS Game

Smiling through the apocalypse Where some businesses see trouble, others see opportunity. These slump-time successes prove that innovation can sometimes triumph over economic turmoil

4 Months after the Great Crash of 1929 that Henry Luce launched *Fortune* magazine. Priced at an expensive \$1 per issue, circulation had skyrocketed to 460,000 by 1937.

9 Billions of US dollars lopped off the market value of computer company Apple Inc. in the early 2000s recession. Apple responded by launching the iPod and opening retail stores. “The way we’re going to survive,” said Apple CEO Steve Jobs, “is to innovate our way out of this.”

14 Percentage increase in sales Gillette enjoyed during the recession-ravaged year of 1990. Revenue was boosted by the launch of the firm’s Sensor line of men’s razors.

15 Estimated percentage of US consumer purchases financed by credit during the later stages of the 1920s. In 1932, General Electric



founded the innovative GE Credit Corp. to help consumers buy GE appliances.

15 Percentage decline in sales DuPont experienced in 1930, the year it boosted R&D spending to develop neoprene — the world’s first synthetic rubber.

256 Percentage increase in sales in the years following the 1981-’82 recession by businesses that maintained or increased their advertising spending compared with

those that cut back, according to a survey of 600 firms by McGraw-Hill Research.

1818 Year clothier Brooks Brothers was launched after purchasing surplus wool naval coats sold by the Royal Navy at auction in New York City to raise funds following the British depression of 1815-’16.
Steve Brearton

Going Concern



JACK GRANT, CA
PRESIDENT & CFO
ANIMAL DETERRENT SYSTEMS

COMPANY PROFILE: Calgary-based Animal Deterrent Systems (ADS) has literally built a better mousetrap. Called

M.Not, the \$1,500 electronic device is targeted to the industrial and commercial sectors and is currently being tested with several public- and private-sector clients. ADS was incorporated in 2004 and spent the initial years in research and development, crediting Canada Revenue Agency’s Scientific Research and Experimental Development Tax Incentive Program as an important element in getting its product off the ground. Now at its pivotal point of going commercial, ADS has three employees and three consultants and is seeking a distributor.

HOT FACTOR: Increasing media attention around commercial mouse infestations and the subsequent threat

to public health is raising the profile of pest-control solutions like the M.Not. Its advantage over competitors is in being an all-in-one product that electrocutes the rodent and kills it instantly — a more humane solution than poison or snap traps — disinfects it and then plants it in a plastic bag so that no one ever has to handle it directly. One device, which can be used repeatedly and is expected to last up to five years, can hold at least six mice at a time.

COOL PROJECTS: A second-generation “wireless” M.Not mousetrap, still in the research phase, will send messages to customers remotely when a unit is activated so they know exactly which units need servicing.

IN HIS OWN WORDS: “For me this is an exciting opportunity to see an inventor’s idea come to fruition and become a commercial success. This is an industry that is crying out for a total solution and we haven’t seen anything like [our product] in North America yet.”
Rosalind Stefanac



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Provincial tax preferences

Alberta is the best place in Canada — and Quebec and Ontario are the worst — for small and medium enterprises (SMEs) to do business, finds a Canadian Federation of Independent Business (CFIB) study.

The study gauges the competitiveness of provincial tax systems through the lens of the SME owner by examining 65 indicators in five major areas of tax policy: premiums and payroll taxes; corporate income taxes; property and capital taxes; personal income taxes; and sales and excise taxes. High-scoring provinces are those that levy low rates of tax and apply broad-based incentives that are simple and accessible to as many taxpayers as possible.

“It is alarming that the two biggest provinces, which make up 60% of the total economy, are the weakest links in the provincial tax chain,” says Catherine Swift, CFIB president. “It is no secret that a province’s tax system can help attract or repel investment, and these provinces in particular are doing a poor job of nurturing small-business growth.”



Anti-retail therapy

If you or your client recently went on a spender bender, there’s a new website that may help curb the urge to splurge.

Spendster.org, created by the US National Endowment for Financial Education, gives shopaholics a forum to confess their ill-advised purchases and, better yet, tells them what they could have saved if that money was put to more productive use.

Users can enter the amount of money they spent on “junk” in the site’s calculator to find out the total cost after paying minimum credit-card payments for a year at an annual percentage rate of 9%; the value of that money if they had used it to buy Google stock when it went public in 2004; and the amount they could have saved if they had put their cash in a high-interest savings account for 40 years. If only.

Small business provincial tax index
(as of 31 December 2008)

Best (10) ↑ ↓ Worst (0)	Alberta	7.98
	New Brunswick	6.32
	Saskatchewan	6.30
	British Columbia	5.72
	Manitoba	5.60
	Newfoundland and Labrador	5.45
	Prince Edward Island	5.24
	Nova Scotia	5.08
	Ontario	4.10
	Worst (0)	Quebec

Source: CFIB, 2009

BACKHANDED BONUS

Six in 10 Canadians who work longer hours without compensation will find ways to reward themselves, finds an ADP poll. Those who do not receive extra time off or pay for extra work will leave early (53%), work at a more leisurely pace (27%), take sick days when they aren’t sick (23%) or take longer lunches (21%).

CRA COMPLIANCE

Canada Revenue Agency is working hard to ensure the government receives all the taxes it deserves. In 2007-2008, the CRA conducted more than 350,000 audit and review actions, identified \$7.8 billion in noncompliance for business and recovered \$11.9 billion through collections activities.

HOCK CLOCK

On the flip side, it’s a little mind-numbing to watch the numbers fly by on debtclock.ca — the Canadian Taxpayers Federation’s rolling tally of Canada’s federal debt. According to the site, the debt is now growing at \$1,068.62 per second, or more than \$92 million a day, and will hit \$492 billion within a year.

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Comparing the world's R&D tax credits

Canada still has the world's best R&D tax credit scheme, especially for small and medium-sized companies. But other countries, notably the UK, the Netherlands and France, are not far behind; recent legislative changes have put France in the lead, at least where larger public companies are concerned.

These are just some of the key findings from the most recent edition of *Overview of Research & Development Tax Incentives in Selected Global Knowledge Economies*, published by Scitax Advisory Partners LLP, a Toronto-based consulting firm specializing in government taxation of science and technology companies.

"Getting a useful picture of R&D tax incentives around the world is more difficult than it might seem," says Scitax director David Hearn. "While there is a lot of data available, much of it is out of date and tends to be presented for economists rather than business owners. Furthermore, the past two years have seen a proliferation of countries offering new R&D incentives and some significant increases in the existing benefit rates."

The study, which is published in the form of a tabular report, covers R&D incentives in Australia, Ireland, Canada, the Netherlands, Spain, New Zealand, the UK, the US, France, Austria, Mexico, South Africa and Germany.

For each country, the report shows whether the benefit mechanism is incremental or actual, a super-deduction or input tax credit, and whether a cash refund is offered. It also lists what R&D expenditures are eligible.

The Scitax investigators involved in the study note that these benefits have become moving targets. Over the past two years, foreign governments have been fine-tuning their R&D benefits in an effort to attract the high-quality jobs that arise when a new scientific research centre opens. For large public corporations, the global R&D tax credit playing field shifted significantly in December 2008 when France enacted legislation that allows companies to obtain an immediate cash refund for any investment tax credits that remain unused from 2005, 2006 and 2007, plus the estimated amount that will be unused in 2008. This change — together with benefit rates ranging from 30% to 50% of the actual expenditures up to €100 million — makes France highly attractive to cash-starved science and technology companies with big-budget R&D operations.

Despite these recent changes in France, Canada still holds the edge as the most desirable location with respect to R&D credits, because of the following key points.

- It has the best overall treatment of domestic-owned small private corporations, which are often the most vigorous technology innovators.
- Canada's benefits are permanent and statutory, which means companies can count on funding for eligible projects over several years. Complex undertakings may take more than one year to complete. Unfortunately, some of CRA's current administrative policies on scientific research and experimental development eligibility are working to undermine this strength.
- It uses an actual benefit mechanism as compared to the US and Ireland, where the benefit is calculated on the change in spending from one year to the next.
- Most Canadian provinces offer their own credits, which supplement the federal benefit. While there are considerable differences in the magnitude of these benefits (from

In Canada, at least at the federal level, all types of current and capital R&D expenditures are covered

10% to 37.5%), they are all linked so eligibility at the federal level automatically triggers provincial eligibility. Also, because of the level of federal and provincial harmonization, the refund cheques from both levels of government arrive at approximately the same time. In the US, one of the few countries that also features both state and federal level credits, the state benefits are not only poorly coordinated with the federal system but are often calculated using a different basis. (Moreover, the US recently restored its federal R&D credit, which had been inconsistently available since 2005, and not available at all in 2007 or 2008.)

- In Canada, at least at the federal level, all types of current and capital R&D expenditures are covered. This includes a generous statutory allowance for overhead. Canadian provinces differ somewhat on expenditure coverage, most notably contract payments and equipment. The one item missing from Canada's list of eligible expenditures is the cost of acquiring and securing intellectual property. France, Ireland and Mexico all offer some form of coverage for these types of expenditures.

This is a summary. For an expanded version in which Scitax director David Hearn discusses the findings in more detail, visit www.camagazine.com/R&Dtax.

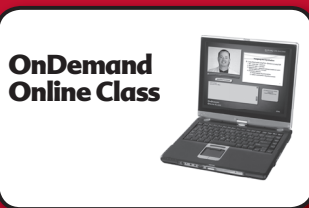


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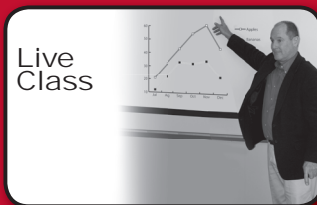
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Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

Accountancy in the Twitter era

We stand at a seminal moment — a crossroads as it were — between what we might call the new age of disclosure and the new era of inattention. On the one hand, an enraged citizenry is seeking scapegoats for everything that has gone wrong with the global economy. (News blog The Huffington Post summed it up pretty well with a headline commenting on a meeting between President Barack Obama and various bank CEOs: “My Administration is the Only Thing Between You and the Pitchforks.”)

The people are mad as hell, and understandably so. As part of the process of reconciliation, we will see all kinds of new rules and regulations within the financial sector and beyond, including most of the business world. Let there be no doubt, in the year to come we will witness a new, onerous set of regulations surrounding financial disclosure — let’s call it SOX 2.0. There are going to be new forms of regulation, more financial disclosure and far more detailed reporting requirements.

On the other hand, while we ponder an emerging need for more detailed disclosure, media reports seem to indicate that the general populace is rushing off to Twitter-ize itself. Twitter, of course, is the latest rage online — in the past few months, it has become the most popular online social networking service next to Facebook and MySpace. In a nutshell, you post to Twitter short messages of up to 140 characters about what you are doing at any point in time, and anyone can choose to “follow” or read your posts. The result is an entirely new form of online interaction that can’t really be described — you’ve got to experience it.

It’s growing fast: a search of headlines in a popular database reveals a several-thousand-percent increase of references to Twitter in blogs, news stories and television shows. Even late-night talk-show host Jay Leno is talking about Twitter.

So here’s the thing: to satisfy the demands of angry investors, the typical 10Q and SEDAR filings will have to quadruple in size, if not more. Pretty soon, a typical public company will need to file several thousand pages of disclosure documents to keep up with regulations. Financial

statement footnotes will become complicated enough to deserve their own dead tree. An army of accountants will find itself dedicated to the cause of digging deeper with every single sentence.

At the same time, the audience for whom these lengthy documents are targeted is concentrating on writing 140-character texts. When they send a tweet (as a post in Twitter-land is known), they will also find tweets from those who follow them. In the course of a day, someone might post a dozen tweets; they will find hundreds of similar 140-character pearls of wisdom from their followers.

Not only that, but people are starting to add to their Twitter posts 12-second video clips on 12seconds.tv. In other words, short bursts of information, plus video! A day on Twitter is like a day of hyperactivity, with rapid-fire communication, some of it nonsensical and other parts of it brilliant — all happening at a scattershot and furious pace.

So, the big question is, what is the relevancy of accountancy in the Twitter era? Since no one seems to be asking the question, I thought I would. Might you soon find that verbosity is not the path to take with SOX 2.0? Might you instead find yourself one day writing a financial disclosure that goes like this: Qlfd opn’n. Gng Cncrn vr m2m vln on unreal(dude!)ized rvnu.

If you understand that, then your brain synapses have shrunk enough to fit the speed of information in the modern age.

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

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Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

A problem becomes an opportunity

I am thankfully back after recovering from an illness that kept me on the sidelines for a few months. I had lots of time to contemplate the universe, and you would think I'd be able to share great words of wisdom. Alas, I can't tell you anything that you don't already know, such as being thankful for health, family and friends. Unfortunately, most of us are so caught up in day-to-day living that we don't show our appreciation or spend much time with the people we care about. Most of us get angry over small things and miss the big picture. Don't wait for a serious health problem to arise before you start thinking about spending quality time with family and good friends.

And now back to business (or lack of it). Many organizations have been forced to lay off employees and cancel or postpone new projects. Companies that are not facing collapse are just hunkering down and waiting out the storm.

There are obvious ethical reasons for keeping employees in tough times, but there are also excellent business reasons. What better time to train employees than when they have some extra time? They will learn new skills and forever be motivated to work that much harder for their employer.

Does it make sense to invest in IT projects during tough times? Theoretically, a slowdown is the ideal time to retool. Employees can devote their spare time to improving business processes, and vendors will be more receptive to discounting, especially when they can look forward to 10-plus years of maintenance, which runs on average 18% to 20% of list price.

