

# CA

magazine

Governance and risk  
in a global economy 52

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too good to be true 57

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then and now 66

June/July 2011



www.camagazine.com

# 100 YEARS

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FROM "SMALL BEGINNINGS" IN 1911 to the age of social media,  
we document herein a century of wonderful and exciting change P. 28

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June/July 2011 Volume 144, No. 5

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**Art director** Bernadette Gillen  
**Associate art director** Kevin Pudsey  
**Senior editors** Bernadette Kuncevicus  
 Tamar Satov  
 Yvette Trancoso  
**Associate editor** Marie-Josée Boucher  
**Assistant French editor** Margaret Craig-Bourdin  
**Editor, Web edition** Alan Vintar  
**Magazine Web producer** Harriet Bruser  
**Editorial assistant** Suzanne Mondoux  
**Director of translation** Steve Brearton  
**Contributors** Jim Carroll, FCA  
 Michael Burns, MBA, CA John Tabone, MBA  
**Technical editors and advisers:**  
**Assurance** Yves Nadeau, CA  
**Business valuation** Stephen Cole, CBV, FCA  
**Education** Christine Wiedman, PhD, FCA  
**Finance** Peter Hatges, CA, CBV, CF  
**Fraud** David Malamed, CA-IFA, CPA, CFF, CFE, CFI  
 Peter Farkas, CBV, CIP, FCA  
 Jo-Anne Demers, BA, LLB  
 Carolyn Cohen, MSW, CA  
 Garnet Anderson, CFA, CA  
 Stephen Rosenhek, MBA, CA, CIRP  
 Ron Salole, vice-president, Standards  
 Jay Hutchison, CA  
 Yves Godbout, CA-IT, CA-CISA  
**Publisher** Cairine M. Wilson, MBA  
**Sales and marketing manager** Brian Loney (416) 204-3235  
 brian.loney@cica.ca  
**Advertising sales manager** Bruce Feaver (416) 204-3254  
 bruce.feaver@cica.ca  
**Quebec advertising representative** Serge Gamache (450) 651-4257  
 sergegamache@videotron.ca  
**Advertising representative** Darcey Romeo (416) 204-3257  
 darcey.romeo@cica.ca  
**Advertising coordinator** Michael Marks (416) 204-3255  
**Circulation manager** Annette DaRocha (416) 204-3367  
**CAmagazine Editorial Advisory Board**  
 Doug McPhie, FCA, Chair Blair Davidson, FCA  
 Margaret Albanese, CA Phillip Gaunce, CA  
 Nancy Cheng, FCA Michel Magnan, FCA

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Toronto: 277 Wellington St. West, Ontario M5V 3H2  
 Tel. (416) 977-3222, TDX 103, Fax (416) 204-3409.  
 Montreal: 680 Sherbrooke St. West, 17th floor, Quebec  
 H3A 2S3. Tel. (514) 285-5002, Fax (514) 285-5695.

Subscription inquiries: Tel. (416) 977-0748 or 1-800-268-3793  
 Fax (416) 204-3416

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E-mail: [camagazine@cica.ca](mailto:camagazine@cica.ca)

[letters.editor@cica.ca](mailto:letters.editor@cica.ca)

[advertising.camagazine@cica.ca](mailto:advertising.camagazine@cica.ca)

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# You don't look a day over 100!

The CA profession and its magazine have undergone many changes since our first issue. Join us in a retrospective of the past century

Your *CAmagazine* was born in 1911, 100 years ago in July. It's no small thing, a centenary. What was Canada like at the time of the magazine's birth? It was a world almost completely alien to people alive today. Can you imagine a time when there were only 50,000 registered cars in a Canada with a population of 7.2 million (there are about eight million cars today), and the primary mode of private transport was the horse and buggy or cart? Cars were a rarity considered so obnoxious they were referred to as "stink wagons" by some newspapers, and some laws restricted them to no more than 8 mph. Can you imagine a time when electric power came on only at night, except for one day of the week so housewives could iron clothes? A time when only 12% of American homes had flush toilets? In 1911, there were 246 chartered accountants in the dominion, and the pay scale ranged from \$3 to \$12.50 a week. There were no women CAs.



Evidently, a great deal of change has occurred, changes that include the introduction of income tax, the first women in the profession, computerization and the transition to international financial reporting standards. Our celebration of the magazine's first 100 years is a kaleidoscopic presentation of the diverse changes to the profession as recorded by your magazine and it begins on p. 28. We contracted writer Steve Brearton to go through the magazine archives and select the fascinating, the fantastic and the fabulous reports and opinions that have made the magazine the premier source of information for accountants.

The information is organized by decades and an essay that summarizes issues that were and are relevant to the profession. We hope you will enjoy reading this, and will keep and treasure the magazine and refer to it from time to time.

The rest of the magazine contains your usual favourites, though some stories have a centennial slant. In *Upfront* we profile Nelson Luscombe, *CAmagazine's* longest-serving editor. It's a fascinating account of the life of a most interesting man (p. 8). In *Netwatch* (p. 18), Jim Carroll asks readers to think about the next 100 years and "[take] our unique analytical skills to the next level." There are regulars on taxation, p. 52; fraud, p. 57; education, p. 60; and a second taxation regular, which reviews the past four decades of our tax system, p. 66. Finally, columnist Marcel Côté states his observations on the accounting profession over the past 20 years.