Companies won't want to invest in technology if they have just been forced to lay off part of their workforce. But some will want to scale back their ongoing information technology costs. They might be able to renegotiate terms with their vendor. They might also choose to replace a system that has become a drain on the budget because of heavy upgrade fees or annual maintenance

fees that were calculated on the original licence fee. But be careful if you choose the replacement strategy, because the internal costs to implement a new system can be onerous too.

A business-case approach is recommended to determine whether to make the information technology investment. Some benefits will be tangible — e.g., saving money through increased efficiencies. But what about intangible benefits such as improved customer service or decision making? These should be converted into tangibles to make the business case. Improved customer service can be a tangible benefit if it will lead to higher customer retention or more customers. Improved decision making can also be turned into a tangible benefit if you calculate the cost of providing the information required by

There are ethical reasons for keeping employees in tough times, but there are also business reasons

management using the existing system. But don't make up any numbers. They need to be substantiated based on discussions with trusted people such as customers or senior managers.

A business case should include five years' worth of costs and benefits with calculations for net present value, return on investment, payback and internal rate of return. These calculations are the easy part. It should not be a problem to get reasonable figures on cost directly from vendors. Include licence, services, maintenance, IT infrastructure changes and internal costs. It is advisable that an accountant review and approve the business case. He or she will not only see the holes in the calculations but will insist that each number be backed up by evidence.

Michael Burns, MBA, CA•IT, is president of 180 Systems (www.180systems.com), which provides independent consulting services, including business process review, system selection and IT audit. Contact 416-485-2200; mburns@180systems.com



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Fair values: when the engine overheats, don't blame the oil light

When your engine overheats, do you blame the oil light? That's the argument that continues to place responsibility for the current financial crisis on fair value accounting standards. Fair value accounting, also referred to as mark-to-market accounting, requires companies to value assets as if they were to be sold by the owner in the open market. In the current economic climate, for a majority of companies the value of their assets is low or underwater.

The argument against fair value accounting goes like this: the markets are not always rational or perfect and exposing a corporation's books to the roller-coaster ups and downs doesn't capture a true picture of the value of all types of assets. The unusual spikes or troughs in market prices are unrepresentative of the true underlying value. Many bankers argue that some assets, such as mortgages, are not held for the purpose of reselling and that fair value accounting rules distort the value of these assets in a negative way. They say assets should be valued based on how they perform their intended function, not on the price they would sell for at a particular moment.

What's at risk is the very thing that an oil light provides: a glimpse into the thrumming machinery under the hood. Fair value is the best measure that allows investors and other market stakeholders to clearly understand the current health of a company and make decisions based on that understanding.

Investors making informed decisions need unbiased, up-to-date information, in particular about the amount, timing and uncertainty of future cash flows. Fair value is unaffected by when or how an asset was acquired, by who holds the asset or by the intended future use of the asset. It is not entity-specific and is not dependent on management's intentions. Fair values are comparable at any measurement date and they can be added together to produce a meaningful total.

In contrast, cost-based measures hamper the ability to compare because they make similar items look different and different items look alike. For example, Company A and Company B could hold identical assets, yet they are likely

to report different cost amounts if the assets were acquired at different times. Adding costs from different acquisition dates produces totals akin to adding apples and oranges — there is no common basis for the items combined to make up a meaningful total.

Fair value relies on the capital markets to play their primary function and establish price in a fair and objective fashion. Fair value measures achieve this by portraying what is actually happening. In contrast, reporting an averaged or smoothed measurement when the underlying economics are highly volatile would be misleading.

In many circumstances, particularly regarding financial instruments, fair value accounting is the best solution. It can

Investors making informed decisions need unbiased, up-to-date information, in particular about the amount, timing and uncertainty of future cash flows

certainly be made better with additional guidance as to how to determine true fair value, especially in inactive markets. This guidance is being developed consistently and globally by bodies such as the International Accounting Standards Board (IASB), the Financial Accounting Standards Board, the US Securities and Exchange Commission and Canada's Accounting Standards Board (AcSB).

In spite of fair value's relevance, there are genuine practical concerns about how to measure fair value, particularly when an active market does not exist or significant market disruptions occur. In such cases, valuation techniques must be used. Valuation techniques that reasonably reflect market-pricing methods continue to improve. However, more guidance is urgently needed on how to make reasonable estimates of fair value on a cost-effective basis when no active market exists. Accounting standards-setters have developed some such guidance, and more is to come. Also, the AcSB has recently put in place enhanced disclosure requirements to explain the nature of the valuation techniques that have been used. These new requirements mirror those recently put in place by the IASB.

Financial reporting is designed to assist investors and creditors in making decisions. There is growing evidence



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that fair value provides investors with the most relevant information. For years, financial analysts have advocated the merits of fair value, through the Association for Investment Management and Research, and its successor body, the CFA Institute.

Fair value results in reporting of gains and losses when economic conditions change. This reduces the ability of management to manage the bottom line by controlling which assets are sold and in what accounting period. In contrast, a historical cost-based measure ignores the effects of decisions to hold an asset because

it reflects the effects of changes in fair value only when assets are sold. Fair value reflects the highest and best use of an asset.

Capital markets need transparent, up-to-date reporting of underlying economic circumstances so investors and creditors can make informed decisions. The economy may have overheated and some disquieting sounds are coming from under the hood, but it would be deeply flawed logic to blame the oil light.

Paul Cherry, past chair, AcSB, and Ian Hague, principal, AcSB

CAs in the news

Unlike advertising, news coverage cannot be bought. This gives earned media coverage a degree of integrity and believability that can create enormous value for any organization that enjoys positive media attention. To achieve a similar measure of public exposure through paid advertising would demand substantial spending and still may not be as credible.

CICA is proud of the positive media attention it earns and wants to share this success with members. Because it wants to make it easy for journalists to obtain information on the CA profession, CICA has restructured the Media Centre on its website (www.cica.ca/mediacentre). The Media Centre is a one-stop location for journalists seeking information or comment from the CA profession. It lists CICA contact information and provides a lengthy list of resources, including news releases, facts on the profession and a link to our Decisions Matter ad campaign.

There is also a greater effort to incorporate video and audio features into the Media Centre. For example, the link to the mentoring project run in conjunction with the Martin Aboriginal Initiative features the original news release about encouraging aboriginal youth to pursue accounting careers. In addition, the special landing page offers a photo gallery, video clips and video of the entire news conference announcing the initiative.

The news conference was held at the CICA in November

2008 with former prime minister Paul Martin among the participants. The joint project generated positive coverage with stories in both the print and broadcast media (*The Globe and Mail*, *Brantford Expositor*, CBC radio and Canada AM). In fact, the *Expositor* ran a very positive editorial supporting the initiative: "While increasing the number of aboriginal accountants in Canada might not seem like a pressing issue, the more economic opportunities First Nations people have, the better their chance to break the cycle of poverty. That's why we applaud the efforts of former prime minister Paul Martin to head up a pilot project that will pair promising aboriginal high-school students with accountants as mentors."

The mentoring project continues to attract positive coverage. This year's federal budget provided an excellent springboard for outstanding media penetration. Third-party media analysis indicated that CICA federal budget commentary in January reached a cumulative audience of more than 2.9 million (print and electronic media) and CICA commentary captured an increased share of budget media coverage over the previous year.

Positive media coverage is essential to reinforcing the CA profession's position as the leading Canadian voice on accounting issues. The refurbished Media Centre now provides reporters with a valuable information source when working on stories impacting the CA profession.

MAPP survey provides firms with benchmark compensation data

All CA firms are encouraged to take part in the latest Managing a Public Practice (MAPP) survey, conducted by the CICA and the provincial institutes/ordre. Part 1 of the survey will be launched mid-June and will focus on billing rates, compensation and benefits. The survey is part of a broader three-part survey. Firms that completed Part 2 received a report in January covering firm revenues, expenses, billing practices and productivity. In April, firms completing Part 3 received a report on technology used by CA firms, including hardware, software and security.

MAPP survey results are not available to nonparticipants.

Only partners and sole practitioners of CA firms that participate in the survey gain access to this valuable information. Invitations to take part in MAPP surveys are sent by e-mail to CA firm partners and sole practitioners from our research provider, iTracks. MAPP surveys are hosted on a secure site and all information entered is kept strictly confidential. Results are reported in aggregate form only.

For more information regarding the MAPP survey, or if you did not receive your invitation, please contact MAPPsurvey@icaa.on.ca.

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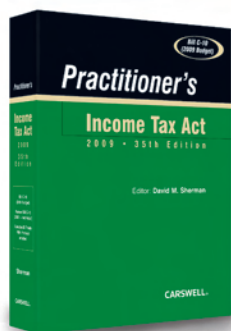
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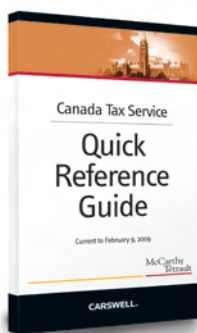


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Earlier this year, Cairine Wilson, CICA vice-president, Member Services, became the new chair of the IIN. Wilson is making it her priority to build on the momentum that exists in the organization and to reinforce the many benefits member institutes receive for their support and participation.

“Since we established the IIN seven years ago, I have been continually impressed with its ability to grow and evolve in response to the changing needs and priorities of our members,” she says. “This organization has clearly become a major source of rigorous global knowledge sharing and networking.”

One of IIN's areas of focus is conducting collaborative research. The network has carried out surveys of practices, business members and younger members, collecting data that provides valuable insights to help effectively target products and services.

“Those of us from the many different countries involved in this research were surprised at the number of similar challenges faced by our institutes. This commonality of issues underscores the tremendous benefits of information sharing of all kinds and we can build on each others' ideas,” Wilson says.

The CICA is a founding member of this global collaborative forum, which has provided thought leadership since 2002.

Helping you plan a seamless transition to IFRS

The CICA is making three new resources available to help publicly accountable enterprises prepare for the adoption of international financial reporting standards (IFRS) on January 1, 2011.

A publication entitled 2009 Financial Reporting in Canada under IFRS examines and explains IFRS requirements and illustrates their application. It will help preparers of financial statements, practitioners and students obtain a better understanding of IFRS (see “Seven key differences,” page 36).

The CICA and Deloitte have released a timely publication to help entities that are currently determining how best to provide IFRS-related disclosures in management’s discussion and analysis. IFRS-Related Disclosures in December 31, 2008 MD&A of Canadian Companies sets out examples of how companies are meeting the Canadian Securities Administrators (CSA) disclosure expectations for the years preceding the transition to IFRS. The CSA requires each entity affected by the adoption of IFRSs to discuss the status of the key elements and timing of its transition plan no later than in its annual MD&A for the year beginning three years before its changeover date. Issuers will be expected to provide more

detail about the impact of IFRS as they move closer to transition.

For the most part this will be narrative information, but the CSA also envisages that issuers will become progressively better able to provide quantified information about the impact of IFRS on their financial statements. IFRS-Related Disclosures in December 31, 2008 MD&A of Canadian Companies provides a sampling of related disclosures from 23 firms across a range of industry sectors. The resource is available in the IFRS Transition Resources section of the CICA’s designated IFRS website, www.cica.ca/IFRS. This supplements October 2008 guidance, Pre-2011 Communications about IFRS Conversion.

The 2009 edition of The CICA’s Guide to IFRS in Canada is now available. It includes a comparison of Canadian standards to the related IFRS (as at July 31, 2008) prepared by the AcSB. The comparison highlights key differences and notes any work in process that may affect the standard in the future. The guide is useful for those in the initial stages of transition planning or those requiring a general understanding of the new standards. It is available for free download at www.cica.ca/ifrsguide (English) and www.icca.ca/guideIFRS (French).



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RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	Date issued†
Accounting Changes, Section 1506 (revised)	June 2009
Financial Instruments amendments to:	June 2009
— Section 3855 regarding effective interest rate and embedded derivatives	
— Section 3861 regarding application	
— Section 3862 regarding disclosure requirements	
CICA Public Sector Accounting Handbook	
Transitional provisions amendment to Government Reporting Entity, PS 1300	March 2009
Public Sector Statements of Recommended Practice	
Indicators of Financial Condition, SORP-4	May 2009

RECENTLY ISSUED DOCUMENTS FOR COMMENT (to June 30, 2009)

Accounting	Comment deadline
EDI Adopting IFRS in Canada, II	May 15, 2009
EDI Derecognition	August 31, 2009
EDI Embedded Derivatives on Reclassification of Financial Instruments	May 25, 2009
EDI Fair Value Measurement	September 30, 2009
ITC Financial Reporting by Not-for-Profit Organizations*	June 30, 2009
ED Generally Accepted Accounting Principles for Private Enterprises	July 31, 2009
ED Impairment of Financial Assets	June 30, 2009
EDI Income Tax	July 31, 2009
Auditing and Assurance	
ED Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents	June 30, 2009
Public Sector	
ITC Financial Reporting by Not-for-Profit Organizations*	June 30, 2009
rED Government Transfers	September 15, 2009
SOP Liability for Remediation and Mitigation of Contaminated Sites	May 29, 2009
rED Tax Revenues	June 30, 2009

Legend

ED – Exposure Draft
DS – Draft SORP

EDI – ED based on IFRSs
ITC – Invitation to Comment

rED – Re-exposure Draft
SOP – Statement of Principles

† Refer to each Handbook pronouncement for the effective date and transitional provisions.

* Jointly issued by the Accounting Standards Board and the Public Sector Accounting Board

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David Garofalo is CFO *of* the Year

Gets high marks for managing growth and saving money **by Paul Brent**

How do you manage an expansion in the current economic climate without emptying your company's coffers? David Garofalo knows how. The chartered accountant was named Canada's CFO of the Year for successfully steering his company through a rapid but prudent expansion. The senior vice-president of finance and CFO of Agnico-Eagle Mines Ltd. orchestrated the raising of US\$1 billion in capital through equity issues and debt financings, money that is now being used to fund an ambitious expansion of its operations.

Garofalo attributes his selection as the country's top CFO to his firm's success in securing and directing a huge pool of capital into new projects. "We undertook a massive expansion program," he says of Agnico-Eagle's US\$2-billion expansion program. "We started in 2005 to build new mines and go from one to six mines and we are near the finish line now."

As a result of its expansion, Agnico-Eagle is poised to grow its revenue and head count each by about five-fold, says Garofalo. "This is against an economy that is shrinking, so we feel that we are swimming upstream in a way." The Toronto-based gold and base metals miner also finds itself in the enviable position of not having to raise further capital for the near future as its portfolio of new mines will soon be producing revenue of about US\$600 million that can in turn be used to expand the production at existing mines.

Garofalo received high marks from the award's judging panel for managing the expansion and retaining US\$100 million in cash and US\$345 million in available credit lines in Agnico-Eagle's coffers at the end of 2008.

"CFOs who have taken responsibility to ensure that the capital structure of their organization is robust position their companies to take advantage of opportunities even in a downturn like we are going through now," says Bruce Waterman, senior vice-president of finance and CFO of agricultural firm Agrium Inc., last year's winner of the award and a member of this year's selection panel. While boom times can allow companies to paper over flawed capital structures, it is during



David Garofalo, CFO of Agnico-Eagle Mines Ltd.

down markets that financial officers show their true mettle, he adds. "That is when a CFO who has taken a long-term view and maintained a strong capital structure really shines. I think David is shining right now because of that."

Agnico-Eagle spent about US\$900 million on its mining operations last year and was able to finance that by savvy deals and some fortunate timing. The company arranged a US\$600-million credit facility before the worst of the credit crisis hit and then managed to raise about US\$280 million through a private placement in November 2008 that made the Canada Pension Plan one of its largest shareholders. "It took the constraints off the stock," Garofalo says. "The stock has more or less doubled since we did that equity issuance because it provided funding certainty for a very aggressive growth program."

Garofalo, 43, says he is proudest of his longevity in the mining business: his 11 years helming Agnico-Eagle's finances distinguish him as one of the longest-serving CFOs in the mining business. He began his mining career with an eight-year stint at Inmet Mining Corp., rising to the post of treasurer. He qualified for his CA designation while he was with Deloitte & Touche in the late 1980s. "Someone told me the other day that the average tenure of a CFO today in North America is 30 months," he says. "It's not a role that is conducive to longevity necessarily, but fortunately I had found the right culture and everybody here has long tenure. We don't chew people up here."

Devoting nearly two decades to just two companies also means he has had a pivotal role in the creation of major mining projects around the globe. "I have been involved in the construction of a lot of mines," he says. "Over that period I have helped finance eight or 10 new mines in various parts of the world and that has created a lot of employment and wealth in a lot of communities."

Garofalo is also a high-powered number cruncher, serving on his company's strategy team and on the board of Agnico-Eagle, a relative rarity for a CFO. "They surprised me with that position last June — I assume it recognizes my longevity in the role and I also think it is a retention mechanism. It's an honour to be serving on the board," he says. He also serves as

a director on the board of Stornoway Diamond Corp.

Garofalo was named Canada's CFO of the Year in a process that saw him win out in a field studded with impressive candidates. "There were a lot of very good candidates," says Waterman, who was impressed by Garofalo's careful expansion strategy in the face of soaring commodity prices. "It is very easy when times are good to lever up the company and take maybe a little more risk than is prudent, but particularly in a commodity industry, and of course David is in a commodity industry," says Waterman. "You have to take that long-term view and not be overly influenced by all the short-term advice that you get from your financial advisers."

The seventh CFO of the Year since the award was created in 2003, Garofalo is the third winner to hold a CA designation. The others are Waterman and 2006 winner Karen Maidment, chief financial and administrative officer of BMO Financial Group.

Presented annually by Financial Executives International Canada, PricewaterhouseCoopers and The Caldwell Partners International, and cosponsored by the CICA, the CFO of the Year Award honours and recognizes the quality, insight, direction and leadership of Canada's senior financial executives.

Paul Brent is a Toronto-based freelance journalist



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Ticktock, time moves inexorably, and we are rushing headlong to the groundbreaking event. So, how far are you into preparations for IFRS?

Conversion checkup

by Jeff Buckstein



JANUARY 1, 2011, is a date of great significance for accountants and publicly accountable enterprises (PAEs) in Canada. Less than two years away, it is of course the date for the much-anticipated switchover from Canadian generally accepted accounting principles (GAAP) to international financial reporting standards (IFRS). As this portentous date draws closer, how far have businesses in Canada travelled on the road to full preparedness for the change? A mixed picture emerges from the more than 4,000 PAEs

illustration by PAUL WEARING



The knowledge gained by previous experience in the EU and Australia clearly illustrates that an IFRS conversion involves more than a mere accounting or finance exercise. Thus the vital importance of engaging company-wide participation in the conversion to IFRS

in Canada. Most firms are fully immersed in conversion waters, but the turbulence created by the severe economic squall has made it a struggle for some to traverse the IFRS deeps.

Karen Higgins, partner and national director of accounting services with Deloitte & Touche in Toronto, sees three broad groups of companies when her firm makes IFRS presentations to clients. There are the “largest reporting issuers who started early, have the resources and are tracking on plan.” Then there’s a second group of companies that started with a good plan, but had to make “rational business decisions about how to allocate scarce resources. Some of those resources have been reallocated to deal with the current economic impact on their business, so I think they are lagging a bit behind.”

The third group is the small and medium-size public companies that “probably never really planned to get started until 2009. I think there is still quite a significant number of companies that have a level of awareness, but probably haven’t actually developed or executed a conversion plan yet,” says Higgins.

“We know from surveys that while very few people have finished the job, a great many are doing quite well in working toward

the objective, and that’s what we would have expected at this particular point,” says Peter Martin, director of accounting standards at the Canadian Institute of Chartered Accountants (CICA).

For example, in the Q4 2008 CICA/RBC Business Monitor study, 81% of respondents who need to convert to IFRS indicated when surveyed in November 2008 that it is very likely they will be ready on time. Nearly half (44%) reported being in the process of assessing the potential impact on their organization and 12% have begun educating staff about the changes involved in converting to IFRS. Only 4% of respondent firms that need to convert have completed the process thus far.

“The extent to which training has caught on is very gratifying,” says Paul Cherry, chair of the International Accounting Standards Board’s Standards Advisory Council and former chair of the Canadian Accounting Standards Board. “The number of courses has multiplied. We’ve gone from the high-level overviews and general comparisons to people saying, ‘That’s not good enough.’ They want in-depth training.”

Huw Thomas, the Toronto-based executive vice-president of finance and administration and CFO of Canadian Tire

A SHORT HISTORY OF THE MOVE TO IFRS

CANADIAN STANDARD-SETTERS began the march that would eventually lead to the acceptance of international financial reporting standards (IFRS) in the mid-1990s — although at first it appeared that the road away from a unique set of Canadian generally accepted accounting principles (GAAP) would lead through the US.

As the 21st century dawned, however, Enron Corp., WorldCom and other high-profile corporate failures south of the border began to change that mind-set and caused standard-setters to question whether US rules-based GAAP was, in fact, the optimal choice. In contrast, principles-based international standards promoted by the International Accounting Standards Board, which became a full-time accounting standards-setting body in 2001, seemed to be a better fit for principles-based Canadian standards.

Furthermore, that appeared to be the direction

much of the world was going in. About 7,000 public companies in the EU adopted IFRS in 2005, as did additional firms in Australia. More than 100 countries have adopted IFRS, or are in the process of doing so.

In Canada, the Accounting Standards Board announced its decision in January 2006 to adopt a strategic plan and have publicly accountable enterprises (PAEs) in this country convert to IFRS. In February 2008, a timetable was confirmed whereby interim and annual statements of Canadian PAEs relating to fiscal periods that begin on or after January 1, 2011, must be expressed using IFRS.

“Having the Canadian standard-setter agree to go to IFRS showed that we are in a leadership role in North America. It gives us the ability to ensure that the new international standards take the Canadian viewpoint on accounting to heart,” says Ron Salole, vice-president of standards at the CICA. —JB

Corp. Ltd., says the company's IFRS implementation project is generally going well so far because it decided to start early to get on top of it. Canadian Tire, which began planning its IFRS conversion strategy in late 2007 and executing it in 2008, has put together a team consisting of accounting experts from within the organization, supplemented by chartered accountants who have been through the IFRS conversion process overseas. In addition, the company has hired consultants from the major CA firms to provide assistance with complex issues.

"There's a lot of theory around what's going to happen, but actually having had somebody who has been through it, and seen the good and bad and the issues that can come up, is going to be invaluable," he says.

The knowledge gained by previous experience in the EU and Australia clearly illustrates that an IFRS conversion involves more than a mere accounting or finance exercise — thus the importance of engaging company-wide participation.

The awareness gained includes the need to obtain the cooperation and assistance of information technology specialists with respect to changes and/or upgrades necessary to internal systems and processes that impact financial reporting under IFRS.

An IFRS conversion may also necessitate the involvement of human resources to ensure the project availability of staff from key areas of the organization affected by new accounting standards, as everything such as loan covenants to banking agreements could be affected. Senior management, executives and the board of directors need to ensure that IFRS conversion efforts get high priority within the organization.

"We began education sessions with our audit committee and had an in-depth education session with them and with the board towards the end of last year," says Thomas. "We're now updating them every quarter at our regular meetings, and we'll have another in-depth review with them in October."

Other departments besides finance are involved in the conversion to IFRS at Canadian Tire. These include information technology (because of the project's effect on information systems), treasury (because of its impact on banking relationships and debt governance), human resources, and the legal department (which will conduct contract reviews).

Other companies have been diligent about company-wide involvement as well. "I think the most important thing is the

tone at the top," says Eric Bouchard, director of financial reporting for Bombardier Inc. in Montreal, which kicked off its IFRS project in Europe during the spring of 2007 and in North America six months later. "We went straight to the board of directors and audit committee and told them what was required," says Bouchard. They agreed it was a critical, organization-wide project and committed to supplying the necessary resources and budget to execute it. "We got that commitment right from the start, so that's really helped us."

At Agrium Inc. in Calgary, senior vice-president of finance and CFO Bruce Waterman is presiding over the IFRS conver-

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sion of the multioperational agricultural firm. Agrium's core conversion team involves members of the controller's group, along with other key people throughout the organization, including representatives from its information technology, wholesale and retail business units. All these units contain financial personnel who are spearheading a company-wide effort to make sure information is disseminated as required for IFRS purposes, says Waterman. In particular, Agrium's information technology group is assisting with key architectural changes the company will be making to its IT processes or systems to generate the kind of information needed for IFRS, Waterman says.

Some firms are thus making good progress. However, the global economic tsunami of the latter half of 2008 made an already difficult situation even worse for smaller PAEs that don't have the comparable financial or personnel resources to devote to IFRS as their larger peers.

"Typically our client base right now consists of nonprofit organizations and junior resource public companies, and IFRS implementation really couldn't have come at a worse time for them," says Bridget Noonan, senior manager with D&H Group LLP, a chartered accounting firm in Vancouver. "They've been severely affected by the economic conditions to the point of having to worry about corporate survival because their cash flow has been severely impacted by the credit crunch." And with their remaining staff engaged in survival mode, it is virtually impossible to get a company-wide response to IFRS, sparking fears there's going

to be a push at the last minute, far beyond the optimal time when important choices need to be made, Noonan says.

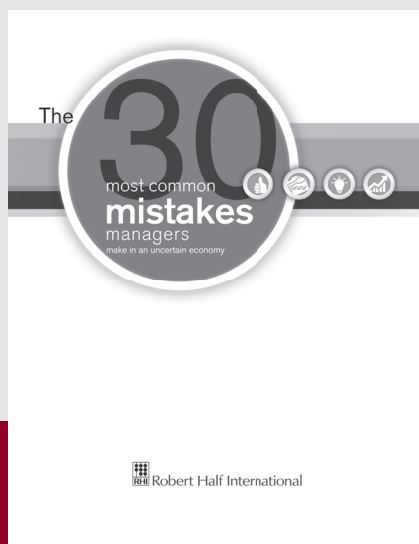
The economic downturn is unfortunate because 2009 is a critical year. "A lot of this year has to be in the planning and preparation stage," says Gord Beal, principal of financial reporting and governance and project leader for the transition to international standards at the CICA.

"Liquidity has really tightened up, affecting the ability of companies to cope with the operations side, specifically financing," says Cherry. "It's tough for many companies. We're sensitive to that. We're continuing to keep our ears open and listen to the practical concerns that people have." Notwithstanding the tough market conditions, however, Cherry says firms should not deviate from their IFRS conversion strategy.

One area where the economic crisis is affecting the Toronto Dominion Bank Financial Group is in terms of IFRS staffing, sometimes stretching available experts thin. "Because we're a bank, we need people who understand capital markets as well as people who understand the business. There are very few of these individuals," says Kelvin Vi Luan Tran, the bank's senior vice-president and chief accountant. "Although we have a team dedicated to IFRS, many of the internal experts who are consulted by the team are also dealing with these market issues. So from that perspective, it's really stretching their time," Tran says.

While staffing for the IFRS conversion has thus far gone smoothly at Bombardier, like other major long-term projects

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Beal and other experts stress that a number of key decisions with respect to IFRS require early attention. While January 1, 2011, may loom as the official cutoff date for the switchover, like the sign in the side mirror, things are closer than they appear

where there is competition for resources, Bouchard anticipates the economic crisis — among other issues — will at times stress the staffing situation as members are asked to deal with other pressing financial matters.