We wish the magazine a happy centennial and expect the next 100 years to be just as brilliantly fruitful.

Okey Chigbo, Editor

**upfront**

**4 MAILBOX**

**8 PEOPLE**

For Nelson Luscombe, producing *CAMagazine* for 22 years and getting to combine his skills and passions and influence an entire profession was the best job of his life. The CA turned writer, editor and publisher led the magazine from 1979 to 1996, a role he held longer than anyone else

**8 NEWS AND TRENDS**

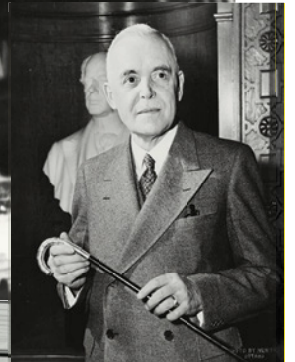
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The language of business

**28 A century of *CAMagazine***

We are breaking out the bubbly this issue to celebrate your magazine's 100th anniversary. Launched in July 1911 as *The Canadian Chartered Accountant*, its slogan was "Of the Profession; by the Profession; for the Profession." Join us in this special issue featuring a decade-by-decade retrospective and an analysis of the greatest changes in the profession as reflected within the pages of *CAMagazine*

**BY STEVE BREARTON**

## regulars

### 52 Taxation

Governance and risk in a global economy: getting global tax risk management wrong can mean financial disaster, but getting it right can yield many competitive benefits

By Fred O'Riordan

### 57 Fraud

Too good to be true: investment fraud is on the rise. So make sure you know what red flags to look out for when giving a client advice

By David Malamed

### 60 Education

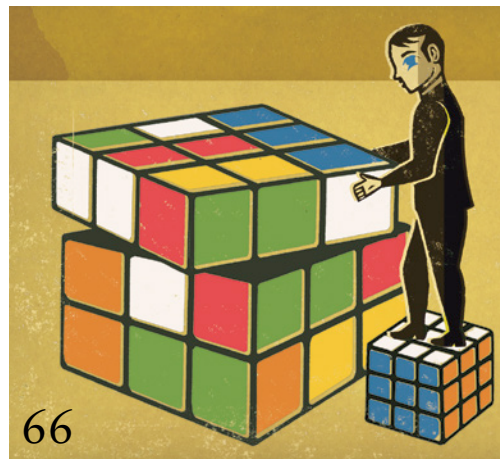
Will changes bring transparency? Some fear that proposed changes to pension accounting may make DB plans less attractive to companies

By Darren Henderson + Christine Wiedman

### 66 Taxation

Income tax, then and now: a quick review of the past four decades of the tax system proves it's a complex Canadian tax world

By Michael Cadesky + Peter Weissman



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Breaking news, tax updates, job postings, archives, more articles: you'll find them all at [www.CAmagazine.com](http://www.CAmagazine.com)



# Mailbox

## A CALL TO ACTION

I was inspired by the CEO round-table cover story (April). The discussion was thought-provoking and the leaders all had great perspectives on various issues that our profession faces. The questions got me thinking about how we, as professionals, can become the catalyst for change and turn the issues into solutions.

The best way to make change happen is to roll up our sleeves and offer to help.

So I'm calling to action a collaborative process for change. I invite the leaders of the top-10 accounting firms, leaders from academia and your publication to come together to produce an action plan to raise the bar of our profession. Let's collaborate on tackling issues such as recruitment, nurturing business acumen, grooming talent and ensuring Canada continues to produce and attract global business leaders to the CA profession. We can work with Canadian universities to assess curriculum

in accounting programs to ensure that Canadian-trained public accountants are groomed to become the next global business leaders.

In working together and continuing the dialogue, we can create solutions to many of the issues our profession faces. Let's raise the bar of our profession.

**David Steinberg, CA**  
Toronto

## YOU CALL THAT EFFICIENT?

Referring to tax havens such as the British West Indies as tax-efficient jurisdictions, as is done in "Foreign service" (March) is in poor taste and leaves me stunned. Allowing Canadian banks to shift their profits to tax havens to pay less tax in Canada, depriving our country of much-needed money in tough times — is that what you call "efficient?" Nonsense. I call it a "criminal tax jurisdiction."

**Olivier Smith-Lauzon, CA**  
Montreal

## RELEVANT

The March issue included a number of articles that I found useful and interesting from my perspective as a CA in industry. In fact, this issue had almost no technical accounting articles. I applaud your efforts to make *CAMagazine* more relevant to CAs in industry.

**Patrick Daly, CA, CFP, FCSI**  
North York, Ont.

## GREED IS A BAD DRIVER

"Greed is bad" (Outlook, April) offers a good heads-up. Our profession needs to be more vocal on the human issues that are driving our North American economies in



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# Mailbox

bad directions. The only thing I would add is that greed is a fundamental driver of our economic model but uncontrolled greed is the destructive force.