“When I talk to people, they still say January 1, 2011, is a long way away,” says Beal. But he and other experts stress that key decisions with respect to IFRS require early attention. While January 1, 2011, may loom as the official cutoff date for PAEs to switch to IFRS, like the sign in the side-view mirror, things are sometimes closer than they appear. For example, 2010 is when firms need to begin collecting comparative IFRS information while at the same time continuing to report under Canadian GAAP. Thus, for companies with calendar year ends, an opening IFRS balance sheet needs to be prepared as of January 1, 2010.

IFRS 1 — First-time Adoption of International Reporting Standards is a key source for the decision-making processes that will guide financial executives and other professionals through their IFRS conversion process.

“IFRS 1 is there to facilitate first-time adoption. You only have those options available once when you apply for the first time, so it is very, very important to understand IFRS 1, decode it, and make sure people understand what those options are so they can take advantage of all of them,” says Ron Salole, vice-president of standards at the CICA.

One of the choices being considered under IFRS 1 at Agrium, for instance, is whether the firm should write up the value of certain assets. There are accounting implications associated with such moves relating to factors such as depreciation or amortization — and ultimately profitability — says Waterman.

One of the activities Bombardier is considering concerns what to do about off-balance-sheet pensions. “You have an option to take your off-balance-sheet pension and bring it on-balance sheet,” says Bouchard. “For us that would be a very significant adjustment because we have a very significant pension deficit off-balance sheet. In terms of dollar impact, that could be one of the biggest, most visual impacts for the readers of our financial statements, because that’s more than \$1 billion that would come on the balance sheet, based on current numbers,” he says.

Karyn Brooks, senior vice-president and controller of BCE in Montreal, reports IFRS conversion work at her firm is progressing well. About a year into the project, the company has completed its gap assessment of the applicable differences

between Canadian GAAP and IFRS and is now well into phase two of its project, which involves reaching conclusions about how those differences should be bridged, and the business process and systems implications associated with them. However, Brooks also acknowledges a nagging feeling that “we’re a little behind where we should be.”

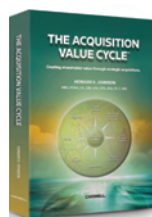
Brooks, who emphasized the importance of a full-company buy-in to the IFRS conversion process when interviewed by *CAMagazine* in April 2008, notes that the corporate services group, including financial staff at BCE, has received very good support from the IT group. However, she says, “We still have an awful lot of work to do in terms of getting further out into the business.”

Staffing has also presented challenges. “There are no incremental resources assigned to this particular effort,” she says. “Given the recent management staff reduction that BCE went through last summer [moves not related to the recession], it’s a question of reallocating resources to the extent we can. When you’re in a cost containment/cost reduction environment, something like the implementation of IFRS puts an incremental burden on the organization in terms of workload.”

Financing for the IFRS conversion has not been a problem at BCE. “Because this is regulatory compliance work, funding is not an issue. We’re trying to keep costs as low as possible, but it’s recognized in the organization that this is not optional work,” Brooks says.

BCE won’t be able to conclusively determine the accuracy of its original budget estimates until a full assessment of the information technology implications of IFRS has been carried out. The big dollars are going to depend on the conversion’s impact on financial and other systems infrastructure, and if significant change is required, that will be very expensive, says Brooks.

At Bombardier, IFRS budgeting has been largely adequate,



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although there have been some extra, unforeseen costs that have not yet made a large difference compared with early forecasts. For instance, data collection has taken longer than originally anticipated, and furthermore, Bouchard notes, there are a lot more details to iron out before all costs become evident.

The company is establishing its training programs for staff, although to date, Bombardier has focused on finance, which has in turn worked closely with IT to determine what, if any, modifications are necessary to be able to run parallel statements under both Canadian GAAP and IFRS in 2010.

When training gets ramped up at Canadian Tire, all exist-

ing accounting staff will help the business staff understand the implication of what's happening, says Thomas. And while that expense has already been included in the company's budget, that's one area he thinks will consume a lot of effort across the organization over the next couple of years.

Tran says the TD Bank is on track to meet its IFRS milestones. From a tactical standpoint, he says, "I think we did it a little bit differently than some other organizations that plan, scope, and then do implementation." TD's IFRS conversion exercise started out with enterprise-wide, high-level training for staff in such areas as technology, risk and the bank's various businesses. At the same time, the company started preparing a project plan, which was implemented through much of 2008.

Although there have not been any aggregate cost overruns so far, certain individual areas have ended up costing more than expected, Tran says. "We found in our planning that certain issues were actually quite costly to resolve. For example, when we go live for IFRS, we need to provide comparative information, so we are spending a lot of time thinking about how we're going to achieve the comparative year results — and this is costing more than we anticipated."

The comparative fiscal year for TD Bank will run from November 1, 2010, to October 31, 2011, with its first year under IFRS commencing November 1, 2011.

Waterman notes that Agrium's IFRS budget is actually less than anticipated because of a decision to do the work in-house rather than hire outside consultants as originally planned. Implementing Sarbanes-Oxley requirements several years back also provided a few valuable lessons the company is drawing on now, such as knowing how to avoid getting buried in details or spending a lot of time and effort towards things that end up not really adding a lot of value. "You have to have a business overlay and look at what you are trying to do," says Waterman.

Generally, companies are reporting that it is too early to be educating external shareholders and credit analysts, etc., and that there has not been a lot of demand to date in that area. But they expect that will change by the end of this year as firms begin to provide some indication of how IFRS will affect their financials.

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Firms preparing for IFRS are also considering how a number of technical issues might uniquely affect them. "Whereas on the surface a lot of the standards may look alike, when you get down into the detail and apply them, you may identify some standards that impact your organization in a way that you may not have realized," says Salole.

BCE, for instance, is closely considering the accounting treatment it will bestow on capital assets and revenue recognition. Substantial changes are anticipated with respect to pension accounting and possibly also consolidations, says Brooks.

"Canadian Tire is a large securitizer," says Thomas, "so our current understanding would be that the off-balance-sheet financing structures that support securitization are likely to end up back on the balance sheet. That's just one example of a change, but that would obviously be fairly significant for us."

Securitization is the IFRS-related issue Tran believes will affect TD Bank the most — dealing with which assets should be treated on- and off-balance sheet.

Two of the major sections that will significantly affect Noonan's clients are IFRS 6 — Exploration for and Evaluation of Mineral Resources, which is going to be fundamental for the majority of D&H Group's client base, as well as the amendments under IAS 16 — Property, Plant and Equipment, which will allow for componentization of capital assets. "For public companies that are capital intensive, that's going to be a serious undertaking," she says.

With respect to IAS 16, the issue is concern over componen-

tization, says Martin, whereby individual components of an object, such as the airplane engine or its fuselage, have a different lifespan, thereby affecting the way depreciation is calculated for the asset as a whole.

"This issue has bubbled up to the surface because people read IAS 16 and they encountered this discussion about components and perhaps didn't realize there was a corresponding discussion already in the *Handbook*," he says. "They started worrying about having to break down every asset they own into individual nuts and bolts and components, which is not what Canadian GAAP ever required, nor what IAS 16 requires either."

Noonan is concerned that a final definition of what a PAE is (and therefore, by definition, what constitutes a non-PAE) has not yet been finalized. "We're waiting for the publicly accountable definition before we can start looking through our client base and identifying everybody who's going to have this application. We have clients asking if they're publicly accountable, and we're not sure what the answer is," says Noonan, and this will affect the IFRS training D&H Group provides its staff.

"Our clients are a little bit more dependent on us because they're smaller entities with less staff, so they're really looking to us for some guidance," she says.

In March the AcSB published an IFRS exposure draft, which includes a revised definition of a PAE, and a final exposure draft will be issued later this year.

Jeff Buckstein is an Ottawa-based writer

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In the transition to IFRS, PAEs will have to deal with a few common issues. Here's a comparison of the old way and the new way

By Nadi Chlala & Andrée Lavigne

Seven key differences

CANADA'S PUBLICLY ACCOUNTABLE ENTERPRISES (PAEs)

have to give up Canadian generally accepted accounting principles (GAAP) and switch to international financial reporting standards (IFRS) for annual periods starting on or after January 1, 2011.¹ Despite the fact that few PAEs have started moving on this — as some surveys have shown — such enterprises should have completed their transition planning and assessed the anticipated effect of the change on their financial reporting by the end of this year. In fact, the Canadian

illustration by PAUL WEARING



Securities Administrators want to see those plans discussed in management's discussion and analysis covering fiscal year 2008.

Although Canadian GAAP has been moving toward being more principles-based, rules still carry the day in many instances. For its part, IFRS is almost entirely based on principles. Consequently, the answers to conversion questions may not always be as clear as those involved in financial reporting might like. Often, the application of IFRS standards will, in fact, require a change in mindset. Those standards require preparers of financial statements to pick accounting policies that accurately reflect the economic substance of their particular transactions. Different entities applying IFRS to their specific operations, therefore, may well interpret the same standard quite differently.

Adopting IFRS does not only affect how items are accounted for but also calls for more extensive disclosures. To fully assess the impact of changing to IFRS,

a PAE might want to consult IFRS-based financial reports published by other Canadian entities operating in the same business sector. Since very few Canadian companies are likely to be adopting IFRS prior to 2011, such reports might be difficult to find. A PAE could, however, refer to financial statements published in other countries that have already converted to IFRS. Such financial statements might provide useful insight for selecting key accounting policies. The recently released CICA publication Financial Reporting in Canada under IFRS (FRIC-IFRS) will also be of great assistance (go to <http://www.knotia.ca/kStore/Catalogue/ProductPricing.cfm?productID=751>). It contains annotated extracts from more than 200 companies that have adopted IFRS, laying out the issues likely to cause the most conversion difficulty.

Using a summary table, this article analyzes a few significant IFRS and Canadian GAAP differences, explains their origins and looks at one set of IFRS financial statements that illustrates those differences.

Sources of differences

Even though some Canadian accounting standards have been harmonized with IFRS, differences still persist between both sets of standards. Some IFRS standards differ significantly from Canadian GAAP requirements for recognition, measurement, presentation and disclosure of transactions and events. Moreover, some issues are addressed only in one of the two sets of standards. For example, Canadian GAAP does not cover accounting for agricultural activities, while there is a specific IFRS on that issue. Canadian GAAP has certain industry-specific standards, say, for investments companies, while IFRS does not have such standards.

Extent and analysis of differences

Accounting literature now offers a number of detailed comparisons of IFRS and Canadian GAAP, including FRIC-IFRS, which covers IFRS standards and proposals issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee.

A good starting point for identifying significant differences is the Summary Comparison of Canadian GAAP and IFRS

as of July 31, 2008, issued by Canada's Accounting Standards Board. This publication puts each Canadian standard and its IASB equivalent into one of three categories in terms of how different their requirements are: no conflicts, slight and significant. Based on that classification and given what we learned when we researched FRIC-IFRS, we believe that PAEs will pretty much all have to deal with the following four topics in their changeover to IFRS²:

- property, plant and equipment
- revenues
- impairment of assets
- provisions

We have also identified three other topics where we believe Canadian practice might differ fundamentally from that mandated by IFRS and that would likely affect most PAEs:

- presentation of financial statements
- related parties
- leases

Following is a high-level overview of those seven topics. It discusses key issues and refers to certain sections of the 2007 annual report of GDF Suez, a French utilities company headquartered in Paris (see www.archives-suez.com/en/finance/annual-report/2007/reference-document-2007/reference-document-2007/), to cast additional light on IFRS requirements.

¹ *The AcSB omnibus exposure draft Adopting IFRSs in Canada, II collectively refers to entities required to apply IFRSs after January 1, 2011, as "publicly accountable enterprises."* The exposure draft also lists the types of Canadian reporting entities that are exempted from adopting IFRS on January 1, 2011. Pension plans, for example, will continue to follow current CICA Sec. 4100, Pension Plans instead of the pertinent IFRS (IAS 26, Accounting and Reporting by Retirement Benefit Plans).

² *We have not included business combinations and noncontrolling interests since these issues, which differed significantly as of July 2008, are now converged (with the issuance of CICA Sec. 1582 and CICA Sec. 1602). They are, however, key topics for PAEs considering business acquisitions before their transition to IFRS. Those topics will be discussed in a separate article.*

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Analysis of certain key Canadian GAAP-IFRS differences

IFRS requirements

How Canadian GAAP differs

IAS 1 – Presentation of financial statements

Subtotals

Additional subtotals or line items should be presented on the face of the income statement when they are relevant to an understanding of an entity's financial performance.

When including such items, companies should:

- clearly convey the relevance of the subtotal to the readers of the financial statements;
- reorder the line items to adequately explain the particular element of financial performance.

When reporting the results of operating activities (i.e., operating income) or similar line items, entities should ensure that the amount disclosed is representative of activities that would normally be regarded as operating, including all items of an operating nature (e.g., inventory writedowns, restructuring charges and share-based payments).

Entities reporting under Canadian GAAP tend to limit the number of subtotals.

Additional lines on the face of financial statements increase transparency but companies need to ensure that they clearly follow the guidance under IAS 1, particularly as it relates to the operating income subtotal.

Expense presentation

Under IAS 1, expenses can be presented according to either their nature or their function. A company that chooses to present an income statement by function is required to provide additional disclosures on the nature of the expenses within a specific function, "including depreciation and amortization expense and employee benefits expense."

Canadian GAAP does not discuss expense presentation. Many Canadian companies present their expenses by function. These companies have to ensure that they disclose the required information on the nature of expenses in the notes to the financial statements.

Although including those additional disclosures in other notes to the financial statements would satisfy the IAS 1 requirement for greater transparency, companies should consider including those disclosures in a single note.