**Rick Ziemiński, CA**  
Ancaster, Ont.

I agree with Marcel Côté (Outlook, April) that the problems with Wall Street investment banks centre on a conflict of interest in trading for their own accounts instead of just being intermediaries for clients. I was, however, surprised that Côté thought Canadian banks were not participating in such dealings.

In my opinion, the problem resulted from the decision by governments to allow banks to take over investment bankers many years ago. That started the problem of huge remuneration increases to bankers, which until then had been a staid intermediary business. It was only after the high-risk/remuneration investment banks were acquired that the high-risk/remuneration model came to the banking industry. As is often the case, governments caused the problem by allowing a business model that had been previously forbidden for obvious reasons. It will be interesting to see how many more bank bailouts will take place before the present model is prohibited again.

**James Shutiak, CA, EMBA, CMC, CFE**  
(retired)  
Calgary

**CAMagazine** welcomes letters to the Editor. Please write to us at 277 Wellington Street West, Toronto, Ontario M5V 3H2  
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Letters may be edited for space and clarity

# 100% ADAPTABLE



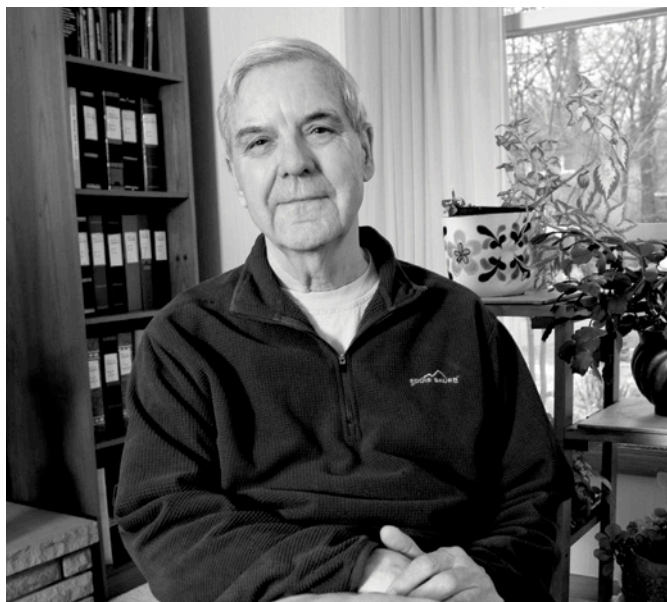
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## Editor's account



**CA Nelson Luscombe led *CAMagazine* from 1979 to 1996, a role he held longer than any other editor of the magazine**

Having a job you enjoy is one thing. Having one that combines your skill sets, passions and an opportunity to follow and influence an entire profession could very well be the best job of your life. And for CA turned writer/editor Nelson Luscombe, producing *CAMagazine* for 22 years was exactly that. “At the age of 36 I had found my niche,” says Luscombe, now 72 and retired. “I had landed a job I would have almost paid them to let me do.”

Having articulated in Halifax and worked with a CA firm in Bermuda and a trust company in Montreal, Luscombe admits he was a “competent accountant but not a passionate one.” Instead, he was ardent about putting words to paper and found an opportunity to do so when he joined a property management company in Toronto to write feasibility studies and proposals. After being downsized in 1974, he finally got his big break by selling his first article to the *Financial Post*. Not long after, a headhunter connected him with *CAMagazine*'s then editor, Dorothy Cooper, and the rest is history.

Luscombe was quick to make his mark, first as managing editor and then editor. He humanized the technical magazine with profiles of CAs and their varied outside interests. He credits his CA background for giving him credibility with his subjects, and notes his interviews with association presidents among his most memorable moments. Luscombe loved taking a piece that was technically correct and “making it sing.” He recounts a contributed article by

Canada's auditor general James Macdonell, who had a reputation for writing polished pieces that required no editing. “We edited the hell out of it anyway and brought it up to Ottawa for him to look over. He just loved what we'd done with it.”

These days, Luscombe says the multi-award-winning magazine is just as much a leader in its field as CAs are in theirs. “I like to think those two accomplishments are related,” he says. “All CAs can be justifiably proud of both — I know I am.”

Rosalind Stefanac

### Top names for chief executives

Call him the CEO, call him the boss. But in our country, chances are good that a chief executive officer's actual name will be Ray, Roger, Barry, Larry or Bob.

Those are the top-five names for CEOs in Canada, according to online professional network LinkedIn. An analysis of more than 100 million public profiles on the site also indicated the top-five male and female names for CEOs globally are Peter, Bob, Jack, Bruce and Fred; and Deborah, Sally, Debra, Cynthia and Carolyn, respectively.

Interestingly, male CEOs around the world tend to use shortened versions of their names, perhaps as a way to be more approachable, while female CEOs appear to prefer to use their full names rather than nicknames, which could signify that they want to be taken more seriously, says Frank Nuessel, the editor of *Names: A Journal of Onomastics*, published by the American Name Society.