For an illustration of IAS 1 requirements see the consolidated income statements of Suez in the 2007 annual report (page 198), which present:

- *expenses by nature (generally Canadian companies present the expenses by function)*
- *three subtotals:*
 1. *current operating income (further details are provided in note 4 on pages 227 and 228; see also accounting policy note 1.4.17);*
 2. *income from operating activities (further details are provided in note 5 on pages 229 to 231); and*
 3. *net income.*

In the statements of cash flows (page 199), Suez presents a subtotal in the cash flow from operating activities section.

Note that the income statement format will change as required by IAS 1 (revised in September 2007), which is effective on or after January 1, 2009. Under this revised standard, the presentation of the income statement will include components of "other comprehensive income," which is similar to Canadian GAAP except that, under IFRS, only one of the following two presentations is allowed:

- *income statement and other comprehensive income items together in a single statement of comprehensive income with subtotals;*
- *income statement, followed by a separate statement of comprehensive income.*

IFRS requirements	How Canadian GAAP differs
IAS 16 – Property, plant and equipment	
Component accounting	
<p>IAS 16 specifies that component accounting must be used for property, plant and equipment (PPE), requiring separate depreciation for each part of a PPE item that has a significant cost in relation to the item's total cost.</p>	<p>Canadian GAAP has an equivalent requirement, but the concept of component accounting is only briefly mentioned.</p> <p>An entity should consider applying component accounting when it replaces a major part of an asset or when, under its current Canadian accounting policy, it:</p> <ul style="list-style-type: none"> • capitalizes expenditures related to the replacement of a part of an asset, or • accrues as a liability future repairs to an asset (note that such accruals would not be allowed under IFRS). <p>Though the application of component accounting might be time consuming, it might not have a significant impact on the financial statements of Canadian entities as the depreciation rates they use often reflect the average useful life of all individual asset components taken together. In addition, Canadian companies often allocate costs to components of an asset (e.g., a plant is broken down into its machinery and building components) as this is what Canadian tax authorities also require.</p>
Depreciation	
<p>Depreciation is an allocation of costs to different periods. This requires an assessment of residual values and of the depreciable lives of assets. The estimates of the lives of assets and their residual value must be reviewed at least annually.</p>	<p>Equivalent depreciation methods are available under Canadian GAAP but the estimates of residual values and the depreciable lives of assets may be assessed differently because Canadian GAAP requires companies to assess the estimated residual value and life only when circumstances have changed and the entity believes a change in estimate is necessary.</p>
Capitalization of borrowing costs	
<p>Interest must be capitalized on self-constructed assets. Guidance is provided for calculating amounts eligible for capitalization.</p>	<p>Canadian GAAP permits capitalization but does not require it. This could therefore entail a change in accounting policy, which could be significant for entities that self-construct their PPE.</p>
Revaluation model	
<p>IFRS allows companies to revalue assets at fair value if reliable measures are available. Under that model, changes in fair value are generally recognized in equity (to the extent not previously recognized in the income statement and to the extent that a decrease does not exceed the balance of the revaluation surplus for an asset) and subsequent depreciation is charged to the income statement. If an item of PPE is revalued, the entire class of assets to which that asset belongs should also be revalued.</p>	<p>Canadian GAAP does not allow companies to revalue to fair value except in cases where an asset has been impaired and must be written down to a lower value. We observed in FRIC-IFRS that the revaluation model is rarely used in practice by companies that have adopted IFRS.</p>
<p><i>In its notes to the financial statements, Suez presents the following information on its PPE:</i></p> <ul style="list-style-type: none"> • <i>its accounting policy (notes 1.4.5 and 1.4.7 on pages 207 to 209);</i> • <i>detailed reconciliations of amounts reflected on its consolidated balance sheets and other information (note 11 on pages 245 and 246).</i> 	

IFRS requirements	How Canadian GAAP differs
IAS 17 – Leases	
Lease classification	
<p>Under IAS 17, a lease arrangement is classified as a finance lease when substantially all risks and rewards incidental to ownership have been transferred. This general principle is assessed via a series of qualitative indicators.</p>	<p>Canadian GAAP has fewer qualitative indicators but also provides numeric thresholds that are used as bright lines in practice. It is likely that more leases will need to be capitalized under IFRS.</p>
Other issues	
<p>IAS 17 has a series of requirements, including for:</p> <ul style="list-style-type: none"> • the discount rate to be used when determining the present value of minimum lease payments; • leased items comprising both a land and a building component; and • sale and leaseback transactions. 	<p>The differences between Canadian GAAP and IAS 17 requirements might be significant. The extent of those differences will depend on the specific lease arrangements.</p>
<p><i>Suez presents in the notes the following information on its leases:</i></p> <ul style="list-style-type: none"> • <i>accounting policy (note 1.4.8 on page 210);</i> • <i>reconciliations and other information related to finance leases (note 22 on pages 289 and 290);</i> • <i>reconciliations and other information related to operating leases (note 23 on pages 291 and 292).</i> 	
IAS 18 – Revenues	
<p>IAS 18 provides general guidance; specific requirements on construction contracts are provided in IAS 11.</p>	<p>In general, revenue recognition principles in IFRS are consistent with Canadian GAAP. It may be appropriate to continue using the Canadian interpretation for multiple-element arrangements (EIC 142 — Revenue Arrangements With Multiple Deliverables). In certain circumstances, however, the Canadian interpretation related to delivery of goods (EIC 141 — Revenue Recognition) might be inappropriate; for example, when it is based more on legal considerations than on economic substance.</p>
<p><i>Suez presents the following information on its revenues in its notes to the financial statements:</i></p> <ul style="list-style-type: none"> • <i>accounting policy (various sources of revenues, including construction contracts; notes 1.4.13 and 1.4.16 on pages 214 to 216);</i> • <i>details of amounts recognized (note 4.1 on page 227).</i> 	
IAS 24 – Related party disclosures	
<p>IFRS does not contain specific requirements for the recognition and measurement of related party transactions.</p> <p>Since IAS 24 addresses only disclosure issues of related party relationships and transactions, one could assume that the general recognition and measurement principles contained in other IFRS standards and interpretations would apply.</p>	<p>Generally, IFRS adoption may not create a change for most Canadian organizations when they record related party transactions at the “exchange amount” as defined in CICA Sec. 3840 — Related Party Transactions, because initial cost, in accordance with the measurement guidance in many IFRS standards, equals the exchange amount. However, significant differences might arise in other situations.</p>
<p><i>Suez has two notes on related party transactions:</i></p> <ul style="list-style-type: none"> • <i>Note 27 discloses transactions with joint ventures and associates (pages 301 and 302);</i> • <i>Note 28 discloses executive compensation (page 302). Such a note is not required by Canadian GAAP.</i> 	

IFRS requirements	How Canadian GAAP differs
IAS 37 – Provisions, contingent liabilities and contingent assets	
<p>IFRS requires that a provision be recognized:</p> <ul style="list-style-type: none"> • if it is likely that a future event will confirm that a liability has been incurred and a reasonable estimate can be made of the amounts involved; • on the basis of a legal or a constructive obligation. <p>Where a range of values is available as a possible outcome, and the unfavourable outcome is probable, companies must record the midpoint of the range as a provision.</p>	<p>Generally, Canadian GAAP has similar requirements. On the issues noted:</p> <ul style="list-style-type: none"> • According to Canadian GAAP, “likely” is a higher recognition threshold than the “more likely than not” required under IFRS. • Under Canadian GAAP, restructuring costs and asset retirement obligation provisions are recognized only when there is a legal obligation and not where there is a constructive obligation. <p>Where a range of values is available as a possible outcome, Canadian GAAP requires that a company report the low end of the range if the outcome is probable and disclose the upper end of the range in the notes.</p>
<p><i>Suez presents the following information on provisions in its notes:</i></p> <ul style="list-style-type: none"> • accounting policy (note 1.4.15 on page 215); • detailed reconciliations of amounts reflected on its consolidated balance sheets and other information related to various provisions (note 19 on pages 275 to 278). 	
IAS 36 – Impairment of assets	
<p>IFRS requires companies to recognize an impairment of PPE and intangible assets, including goodwill.</p> <p>IFRS allows impairment reversals for nonfinancial assets except goodwill.</p>	<p>Canadian GAAP also requires the recognition of impairment for PPE and intangible assets, including goodwill. The two sets of standards do, however, have different methods for evaluating impairment.</p> <p>Canadian GAAP prohibits the reversal of impairments on PPE and intangible assets, including goodwill.</p>
<p><i>Suez presents the following information on the impairment of PPE, intangible assets and goodwill in its notes:</i></p> <ul style="list-style-type: none"> • accounting policy, including its reversal (notes 1.4.4.1.2, 1.4.4.2.3 and 1.4.5.3 on pages 206 to 208); • details of impairment amounts (including financial assets) and other information (notes 5.2, 5.2.1 and 5.2.2 on pages 230 and 231). <p><i>Note that IFRS introduces new concepts such as recoverable value, value in use and Cash Generating Unit.</i></p>	

This is a brief overview of some important differences between IFRS and Canadian GAAP. Readers are encouraged to consult publications with greater detail and discussion, such as FRIC-IFRS.

When Canadian companies convert to IFRS, their particular circumstances may warrant making significant changes to their accounting policies even if differences with Canadian GAAP are initially perceived to be slight. In-depth analysis and planning could help PAEs avoid some

unpleasant surprises when they actually come to adopt IFRS.

As well, IFRS is not static. The IASB has many projects outstanding, some of which will be accelerated in light of the current financial crisis. Consequently, IASB requirements that are expected to be effective when Canadian PAEs prepare their first interim financial statements in 2011 may well change before then. The participants in the financial reporting community need to keep a careful eye on

the status of these projects so that they know what is going on and how it affects their changeover plans.

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New tax savings opportunity

The \$5,000 limit to tax-free savings accounts may be higher for contributions of employee stock options than for cash



Tax-free savings accounts (TFSA) were introduced in the 2008 federal budget and have been issued since January 2009. While TFSA are similar to registered retirement savings plans (RRSPs) in that investment income on savings held inside either type of plan is sheltered (exempt) from annual taxation, there is a key difference: RRSP contributions are deductible and withdrawals are taxable, while TFSA contributions are nondeductible and withdrawals are nontaxable.

An employee stock option is a qualified investment for a TFSA, provided the underlying security is a qualified investment. Generally, an option that is a qualified investment for an RRSP will also be a qualified investment for a TFSA. However, certain insiders are effectively prevented from contributing stock options to a TFSA because prohibited investments include a right to acquire a share in any entity with which the holder of the TFSA is not at arm's length or has a significant interest.

Most employee stock options have been eligible to be contributed to an RRSP for many years, but this has never been popular. Taxpayers tend to avoid making such contributions primarily because of a concern about double taxation: the benefit received on exercise is taxable as employment income under paragraph 7(1)(c) and is also taxable as part of the RRSP withdrawal. This double taxation concern does not apply to a TFSA because withdrawals are nontaxable. The employment income inclusion is not eliminated by the contribution of the options to a TFSA, but this is not a drawback since it would also occur if the employee stock options were held personally.

The attraction of contributing employee stock options to a TFSA is that court decisions may suggest that such assets will be undervalued, and thus more than \$5,000 of value may be put in a TFSA in this way without exceeding the \$5,000 annual contribution limit.

There are no court cases on the specific question of contributing a stock option to any of the tax-advantaged savings plans. However, there are scattered pieces of evidence

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drawn from interpretations of other provisions of the Income Tax Act. In particular, the Tax Court of Canada's 2006 decision in *Henley v. the Queen* concerned the timing of a benefit under paragraph 6(1)(a) from a stock option to which section 7 did not apply because the issuer of the option was not the taxpayer's employer. The issue concerned stock options issued by Unique Broadband Systems Inc. (UBS) and received by Christopher Henley's employer, Canaccord Capital, as payment for investment dealer services. Canaccord, in turn, passed the options on to Henley as payment for his employment services in 1998. Justice Sheridan decided there was a paragraph 6(1)(a) benefit to Henley at the time the options were passed to him and that the amount of the benefit for each option was the intrinsic value (the amount, if any, by which the current market price of the share exceeds the exercise price): "In these circumstances, I am satisfied that the value of the [options] was...the amount by which the fair market value of the UBS shares exceeded the exercise price under the [options]." Since the value of the shares was 32¢ and the exercise price was 31¢, the value of each option was determined to be 1¢.

Although the economic valuation of an employee stock option is subject to some debate, there is general agreement that the intrinsic value method produces valuations that are too low. This is most obvious in the case of an option that is not in the money (i.e., the share price is less than or equal to the exercise price). In this case, the method produces a valuation of zero even though a rise in the share price before the option expires could produce a profit on exercise for the option holder. This appears to be an inevitable consequence of the intrinsic value method; if a stock option that is 1¢ into the money is valued at 1¢, it is hard to come to any other conclusion than assigning a zero value to an option that is not in the money.

On appeal, the Federal Court of Appeal decision in 2008 explicitly declined to comment on the choice of intrinsic value for valuation of the options, noting that the 1998 taxation year — the year Henley received the options — was not before the court. Possibly this lack of comment can be taken as a sign of disagreement with the trial judge's use of intrinsic value.

The appeal court ruled that the year of receipt of the options was the proper time for taxation since Henley had an absolute right to exercise at that time. In distinguishing this case from an earlier case, the court stated that in the situation where a taxpayer had to continue his or her employment in order to exercise the options, no benefit under paragraph 6(1)(a) would occur until the time of exercise. Since this is a standard situation, perhaps this implies that a typical employee stock option has no value until the time of exercise, even if it has a positive intrinsic value.

Whether a court would repeat the low valuations of the two Henley decisions if it is directly presented with an employee stock option valuation, as in the case of an in-kind contribution of an employee stock option to a TFSA, remains to be seen. It should be noted that family courts, unlike tax courts, have generally preferred Black-Scholes values over intrinsic values for employee stock options, e.g. *Ross v. Ross*, 2006. If the courts establish a higher

value of the options than the taxpayer has used, the employee would likely be in an overcontribution situation. For each month the TFSA has an excess balance, section 207.02 imposes a tax of 1% of the individual's highest excess balance in that month.

Valuing stock options contributed to TFSAs may also be a problem for the financial institutions that issue TFSAs. For each TFSA, issuers are responsible for reporting annually to the CRA the amount of total contributions and the fair market value of assets held as of December 31. Presumably, this information will be used in determining the tax on overcontributions, although the issuer is not required to collect the tax. Therefore, it may be prudent for an individual considering contributing stock options to a TFSA to find out from the TFSA issuer how the stock options will be valued in reports to the CRA.

Senior officials of the Income Tax Rulings Directorate of the CRA have indicated that intrinsic value is not reflective of the fair market value of stock options, warrants or similar rights. Rather, fair market value should be determined using a valuation method that is appropriate in the circumstances, such as the Black-Scholes model or another accepted valuation model.

Two technical interpretations issued in 1995 and 1996 have

The economic valuation of an employee stock option is subject to debate, but there is agreement that the intrinsic value method produces valuations that are too low

often been regarded since that time by practitioners as providing authority for using intrinsic value as the valuation method for employee stock options contributed to RRSPs, and it had been expected that this method might also apply to employee stock options contributed to TFSAs. The Rulings officials state that these interpretations simply used assumed values to illustrate the other interpretive issues being answered and do not constitute authority for the use of intrinsic value.

One disadvantage of holding the option through a TFSA is that the employment income inclusion for options subject to the \$100,000 subsection 7(8) election is advanced by paragraph 7(1)(c) from the time of disposition of the share to exercise of the option. For options in Canadian-controlled private corporations, the disadvantages are greater — the taxation of all such options is advanced from the sale of the shares to the date of exercise, and the paragraph 110(1)(d.1) deduction is no longer available. Of course, these issues do not arise if the taxpayer plans to sell the shares soon after exercise.

A practical difficulty with exercising stock options is that the TFSA probably will not have sufficient funds to pay the exercise price and exercise the stock options, especially in the early years before assets have accumulated. Since the TFSA trust is prohibited from borrowing by paragraph 146.2(2)(f) and the annual TFSA contribution limit constrains cash injections, the only solution is to sell or not acquire some of the shares. This could be implemented in three ways. One way is a cashless exercise, whereby the broker immediately sells the stock and issues a cheque to the

employee for the intrinsic value at that date. A variation of this is for the employee to elect a cash settlement in lieu of exercising, assuming this is provided in the stock option contract. IT-113R4, paragraph 11, confirms that a paragraph 110(1)(d) deduction is available in this circumstance, assuming the other conditions for application of this paragraph are satisfied. Finally, a last resort (which could possibly trigger application of the general anti-avoidance rule) is to make an excess contribution to the TFSA. Although that will trigger a tax on the excess contribution, the excess amount can be withdrawn within a few days and the tax would apply for only one month. Hence the tax would only

be 1% of the excess contribution, which may be a relatively small cost for the advantage to be gained. Also, the amount of excess contribution could be minimized by completing the exercise in a series of partial exercises within a calendar month followed by sales to raise cash. The optimal number of separate exercises and sales would be determined by the transaction costs of a sale versus the tax on the excess contribution.

Transfer of an employee stock option to a TFSA shouldn't trigger additional reporting on the employee stock option plan to the OSC or the TSX since the transfer of a stock option to an RRSP does not appear to do so. However, amendments to the

employee stock option contract may be required to allow a nonemployee (TFSA) to hold and exercise the option.

If an asset contributed to a TFSA is undervalued, major tax advantages can be obtained because the valuation determines the contribution room used up. Guidance from the courts, particularly in the two recent Henley cases, is sparse and of uncertain reliability but is possibly supportive of undervaluation of employee stock options contributed to TFSAs. Taxpayers considering contributing employee stock options to a TFSA on the basis of such arguments should do so soon after the granting of the options when the intrinsic value is low. On the other hand, the CRA denies that intrinsic value is an appropriate valuation method and instead recommends methods which would greatly increase the amount of contribution room used up. Application of the CRA's methods could result in overcontribution penalties being assessed.

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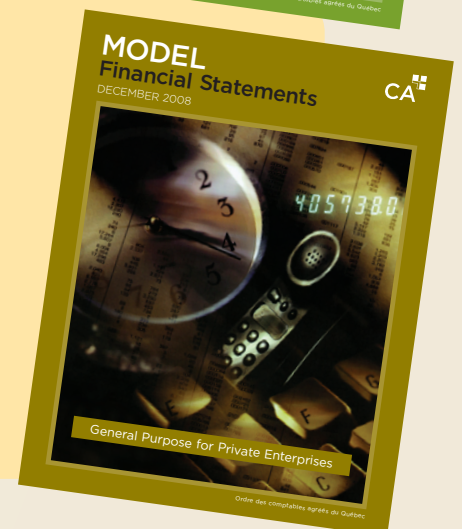
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Realistic strategies

When auditing information and communication technology, there are some solutions for the many unrealistic expectations

Expectations for information and communication technology (ICT) audits are becoming more and more unrealistic. Professionals in the field are being asked to provide near-complete assurance in an area that is becoming increasingly harder to define. As risks and pressure from regulatory bodies escalate, new standards continue to develop and technology environments become ever more complex, how can auditors adapt their audit approach to a situation that will have changed by the end of their engagement?

Changing expectations

ICT audit professionals have to cope with the explosive development of technology specialties. Not so long ago, they were expected to master one programming language, such as COBOL. Those who did then had to decipher the linguistic subtleties of an operating system language such as MVS and later UNIX. Today, the number of fields has increased exponentially to include communications protocols (wired and wireless), public key infrastructures, security perimeters, black boxes, virtual environments,

strong authentication mechanisms, e-commerce and IP telephony. ICT auditors are required to be multilingual, which is a little like expecting a CA who is a controller in a large corporation to be proficient in IFRS, taxation, buyouts, international financing and so on.

The proliferation of ICT-related fields, which are themselves changing rapidly, is only one part of the problem. Legal and regulatory requirements are becoming more stringent as well. Many ICT auditors are now nostalgic for a time when their only legal concern was ensuring compliance with software licences. Today, they are asked to provide assurance that the company will comply fully with SOX, IFRS, the Act respecting access to documents held by public bodies and the protection of personal information, the latest developments of the International Organization for Standardization (ISO), and various other requirements. It's not surprising the profession is finding it difficult to attract young CAs.

However, an auditor's greatest challenge lies elsewhere. As the inherent mission of ICT has changed dramatically over the years, so have ICT audit engagements. At the outset, IT was limited to supporting administrative and industrial tasks such as automated accounting and invoicing,



payroll processing, computer-assisted design and publishing. In 2009, ICT heads are expected to securely transform the business processes of their organization and give it a competitive edge. The job of an ICT auditor is simply to make sure that these objectives have been achieved.

Leading research companies such as Gartner Inc. are very clear: ICT determines an organization's competitive position. Accordingly, it is the auditor's job to evaluate the effectiveness and efficiency of what is now the lifeblood of any organization.

This means that today's ICT audit professionals can't ask the same practical questions as in the past, such as:

- Is my new system billing the correct amounts?
- Does my accounting system include appropriate controls?
- Is completeness of my batch transactions ensured?

These questions are too limited in scope given the expectations of senior executives, who are asking such questions as:

- Is my company protected against cyberterrorism?
- Is my e-commerce process integrated and impervious?
- Are the amounts invested in ICT being used as effectively as possible to meet business needs?
- Do our ICT practices meet legal requirements?
- How can we reduce IT costs while optimizing operations?
- Are our operations as secure as those of our competitors?
- Which of the 25 technologies available should we choose?
- Is the way we use electronic signatures within the company legally acceptable?
- Do our procedures safeguard the personal information we keep?

A changing role

The radical shift in what is expected of ICT auditors inevitably means their role has to be recast. In fact, the very purpose of an ICT audit has changed. It used to be focused on an application or database; now it frequently concentrates on a group of systems and internal/external networks or on all management principles and practices underlying ICT. The audit scope has therefore been extended. Not too long ago, most ICT audit engagements sought to provide accurate information on the completeness of transactions and data, the validity of operational controls, etc.

Today, boards of directors and senior executives rely on ICT auditors for a clear opinion on potential internal and external risks as a whole and on the methods used to mitigate them.

Similarly, the audit objectives and the nature of the recommendations translate into greater expectations in terms of added value. ICT auditors can no longer simply identify a myriad of specific weaknesses. Nor can they merely provide, on completion of their engagement, a comprehensive list of technical corrections or suggested improvements to development or operating practices derived from technical handbooks. Instead, senior management expects a report identifying risk areas and proposing principles for developing permanent processes based on international standards and the industry's best practices — principles whose application would have a leveraging effect when correcting certain weaknesses.

Customized strategies

How can auditors adapt their approach to a situation that will have changed by the end of the engagement? They need to start by facing reality: this shift in expectations determines the skills required to perform the role of ICT auditor effectively and efficiently. Ideally, ICT auditors should belong to one of two groups. They could be senior experts in a specific technology field such as security, architecture or development. Or their strength could reside in integrative skills, i.e. their ability to move from one field to another without necessarily delving too deeply into either. Far from being superficial, this second approach is becoming more valuable because it is the only one that addresses the most fundamental aspects of ICT. Let's be clear: we're not talking about a generalist whose knowledge of ICT is limited to the latest buzzwords. We are talking about an expert in management realities — and there are many such experts in the CA profession — who also has a sound grasp of the general principles of technology.

The first group usually includes individuals with computer science training who also have auditing knowledge and experience. The second group often includes CAs who have become familiar with the intricacies of ICT over the years. Some pro-

The radical shift in what is expected of ICT auditors

inevitably means that their role has to be recast.

In fact, the very purpose of an ICT audit has changed

professionals may belong to both groups, although their scarcity illustrates the vital importance of training multidisciplinary teams. Teamwork and a matrix form of organization can optimize a multidisciplinary team's performance.

The knowledge and skills gained in academic studies that lead to degrees and professional designations constitute the basis of ICT auditors' knowledge. Unfortunately, current challenges are eroding this foundation and making it irrelevant. The few programming courses taken as part of an accounting program are not particularly useful. Those rare CAs who also have an undergraduate degree in computer science certainly have an edge, as short-lived as it may be. The question is how to keep current with technical disciplines that are evolving at a breakneck pace. The answer implies a combination of several learning strategies.

The first recommendation is to systematically opt for meta-research. Reading trade magazines or surfing a wide range of websites (which may not always be reliable) is useful. However, the time could be better spent consulting meta-research organizations such as Gartner and Forrester. Their analysts are always on the lookout for technology trends and closely monitor their development. This enables them to provide documents that condense the contents of hundreds of specialized articles into a few pages.

The second recommendation is to take specialized courses. While technical handbooks can be indispensable, usually one or two days of courses with a qualified instructor will be more

useful. Thanks to the Internet, we can now choose from a number of reasonably priced interactive courses, given by internationally recognized experts, the cost of which would have been prohibitive just a few years ago.

However, it's far from certain that even auditors who keep current with ICT can overcome all the obstacles in their path. They need to adopt an approach that will increase their efficiency. For example, instead of trying to do everything themselves, ICT auditors should assess the rigour and relevance of other professionals' work, which they can then use to support their opinion. Nearly all major organizations have cyber security experts. Instead of trying to do their work, why not use their reports as a starting point — once their value has been carefully assessed of course. This also applies to quality assurance staff assigned to the development of large systems. If their tests were rigorous and exhaustive, why duplicate them?

What's more, the days when a server was diagnosed using an arsenal of specialized tools are over. This method is inefficient now that packaged diagnostic applications (NESSUS, Retina, etc.) are available to perform hundreds of tests simultaneously and provide a detailed report, often enhanced by meaningful graphics. Of course these reports should be analyzed with the utmost care by a qualified person. Such applications can perform a task in a few hours that would have taken days or even weeks to complete a few years ago.

Survival of the species

We tend to forget that many professions die out. It's not just the blacksmith and cartwright trades that have vanished. For example, in the mid-1980s, typographers were swept away by the tidal wave of desktop publishing. The survival of a profession depends on its added value for an organization. Accountants understood this a long time ago, since their discipline is a building block of any organization, and by extension, of society at large.

But does the same hold true for ICT auditors? Not necessarily. Above and beyond their requisite competencies, their future depends on the strategic ICT vision they adopt and communicate. They should never forget that ICT must adapt to business needs in order to serve the company. ICT auditors will therefore frequently have to oppose the very natural tendency of many ICT strategists to make the organization work for them. In other words, ICT auditors will be judged by their ability to convey a strategic vision for ICT and by the added value they bring to the organization.

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Going global

Just what are the implications of the new financial reporting standard on income tax?



On March 31, 2009, the International Accounting Standards Board (IASB) published an exposure draft of a proposed new financial reporting standard on income tax. While the basic principles for accounting for both current and deferred income taxes (future income taxes in Canadian standards) remain the same and are fundamentally consistent with current Canadian GAAP, there are some noteworthy differences. This new financial reporting standard is expected to be in place for 2011 and should be considered by enterprises adopting IFRS in their transition plan.