#### Résumé

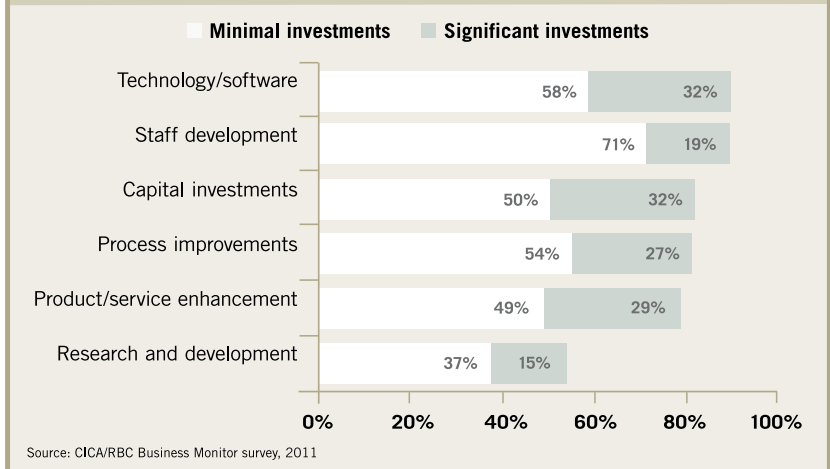
- 1963** obtains CA designation (NS)
- 1969** joins Montreal Trust as assistant comptroller
- 1974** publishes first article, *Financial Post*
- 1974** joins *CAMagazine* as managing editor
- 1979** appointed editor, *CAMagazine*
- 1996** retires

## SURGING OPTIMISM FUELS INVESTMENT

Canadian executives are significantly more optimistic about the economy than they were last year, according to the first-quarter 2011 CICA/RBC Business Monitor survey. Optimism jumped to 64% from 41% in the final quarter of 2010, and it is fueling strong projections for job creation, profits and investments in innovation. Nearly half of respondents expect employment numbers to climb at their company over the next 12 months and 22% project job creation of 5% or more.

The study also found that Canadian companies highly value innovation. Eighty-five percent of respondents agree innovation is key to the success of their company and two-thirds plan to make a significant investment in innovation. Technology/software and capital investments, both at 32%, are areas where Canadian companies are most likely to make significant investments. Nine in 10 respondents expect to invest in staff over the next 12 months and 82% expect most of these investments to be made within Canada.

### Expected investment by Canadian companies over next 12 months, according to CA executives



Uncertainty about the economy has not hindered investments in innovation. Only 23% of respondents indicate their company made little or no investments during the past 12 months due to economic uncertainty and only 17% believe such uncertainty will deter significant investments over the next 12 months.

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



### ASK AN EXPERT

#### MY BOSS SAYS I NEED TO CLEAN UP MY DESK. IS THIS REALLY A BIG DEAL?

**A tidy desk won't necessarily boost your career, but a messy one can leave a bad impression on colleagues. By taking simple steps to organize your workspace, you will also be able to find materials more easily and increase your productivity:**

**Sit in your visitor chair** to get a perspective on what others see when entering your cubicle or office. Your workspace should be visually appealing to you and your guests.

**Establish a system** that suits your style. You can always rearrange items later, but this will prevent things from getting out of hand.

**Store it away.** Keep only the materials needed for your current project on your desk, and clear these items after the assignment is completed.

**File, don't pile.** Eliminate clutter by organizing paperwork in vertical or tickler files. Clearly label or colour-code documents so you can find them more easily.

**File, recycle, toss or pass along** every piece of paper the first time you look at it.

**Go paperless.** Print documents only when necessary. Electronic calendars, task lists or e-mail alerts can help you remember deadlines, appointments and meetings.

**Keep it clear.** Take a few minutes at lunch and the end of the day to clear your workspace. Prioritize the tasks on your to-do list before you leave so you can hit the ground running the next morning.

Robert Hosking is executive director of staffing service OfficeTeam ([www.officeteam.com](http://www.officeteam.com))

# #NUMBERS Game

**Magazine miscellany** *CA* magazine becomes a centenarian this month. Dissecting 100 years of history at your profession's flagship publication:

**28.39** Cost in dollars to produce the first issue. Also, subscription fee from one member outstanding.

**9** Times since 2000 the magazine won Gold for Best Issue at the Kenneth R. Wilson Awards, which recognize excellence in the Canadian business press.

**9** Canadian National Magazine Awards and honourable mentions received. The first was given to illustrator Jamie Bennett in 1988, the last in 2006 to artist Gary Taxali.

**12** Editors of the magazine throughout its history. Nelson Luscombe, *CA* (1979 to 1996) enjoyed the longest tenure. Dorothy A. Cooper (1974 to 1979) was the first woman.



**141** Pages in the November 1985 issue — the largest ever of the English edition. The smallest issue in July 1911, also the magazine's first, numbered 32 pages.

**474** Occasions the word "vacation" appeared in the magazine. "Relax" appeared 177 times and "audit" in 34,832 instances.