The basic principles under IFRS, US and Canadian GAAP for accounting for income tax are consistent. In particular, each accounts for deferred taxes using a temporary difference approach, whereby the tax consequences of recovering or settling an entity's assets or liabilities at their carrying amount at the reporting date are recognized in an entity's financial statements. There are, however, differences in the application of and exceptions to the general principle included in the standards.

GARY CLEMENT

The proposed IFRS eliminates many of these differences, and much of the text of the current international standard, IAS 12, has been rewritten to make it easier to understand and apply. The final version of the new financial reporting standard will be part of Canadian GAAP for publicly accountable enterprises in 2011. Canadian constituents are encouraged to review the exposure draft and to provide comments to the IASB. The exposure draft is available on the Accounting Standards Board's income tax project page at www.acsbcanada.org.

Changes from Canadian GAAP

Differences between the exposure draft proposals and current Canadian GAAP include:

- *Defining a tax credit and an investment tax credit*

The revised financial reporting standard will continue to exclude from its scope an investment tax credit, but now includes a definition for such credits, as well as a definition of a tax credit. Section 3465, Income Taxes, also excludes investment tax credits from its scope, but defines them differently.

- **Exceptions removed or modified**

Future income tax recognition exceptions under current Canadian GAAP pertaining to the following would be eliminated:

- a temporary difference related to the liability component of a compound financial instrument;
- a temporary difference arising from the difference between the historical and current exchange rate translations of the cost of nonmonetary assets and liabilities of integrated foreign operations; and
- a future income tax amount arising as a result of assets being transferred between enterprises within a consolidated group.

Future income tax recognition exceptions under current Canadian GAAP pertaining to the following would be modified:

- the exception from the temporary difference approach pertaining to investments in subsidiaries and joint ventures (provided certain criteria are met) will be restricted to foreign subsidiaries and foreign joint ventures.

- **The initial recognition exception in IAS 12**

Under the proposed IFRS, the initial recognition exception in IAS 12 which prohibits the recognition of deferred tax amounts in certain instances will be removed.

The proposed IFRS will require enterprises to account for the initial recognition of such assets and liabilities as follows:

- record the asset or liability (excluding any entity-specific tax effects) that resulted in the initial temporary difference in accordance with applicable IFRSs;
- recognize a deferred tax amount based on the difference between the carrying amount of the asset or liability and the tax basis available to the entity; and
- recognize an allowance against or premium in addition to the deferred tax liability. The premium or allowance would be part of the deferred tax asset or liability.

This contrasts with existing Canadian GAAP, whereby different amounts are computed and the cost or benefit of future income taxes increases or decreases the carrying amount of the asset.

- **Uncertain tax positions**

The proposed financial reporting standard provides specific guidance on the treatment of uncertain tax positions. Tax positions are deemed to be uncertain if some degree of doubt exists over whether amounts reported by the enterprise to taxation authorities will be accepted.

The standard proposes that, with a few specified exceptions, deferred tax assets and liabilities should be recognized for all temporary differences, the carryforward of unused tax losses and tax credits that will result in deductible or taxable amounts in future years when the related asset or liability is recovered or settled, rather than only those likely to be accepted by taxation authorities. Uncertainty over amounts to be accepted by taxation authorities should impact their measurement.

The measurement basis proposed is a probability-weighted

average of all possible outcomes. This would apply to uncertainties in both current and deferred tax amounts.

- **Two-step approach for recognizing deferred tax assets**

The two-step approach proposed for recognizing deferred tax assets involves:

- recognizing deferred tax assets for deductible temporary differences, unused tax losses and unused tax credits carried forward, and measuring them at the appropriate rate; and
- reducing deferred tax assets by a valuation allowance, so that the net amount equals the highest amount that is more likely than not to be realizable against taxable profit.

While enterprises are permitted to apply this two-step approach under current Canadian accounting standards, the exposure draft proposes it be required when applying the new standard.

- **Detailed guidance**

Detailed guidance on accounting for the deferred tax effects of share-based payment transactions is included in the exposure

While enterprises are permitted to apply the two-step approach under current standards, the exposure draft proposes it be required when applying the new standard

draft, but there is less guidance related to refundable taxes, flow-through shares and substantively enacted tax rates than under current Canadian GAAP.

Implications for IFRS transition plans

The new IFRS is expected to be issued in 2010 and may become effective in 2011. Even if the standard is not required in 2011, companies adopting IFRS in 2011 may benefit from understanding the proposals so they can decide whether to adopt the proposals early on one of the following bases: the new standard for all periods presented (ie, 2010 and 2011); or existing IAS 12 for any period presented that starts before the date the standard is issued and the new standard for subsequent periods. Firms transitioning to IFRS should therefore consider the proposed financial reporting standard on income tax in planning their transition to IFRS.

Entities may find the option permitting entities to apply the new standard to all periods presented more favourable, as the alternative approach will require entities to learn and apply existing IAS 12 solely for the purpose of preparing results for a comparative period.

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A few green measures

Growing numbers of SMEs would like to follow the green path, and a tax stimulus could help them make such a transition

President Barack Obama would like to see ecological virtue ethics adopted worldwide. Just look at the leaf-bearing emblem that will be displayed on projects funded by the US\$787-billion stimulus package. One glance is all it takes to comprehend the new US government's commitment to the environment.

Despite the economic and financial crisis, the US focus on ecological virtue is spreading across the border to Ottawa. The Canadian government needs to think outside the box to convince businesses to become genuine green giants. Possible options include green taxation, an ingenious economic instrument that links ecological virtue to economic decision-making processes. The Organization for Economic Co-operation and Development has been promoting green taxation since the dawn of the ecologi-

cal age. Several countries have already introduced it, and others, including Germany, Denmark and the UK, have launched green taxation reform.

Even though ecological taxation is in its infancy in Canada, it has nevertheless managed to carve out a small place for itself in the taxation regimes. A number of tax measures encourage environmentally friendly consumption and investment, while others, like ecotaxes, are punitive and based on the polluter-payer principle.

A growing number of Canadian SMEs would like to go green, and a tax stimulus could help them make the transition. Businesses can benefit from advantageous measures when they decide to follow the green path.

The Canadian green taxation guide compiles the main environmental taxation measures applicable at the federal level. It is intended as a valuable tool to help users quickly identify the relief measures available to firms and their clients.



A Canadian green taxation guide

I – Investment incentives

Class 43/ Manufacturing and processing equipment

Subject to the half-year rule (which generally allows half the capital cost allowance [CCA] writeoff otherwise available in the year the asset is first available for use by the taxpayer, and will apply to the properties that are subject to this measure) an enterprise that acquires equipment to process natural gas or for facilities to produce alternative fuel for vehicles is normally eligible for a 30% CCA deduction, on a declining balance basis. This rate is temporarily increased to 50% on a straight-line basis for equipment purchased on or after March 19, 2007, and before 2012. (The 2009 budget proposes that, in lieu of the accelerated CCA on a declining basis for eligible assets acquired in 2010 and 2011, the 50% straight-line accelerated CCA treatment will apply.)

However, Class 43 derives from the general taxation regime, which is not primarily intended to save the planet. Accordingly, some “dirty assets” may be included under Class 43.

Class 43.1 and 43.2/ Renewable power generating equipment

Some advantageous CCA rates are available to enterprises that acquire certain types of energy-saving property and equipment for renewable energy solutions. The purpose of these measures is to encourage enterprises that generate and sell electricity or that use energy in other industrial sectors to make more efficient use of fossil fuels and increase their use of alternative renewable energy. Geothermal pumps used for nonindustrial processes or for greenhouses, and heating and hot-water production in industrial, commercial and income-producing residential buildings are included in these classes.

Class 43.2 is a temporary measure. Introduced in 2005, this class applies to energy systems acquired before 2020. It offers an even more advantageous accelerated CCA than the Class 43.1 rate, i.e. 50% instead of 30%. The eligibility criteria for both classes are generally the same. However, assets that qualify as Class 43.2 property must meet a higher efficiency standard.

CCA for carbon capture and storage

The 2009 federal budget notes the government will consult with stakeholders to identify specific assets used in carbon capture and storage with a view to providing accelerated CCA.

Class 24 and 27/Water and air pollution control equipment

Since 1999, acquisitions of assets used to preserve water and air no longer qualify for the favourable tax treatment

offered by classes 24 and 27. The maximum CCA that could normally be claimed for the taxation year in which the eligible capital property was acquired totalled 25% of the original cost. The rest of the deduction was claimed in the two years following, i.e. 50% in year two and 25% in year three.

Research and development

R&D tax relief can encourage enterprises to invest in energy efficiency and renewable resources. An investment tax credit is computed based on eligible expenditures. The general rate is 20%, although it may be as high as 35% for Canadian-controlled private corporations. Similar rules also exist in various provincial legislation.

In the 2009 budget, the R&D expenditure limit of \$3 million, giving entitlement to enhanced tax credits (35%), is gradually reduced when the taxable income for the previous year exceeds \$500,000, and will be fully eliminated when the income exceeds \$800,000. This change will apply where the previous taxation year ends after 2008.

It is important to understand that while these measures could be beneficial to the environment, the opposite could also be true. R&D incentives are available to enterprises that harm the environment or that adopt behaviours that run counter to current environmental values.

EcoENERGY for Biofuels Initiative

This initiative provides operating incentives for producers of renewable alternatives to gasoline and diesel. The purpose of the program is to encourage investment in production facilities by partially offsetting the risks related to the supply of raw materials and fluctuations in fuel prices.

This initiative was implemented following the repeal of excise tax exemptions for renewable fuels. The program will invest up to \$1.5 billion over nine years and is effective from April 1, 2008, to March 31, 2017.

Canadian renewable and conservation expense

With the objective of promoting the development and conservation of various sources of renewable energy, under the Income Tax Act, enterprises can create a notional expense account or a Canadian renewable and conservation expense. The account includes expenses for engineering, design, site preparation, feasibility studies, contract negotiations and regulatory approvals. The expenses can be deducted in the year in which they are incurred or in a subsequent year. Subject to a number of conditions, the expenses can even be transferred to an investor who acquires flow-through shares.

II – Consumer Incentives

Public transit

In order to reduce car pollution, the Income Tax Act offers a tax break to users of public transportation. The incentive is in the form of a nonrefundable credit for the cost of a monthly (or longer duration) pass for daily travel on buses, streetcars, subways, commuter trains and ferries.

EcoAUTO Rebate Program

The EcoAUTO Rebate Program encourages Canadians to purchase fuel-efficient vehicles by offering rebates of \$1,000 to \$2,000 to individuals who buy or sign a long-term lease (12 months or more) for a fuel-efficient vehicle. The buyer must fill in a form and forward it to Transport Canada. Applications are assessed in the order in which they are received.

This year's models (2009) are no longer eligible under this program. The rebate applies only to 2006, 2007 and 2008 model vehicles purchased or leased (12 months or more) between March 20, 2007, and December 31, 2008. Note there are no tax consequences if the vehicle is not used for the purpose of earning income.

III – Ecotaxes

Ecotaxes are tax-based economic instruments the government can use to protect the environment. They allow for higher prices on certain products for which more environmentally friendly substitutes are available. These taxes are intended to encourage consumers to choose recyclable, reusable and less polluting products. Canadian legislation provides for very few ecotaxes.

Environmental levies (excise tax on fuel-inefficient vehicles)

Manufacturers and importers of vehicles purchased after March 19, 2007, with a fuel consumption rating of 13 litres or more per 100 kilometres are required to collect excise taxes of between \$1,000 and \$4,000, depending on the fuel consumption. The vehicles must be new and designed primarily for use as passenger vehicles (including station wagons, vans and sport utility vehicles). No levy is required for pickup trucks and certain types of special vehicles.

IV – Other green tax measures

Ecological Gifts Program

Taxpayers who donate private land or a partial interest in land with ecological value to an organization responsible for protecting, in perpetuity, the biodiversity and natural state of the gifted property can claim a tax credit or a deduction. If the donor is an individual, the total value of the ecogift is used to calculate a nonrefundable tax credit (15% on the first \$200 and 29% on the balance). Corporate donors can deduct

the full value of the gift from their taxable income.

The Income Tax Act sets no limit for the eligible amount of an ecogift. The tax credit or donation is granted in the year in which the donation is made and any unused portion may be carried forward for the five subsequent taxation years. Unlike the donors of other types of gifts, donors of ecogifts are not subject to tax on their capital gains.

Environmental trusts

Beneficiaries of a trust that accumulates funds for the purpose of funding the reclamation of a site used for the operation of a mine, the extraction of clay, peat, sand, shale or aggregates or the deposit of waste, can deduct their contributions to the trust during the year. However, beneficiaries are required to pay income tax on amounts they receive from the trust, but can receive a refundable tax credit equal to the amount of income tax payable by the trust. At the federal level, the trust is required to pay income tax under Part XII.4 Income Tax Act. The implications at the provincial level should be reviewed since certain specific rules may apply depending on the province of residence.

In its most recent budget, the federal government also announced a series of tax measures to address environmental issues, including the following:

- a new Clean Energy Fund that supports clean energy research, development and demonstration projects, including carbon capture and storage;
- a \$1-billion investment over five years for a Green Infrastructure Fund. Funding will be allocated based on merit and will support green infrastructure projects on a cost-shared basis;
- an additional \$300 million over two years as part of the EcoENERGY Retrofit Program to support ecofriendly renovations;
- a \$10-million investment to improve the government's annual reporting on key environmental indicators, such as clean air, clean water and greenhouse gas emissions;
- strengthening Canada's nuclear advantage with \$351 million to Atomic Energy of Canada Ltd. for its operations, including the development of the advanced CANDU reactor, and to maintain safe and reliable operations at the Chalk River Laboratories in Ontario.

It remains to be seen whether the government authorities, either federal or provincial, will make better use of taxation measures to protect the environment.