**1,021** Total number of magazine issues during 100 years of publication. The 1,000th issue appeared in May 2009.

**1961** Year the magazine published a letter from HRH Prince Philip congratulating it on 50 years in existence. "There is no need for me," he wrote, "to emphasize the vital function of the accountant in a modern industrial state." Steve Brearton

## Going Concern



**ROB GEREMIA, FCA,  
PRESIDENT, BOARDWALK  
RENTAL COMMUNITIES**

**COMPANY PROFILE:** Calgary-based Boardwalk Rental Communities is Canada's largest publicly listed multiple-family rental

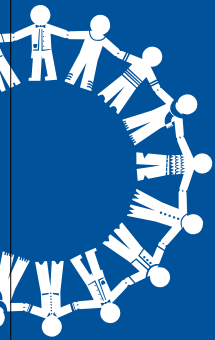
property landlord with 35,277 apartments in Alberta, British Columbia, Saskatchewan, Ontario and Quebec. In 2010, its revenue reached \$416 million and it currently employs 1,500. Boardwalk Real Estate Investment Trust units are listed on the Toronto Stock Exchange. As of December 31, 2010, its total enterprise value was approximately \$4.2 billion.

**HOT FACTOR:** In October 2010, Boardwalk was named one of the top-10 most-admired corporate cultures in Western Canada by recruitment firm Waterstone Human Capital. Its safe and respectful workplace helps employees balance their work and personal lives with perks including up to five grace days to use as they choose. As a result,

its annual turnover rate has dropped from close to 100% to about 20%. Within the communities it serves, the firm also supports social and cultural activities such as the Unity Project for Relief of Homelessness in London (Ont.), and the Calgary Inter-Faith Food Bank Society.

**COOL PROJECTS:** High demand has enabled the firm to sell off some noncore holdings at favourable prices and use the proceeds to reward investors through a share-repurchase plan and a special dividend. It has also utilized Canada Mortgage & Housing Corp.-administered borrowing rates to buy properties to expand its presence in growing markets.

**IN HIS OWN WORDS:** "We're successful because our two founders are hands-on operators and because of our team focus. Senior managers hold about 25% of the outstanding equity. We are also committed to offering tenants friendly service and great value. We do not take advantage of periods of high demand to push up rents too far. That's one lesson we have learned from past booms and busts." Ken Mark

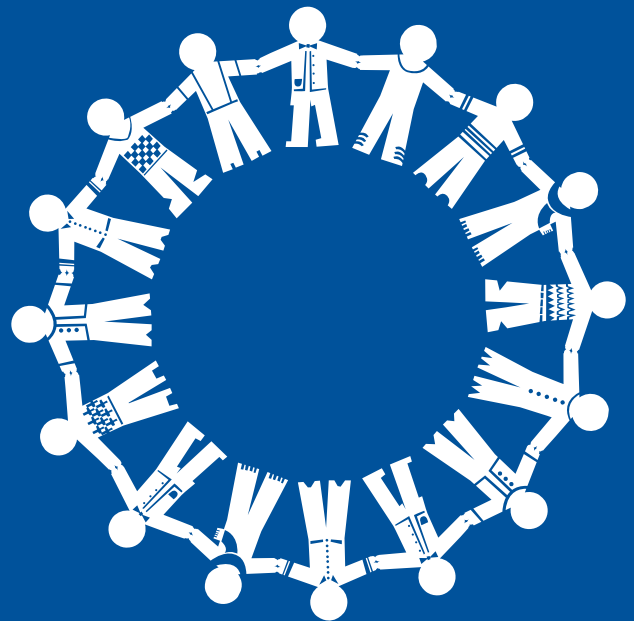


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### Bosses leading before they are ready

A significant percentage of managers are promoted prematurely, according to a survey by US recruiter CareerBuilder.

More than one-quarter (26%) of managers polled said they weren't ready to become a leader when they started managing others and 58% said they didn't receive any management training.

This could explain another one of the survey's findings: when workers were asked to rate their direct supervisor, 20% described his or her performance as poor or very poor. The top concerns workers have with their boss include playing favourites (23%), not following through on promises (21%), not listening to concerns (21%) and not providing regular feedback (20%).

"Good management skills can positively impact productivity, performance and overall employee morale," says Rosemary Haefner, vice-president of human resources at CareerBuilder. "We see more companies investing in management training programs to develop today's and tomorrow's leaders."

#### Managers' biggest challenges

Dealing with issues between coworkers	25%
Motivating team members	22%
Performance reviews	15%
Finding the resources to support team	15%
Creating career paths for team	12%

Source: CareerBuilder, 2011

### Web affects money decisions

Ever wonder where investors are getting their financial advice when it's not coming from you? Online, according to an Investors Group poll.

Next to their financial adviser (66%), Canadians who save and invest are most apt to get financial information from websites belonging to financial services companies and from online media (40%). Other significant sources include friends and family (36%) and traditional media such as newspapers, television and radio (29%). Six percent visit blogs and social media sites for financial and investing information.

"Online and social media are becoming go-to places for information and research but Canadians still rely on expert professional advice," says Christine Van Cauwenberghe, director of tax and estate planning at Investors Group.

#### DISENGAGED VS. UNEMPLOYED

The wrong job could be worse for your well-being than no job at all, a Gallup poll finds. Four in 10 (42%) US workers who are disengaged — emotionally disconnected from their work and workplace — say they are thriving in their lives, compared with 48% of the unemployed.

#### AUDIT ANXIETY

Six in 10 taxpayers are nervous about being audited, according to a survey for US office supply and equipment company OfficeMax. That's more than those who are worried about receiving a performance review at work (39%) or visiting the doctor for an annual checkup (35%).

#### BANK ON CHANGE

Nearly two-thirds of Canadians (64%) say they plan to switch banks or have already done so because of poor service, finds an Ernst & Young survey. One-third (34%) of respondents say they get only occasional or no personalized attention from their banks.



# CA Magazine is not getting older. It's appreciating.

Innovating is always a challenge – but a century of innovation is heroic. Few businesses appreciate that like CCH. Since 1913 we too have proudly served accountants with up-to-the-minute industry intelligence and forward-thinking technology.

Factoring in the challenges of longevity and sustainability, CCH congratulates CA Magazine, fully appreciating your century of success.



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## Appealing an SR&ED claim

The Canadian tax system's provisions for research and development aren't quite as old as *CAMagazine*, but they do date back more than 60 years, to 1948. While the provisions always targeted scientific research, they were broadened in 1985 to include "experimental development" — giving us the acronym SR&ED. In 1994, the government further strengthened the definition of experimental development, thereby reaffirming its support for industrial R&D undertaken in pursuit of new products or processes.

Given the government's apparent commitment to fostering R&D in Canada, it is discouraging to see how much CRA has varied its views on SR&ED eligibility over the years, with no material changes in the legislation to back them up. Peter Weissman, one of the co-authors of this article, wrote about this problem in the 1990s (see "Credit where it's due," September 1997, p. 30) and it's happening again today.

What is driving this trend? Has CRA changed its policies on SR&ED eligibility? If so, are these changes supported under the legislation? If not, what is the best way to get redress?

### The political environment

The federal government has to balance competing (even conflicting) goals when it comes to economic development policy for science and technology. One is to offer an internationally competitive R&D tax credit incentive. Another is to control actual tax credit disbursements to contain costs. Yet another is to guard against what appears to be an explosion of abusive claims.

Over the past four years, cost containment and abuse control seem to have won out. Now there are growing indications that both taxpayers and the government believe the SR&ED program is malfunctioning. In September 2009, the taxpayer's ombudsman, Paul Dubé, was asked to investigate whether CRA was correctly administering the program. His report has yet to be released, but he has been quoted as saying there have been "a lot of industry complaints." Then in October 2010, the federal government set up a six-member SR&ED expert review panel headed by Open Text chair Tom Jenkins to review the economic benefits of all forms of government funding for R&D, including SR&ED. And in the past few months, several associations have voiced their dissatisfaction with the

program. For example, the Canadian Manufacturers and Exporters reported in a submission to the expert review panel that "problems in the administration of the [SR&ED] system include uncertainty with respect to eligibility, tighter definitions that exclude many previously eligible development activities, lack of technical expertise, long processing times, and lack of client [taxpayer] support."

### SR&ED rules and current trends

CRA has published a variety of guidelines, administrative policies and interpretation bulletins to help taxpayers better understand the SR&ED rules. However, these are not law themselves, but merely statements of administrative policy. The actual legislation is to be found in the Income Tax Act (Canada). There, the definition of SR&ED has not changed in any material way since the mid-1990s.

## The definition of SR&ED in the Income Tax Act has not changed in any material way since the 1990s

The challenge right now is to keep up with CRA's moving administrative definition of what is eligible.

Ultimately, Canada's tax courts decide on the correct interpretation of the act. But although there have been some important decisions, none can justify the extent to which CRA has narrowed its definition of SR&ED eligibility. While the act and jurisprudence can probably support some of CRA's recent policy tightening, we are seeing an increasing number of aggressive SR&ED assessments that are not supportable by either. Unfortunately, most taxpayers (and many accountants) are not sufficiently familiar with the nuanced differences between law and administrative policy to appreciate which audit positions are correct. Here are some audit strategies that, in our view, are not supported.

*Project deconstruction:* The taxpayer makes a claim for a project involving a set of interrelated activities that are collectively necessary for the technological advancement. The CRA auditor arbitrarily breaks the project into smaller subprojects, then assesses some of these as "standard engineering" and, therefore, not eligible. The claim is either reduced or disallowed altogether.

*Misinterpretation of experimental development:* Most SR&ED claims are made for work that is experimental development as defined in paragraph 248(1)(c) of the act. The term "experimental development" was first enacted in 1985 spe-





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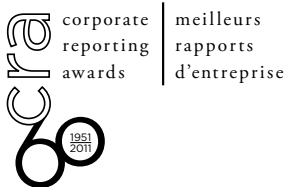


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cifically to broaden the legislation to cover industrial R&D aimed at product development. However, CRA auditors are now too frequently importing the more restrictive wording from paragraphs 248(1)(a) or (b) and saying the taxpayer has failed to demonstrate “an advancement in a field of science or technology,” thus imposing pre-1985 rules.

*Technological obstacle versus technological uncertainty:* An SR&ED claim is disallowed on grounds that there was no “technological uncertainty” or “technological obstacle” that would justify making a systematic investigation.