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Management myths

Open-door policies and staff motivation may seem like sound management policies. But do they work best for you?

In most disciplines, ideas, concepts and practices are researched, put forth and then seen as absolute truths never to be questioned or challenged. Such is the case with management practices such as open-door policies and staff motivation. Generally, if you are doing something that is producing good results, keep doing it. If, however, you are experiencing frustration regarding your work/life balance or your ability to help your employees, you may want to consider doing things differently.

Open-door policies

When asked if they are accessible to their direct reports at all times — in other words maintain an open-door policy — most managers take great pride in saying they

are. When asked how that is working for them, they will often admit that it means they can't get anything done during the day. "When I really have work to complete, I must get into the office at about 5 a.m. or 6 a.m.," they say. "I have a hard time getting my staff to think for themselves. They seem to come to me with so many tiny issues." And finally, "I want to be friendly with my staff but there's just too much chit-chat. Don't they see this is a workplace?" As with a myriad of issues, there are pros and cons to an open-door policy, although it may be a bit light on the pro side.

In its favour, being available for questions and conversation all the time may demonstrate a manager's interest in the employee and the work that he or she does. Admittedly, this is valuable. Also, it may look as though it promotes efficiency because, in theory, questions are answered and the employee is able to move on toward completion of the task at hand. However, it doesn't necessarily work that way in practice.

As for the cons: a steady stream of interruptions in the course of the day makes it next to impossible for a manager to get his or her own work done. There was a time, believe it or not, when the only thing managers had to do was manage people. With organizations aiming at being leaner, those days are gone. Today, managers have a great deal of responsibility in addition to overseeing their direct reports. What happens when individuals have to put in longer and longer hours? They become resentful of those who put them in that situation.

Equally important is the fact that learning is restricted when someone is there to answer every question as soon as it is asked. Think back to the last time you were sitting at your computer trying to figure something out. Sure, you could have e-mailed tech support for help, but you would probably have had to wait at least a day and you needed an



BLAIR KELLY

answer quickly. When you finally figured it out, you not only derived personal satisfaction, but the answer was likely to be etched in your memory for all time. But what if too much time was lost while you figured out the solution for yourself? When timing is crucial, other options may be more useful. Managing others may not be a manager's only task, but the obligation he or she has to the direct reports is to help them grow, develop and achieve independence. That is difficult to accomplish if a manager is always rescuing them.

Consider these viable options. Why not have set times during the day when you are willing and able to delegate, coach and counsel (much like a professor's office)? That way, a manager is free to complete his or her work without interruption. Another thing one can do is convey availability: a wide-open door means come on in; a door left ajar means come in if it's really important and you've exhausted the alternatives; and a door that is closed means come in only if the building is on fire.

The only way these options can work is if your employees understand what is expected of them when a manager is not available. First, they should be instructed to try to figure out the problem themselves (you need to express your confidence that they will be able to do this). Next, they should seek out another member of the team for help. Not only will this let a manager off the hook in many cases, but it will also foster an interdependence amongst team members, and that bodes well for overall increased productivity. If no one else is available to help, perhaps they can work on something else until you're free. Obviously, this assumes that the original project is not due immediately. Only if none of the above options are viable should employees insist on meeting with you.

One last thing if you are serious about moving away from an open-door policy: explain to employees that the reason for being less accessible is to help them become more self-reliant as well as to allow for more quality time when you do get together. You will be able to focus on them alone and not be distracted by reading or sending e-mails, talking on the telephone, writing notes about something else, etc.

Motivating your direct reports

A popular question in management seminars is about effective ways to motivate direct reports. A typical example: "There is an individual who reports to me in a pretty boring and routine job. She has worked for the company seven years and has done much the same job for all that time. She arrives on time, leaves exactly eight hours later and has never demonstrated a desire to take on more responsibility. Her performance appraisals show she consistently meets expectations but nothing more. I've tried talking to her about what else she might like to do but she says she's happy with the status quo. How can I get her excited about her job so she will aspire to greater things and perhaps, more importantly, work harder?"

Several thoughts come to mind in such a scenario. First, it is the employee's responsibility to motivate herself. She is the

one who has firsthand knowledge about her needs, desires and what rewards guide her behaviour. She is the only one who is able to effect change about herself and her situation. It is a bit arrogant to think that you, the manager, are in a better position than she is to know what is exciting to her. If you work harder than she does to change her work life, don't be surprised if the attempt fails miserably.

Second, the employee's response to a manager's attempt to engage her can be understood in one of two ways. Either she is truly happy doing what she does and feels no need to change it, or she might like to do something different but is apprehensive and holding back for some reason. If the former is true, she should be allowed to continue doing the good job she's done for seven years. The manager needs to accept that average does not equal bad. Someone who consistently meets expectations over time should be valued. If she is not asking for help, the manager should back off.

In the latter case, the manager would need to have the expertise, time and inclination to be a counsellor to determine she would like some change even though she denies it and then to figure out what it is that stands in her way.

If you are serious about moving away from an open-door policy, explain to employees that the reason for being less accessible is to help them become more self-reliant

Is there anything you should do in this situation?

- (1) Having a conversation in which you ask the employee about long-term career goals is important but take care not to be judgmental if the ambition just isn't there.
- (2) Establish and maintain a good rapport with the individual so if and when his or her needs change, he or she will feel comfortable about approaching you.
- (3) If you think that fear of taking on something new could be a problem, start by delegating simple tasks and be sure to offer praise when the employee has been successful. Continue providing opportunities for new experiences and try to obtain feedback regularly.
- (4) For the efficiency of the department and the development of staff, consider cross-training. This allows for a smoother operation when an employee is away and can also stem boredom if that's a problem.

There are very few absolute truths when it comes to managing people, so don't be afraid to ask questions and try new things to find something that works for both you and your staff.

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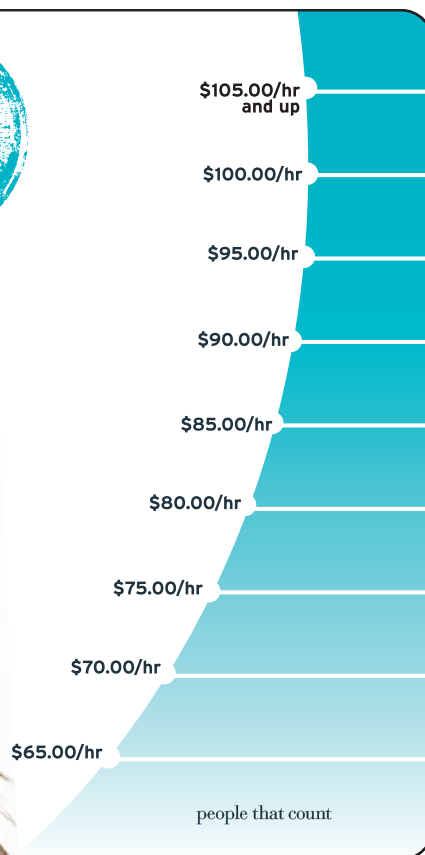
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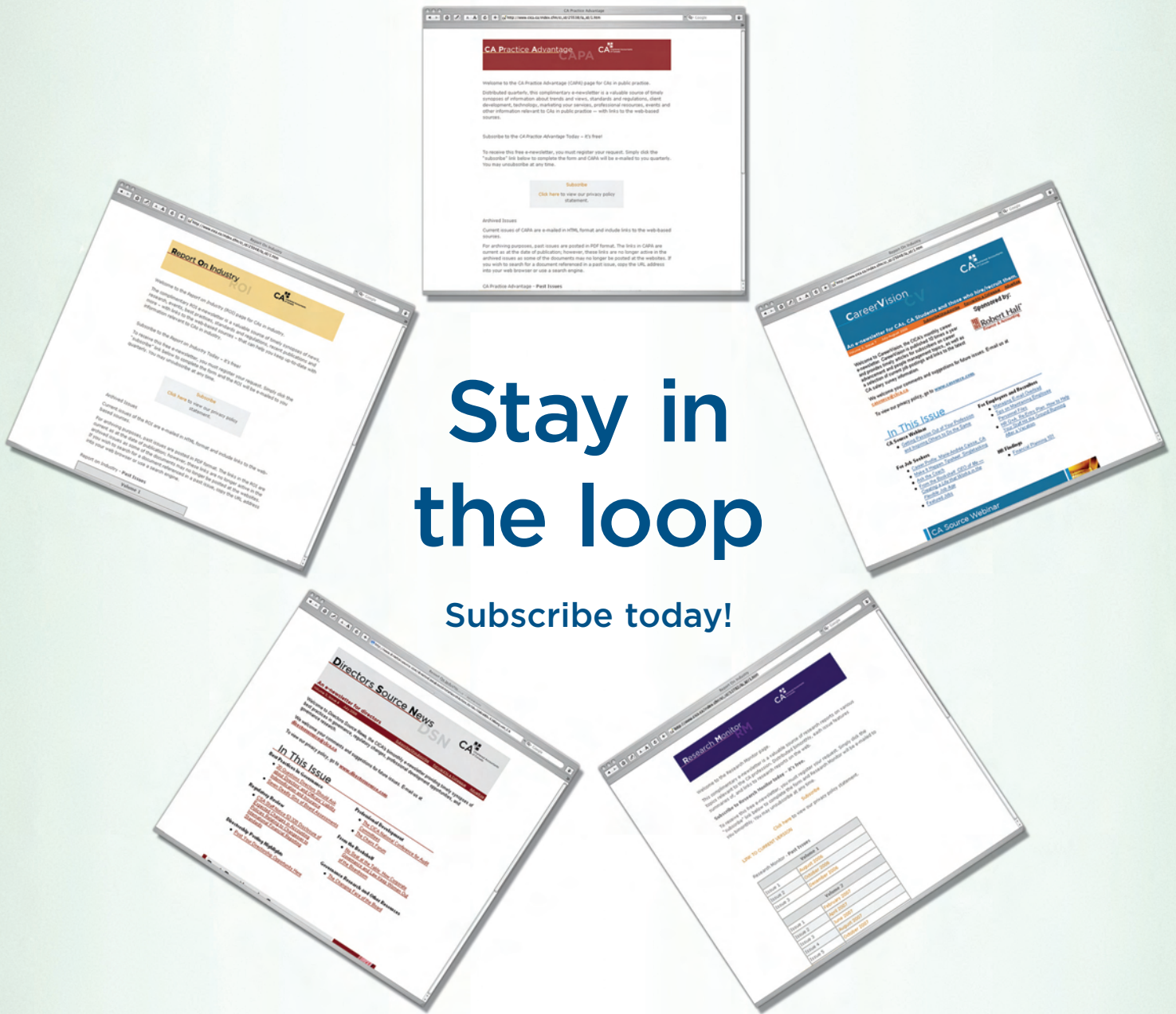
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Corporate compensation

CEO compensation has become a hot issue and for many it's more important than good governance. Not only has executive compensation reached unheard-of levels that bear little relation to CEOs' real contribution to value creation, but the large bonuses they receive, even when their companies have posted losses, are also a major irritant to shareholders. More and more people are asking why executives should be paid so handsomely when they are in large part responsible for the current economic crisis.

According to the Canadian Centre for Policy Alternatives, the average annual compensation of CEOs of the 100 largest Canadian companies is \$10 million. These CEOs also benefit from generous pension plans that guarantee them a lifetime annual income of several hundred thousand dollars when they retire.

In comparison, the average annual salary of a worker in Canada is \$40,000, which can climb to \$50,000 in late career. A retirement pension, if it exists, is paid at 65 and typically represents 70% of a worker's final year's salary.

In the past 30 years, the average gap between CEO and worker compensation has increased to a factor of 250 from one of 25, and moreover, workers' salaries have barely kept ahead of inflation. Is this difference warranted? Is a CEO's contribution equivalent to the contribution of 250 employees? The question is a valid one. But more interestingly, we should first look at how this enormous gap arose.

The methodology used to determine a CEO's remuneration is impressive, and its description takes up more than half the annual circular sent to shareholders. It is based on two principles. First, most of a CEO's compensation is variable, and this aims at encouraging corporate leaders to beat the performance objectives set by the board of directors. Second, meeting these objectives allows the CEO to receive the median market compensation. Exceeding them allows him or her to receive more than the median. Is there a flaw in the way this system is structured? Yes, there is a big one. Obviously. Most CEOs regularly exceed their annual

performance objectives, at least according to performance assessments conducted by boards of directors.

This constant surpassing of objectives skews market studies that seek to establish a basis for comparison. Since most CEOs score above the median in performance year after year, median compensation rises, causing an inflationary spiral that is reflected in market studies.

But how can more than 50% of CEOs perform better than average year after year? This contradiction, which no one is willing to acknowledge, is the flaw in the system that invalidates the use of market research studies.

In comparison, the annual increase in employee salaries, which is based on merit, seldom exceeds the rate of inflation. Why not apply the same principle to CEO salaries?

How can more than 50% of chief executive officers perform better than average year after year?

Since performance bonuses are a multiple of a CEO's salary, total compensation would be indexed according to the criteria used for all the company's employees. A CEO who turns in an outstanding performance could receive a more generous bonus, but this bonus would always be based on a multiple of his or her salary, which would be indexed in the same way as employees' salaries. The opposite would apply in case of unsatisfactory performance.

Furthermore, when CEOs are appointed, their initial salary should be realistic. Why not cap it at the higher of two amounts: either 10% above the salary of the next management level (instead of the typical 40% difference observed in market studies) or 10 times the average salary of a worker?

Will CEOs quit because they think they are underpaid? I have served on a few public company compensation committees and I've never seen a CEO resign because of inadequate compensation. A CEO who makes several million a year to lead a company is very well paid indeed.

Marcel Côté is founding partner at SECOR Consulting in Montreal

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