The act doesn’t actually contain the words “technological uncertainty” or “technological obstacle.” Rather, the term “technological uncertainty” evolved from a 1997 court case, *Northwest Hydraulic Consultants Ltd.* There, Justice Bowman described uncertainty as something not known to a qualified specialist in a given field. The term “technological obstacle” appeared in 2008 with CRA form T661-08, but has yet to be sanctioned by any jurisprudence. In various publications since then, CRA has taken to defining “obstacle” as shortcomings in the existing state of the art. It now seems to be using the entire world as a benchmark and as such is setting the eligibility bar much higher than it was set in 1997.

*Traditional versus proxy overhead methods:* A taxpayer makes a claim using the traditional method for overhead costs, which involves a more detailed accounting of actual overheads, but also allows for a broader scope of eligible activity than the proxy method, where the overhead is deemed to be 65% of the claimed T4 wages. The CRA auditor denies the expenditures for these broader-scope activities, allows an overhead of about 65% of the T4 wages, and effectively negates the taxpayer’s use of the traditional method.

### Redress options

Given the administrative policies CRA has recently adopted, we think the Tax Court of Canada (TCC) is currently the best venue for SR&ED matters where the main issue is scientific eligibility. Of course, a notice of objection remains useful for expenditure-related issues in an eligible claim. However, we find it is now taking 24 to 36 months for an appeals officer even to be assigned to an SR&ED objection.

Before the TCC process can begin, a notice of objection must have been served on CRA within 90 days of the date shown on the notice of assessment. In rare circumstances it might be possible to extend this deadline by up to a year. An appeal can be launched in the TCC on the 91st day after the notice of objection has been served, so long as CRA has not notified the taxpayer that it has made a decision on the objection within 90 days following the date it was served. In our view, the present objection backlog is so large, the objection will probably not even be acknowledged within 90 days.

Once the notice of appeal is filed, a trial can be secured within 24 months. However, most actions are resolved at a settlement meeting or conference.

While the TCC route looks promising, it still requires expert knowledge of the rules of procedure and the legislation. Also, the taxpayer must be prepared to present evidence as to why the claimed activity meets the legislated definition. This is critical in the TCC process because the onus of proof is on the taxpayer. The facts the CRA used to make the assessment are presumed correct.

Despite these caveats, we still think the TCC is the best option for resolving SR&ED disputes. Of course, it would be preferable not to have any disputes at all. We look forward to seeing the CRA realign its operating doctrines with the original objective of the SR&ED program — encouraging research and innovation in the private sector.

For an expanded version of this article, please visit [www.camagazine.com/SR&ED2011](http://www.camagazine.com/SR&ED2011).

David R. Hearn is managing director of Scitax Advisory Partners LP and has been working in the SR&ED advisory field since 1993. A. Christina Tari, LL.B., LL.M., is a founder of Richler and Tari, Tax Lawyers, and has a practice restricted to tax dispute resolution. Peter M. Weissman, CA, TEP, is a partner in Cadesky and Associates LLP, a Toronto firm focusing on income tax planning, and was formerly the leader of the SR&ED practice in a national accounting firm

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## Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

# What about the next 100 years?

**O**ne reader of my April column (“Think and act big”) wondered how we might reconcile the opening sentence, “We are in the era of big thinking, yet a lot of people have a small outlook,” with a survey in the same issue outlining the “Critical sustainability drivers for Canadian companies” (Findings, p. 7).

That survey of CAs in industry showed that “compliance with legal and regulatory requirements” and “managing risk to the reputation of the company brand” make up a whopping 47% of the total survey results. Noted the reader: “I’m not sure this is big thinking. Thank heavens ‘achieving competitive advantage and long-term profitability’ came in third or I’d really wonder about the state of Canadian industry.”

This set me wondering too. Have we as a profession become so focused on doing small, unimportant things extremely well, to the detriment of taking on the huge challenges society, industry and business face?

We live in a time in which we need to come up with bold solutions to some pretty massive problems. Take Canadian healthcare, for example, where spending is likely to rise to nearly 20% of our GDP from about 12%. If left unchecked, it could bankrupt the country. That’s why there is a broad push to genetic-based preventative medicine, so we can transition from a model of fixing people after they are sick to one in which we know what conditions people are likely to develop and begin an appropriate course of action based on that knowledge.

There’s also a lot of thinking about the role of analytics — how we can use the power of mathematical insight to spot emerging healthcare issues in advance, so we can manage costs through planning rather than through a crisis.

That’s why one California hospital, the Heritage Provider Network, announced a US\$3-million prize to find a “breakthrough algorithm that uses available patient data, including health records and claims data, to predict and prevent unnecessary hospitalizations.”

Then there’s Honda, which reinvented its manufac-

turing process so it was no longer building to inventory with long lead times and could more closely watch customer demand and swiftly adjust its production to meet that demand — a topic I’ve covered in this column before. How did it do that? Partly through the involvement of Edmonton-based Optessa, a small company that essentially consists of a bunch of analytical math geeks who are really good at figuring out how to apply sophisticated algorithms to complex problems.

Google is thinking the same way. It’s looking at the complex issues in trying to move toward a two-way, reliable energy grid that can accept the input of millions of small, unstable power sources such as backyard solar energy and wind panels. In essence, it’s trying to figure out how to use — here we have it again — sophisticated analytics to better balance the grid.

All these trends are part of a key theme that I’ve been talking about for years: remember those math geeks in school? They own the future.

As a profession, then, shouldn’t we be taking our unique analytical skills to the next level, helping to come up with bold solutions to big problems — and not naming risk management and compliance as the most important drivers affecting us?


Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at [jcarroll@jimcarroll.com](mailto:jcarroll@jimcarroll.com) or log on to his website at [www.jimcarroll.com](http://www.jimcarroll.com)

### ANSWERS THROUGH ANALYTICS

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[www.heritageprovidernetwork.com/?p=hpn-today&article=11](http://www.heritageprovidernetwork.com/?p=hpn-today&article=11)

**Optessa** [www.optessa.com](http://www.optessa.com)

**Google crashes the smart-grid party**  
<http://news.cnet.com/google-crashes-the-smart-grid-party>

The background is a solid teal color. Large, white puzzle pieces are scattered across the top and right side of the page. One large piece is at the top left, another is to its right, and a third is further right. A fourth piece is at the bottom right, partially overlapping a white square.

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# Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

## IT has come a long way

In honour of *CAMagazine's* 100th birthday, I thought it would be a good idea to look at the evolution of information technology over the past few decades. Of course, IT didn't exist 100 years ago — and neither did I. Still, looking back, I feel like I lived with the dinosaurs. The following shows just how far we have come.

**1970s:** In my first job, I worked with a large retailer. Employees filled in forms for inventory transfers, sales, purchases and so on. These were then sent to head office, where one of our 50 or so keypunch operators entered the information onto punch cards. The cards were sorted by a machine, then read by an IBM mainframe that would update inventory, sales and accounting records. Today, a cellphone has more power than that mainframe.

**1980s:** Before the arrival of automated working papers such as CaseWare, accountants manually created financial statements and working papers for their clients. I was a CA with strong technical skills who had no choice but to use columnar paper to determine the client's closing trial balance. We would manually copy the trial balance on the left, then enter the adjusting entries in the middle columns and add the opening and adjusting entries to arrive at a closing balance. You can imagine what happened when there were lots of adjusting entries for one account. I figured there must be a better way.

I developed a program called the Working Paper Generator, which automated the working papers and financial statements. In the early days, we had to store the program and data on several diskettes, which we would swap when using different parts of the system.

**1990s:** This is when the Internet emerged as a technology that would end up changing everything. The first killer application to hit was e-mail. Another one that had huge ramifications was e-commerce. So far, transactions have been mainly between businesses and consumers.

The 1990s also saw the introduction of client/server technology, which separated applications (which ran

on the client) from databases (which ran on the server). Client/server technology allowed PCs on a network to run accounting/ERP systems with much better performance and reliability than ever before. SAP was the first to seize on the potential of client/server technology.

**2000s:** At the beginning of the millennium, client/server (two-tier) technology started to be replaced with three-tier technology, which separates not only the database and application, but also the user interface. Only the user interface is included on the workstation. This allows for a huge jump in performance, because it's just the interface commands that are transmitted over the Internet.

In the early 2000s, Google emerged as the second killer Internet application. Can you imagine doing your

### Today, a cellphone has more power than the IBM mainframe I dealt with in the 1970s

work these days without resorting to Google?

**2010 and beyond:** Everything is going mobile. All the major software developers are investing in bringing their applications to you, wherever you might be. And there's another killer application that is waiting in the wings: business-to-business e-commerce. Through extended markup language and Web Services, it will be possible for companies to exchange purchase orders and other data without using fax or e-mail and without needing to rekey the data.

It is hard to imagine IT continuing to evolve as quickly as it has over the past few decades. I think the big change ahead lies less in the technology than in the way it is used. Let's hope it is used to make the world a better place.

For an expanded version of this article, please visit [camagazine.com/process-centennial](http://camagazine.com/process-centennial).

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

“Our inventory accuracy has improved; we’ve reduced costs, and been able to get product to our customers in a more timely fashion”

George Foleanu, Manager of IT & Engineering, Dupar Controls

## Dupar Controls

Dupar Controls Inc. (a subsidiary of the Dewhurst Group), is a manufacturer and supplier of quality components for the elevator and ATM industries. Headquartered in Cambridge, Ontario, Dupar was founded in 1958 and currently employs approximately 45 people.

Three years ago the Dewhurst Group, and Dupar Controls with it, outgrew its largely ad hoc business platforms. After looking at a variety of enterprise resource planning (ERP) software, Dewhurst made the move to SYSPRO. “Before that,” says George Foleanu, Dupar’s Manager of IT & Engineering, “we ran the business on various ERP systems, some of them off-the-shelf. In general, we needed a more reliable platform, with more technologically advanced programs that would allow us to control our manufacturing environment, as well as control our costs more accurately.”

Specifically, says Foleanu, the challenge was to improve both the time and accuracy of processing sales orders for highly customized products. “We’re in the custom design and manufacturing business. Our huge variety of components compounds the complexity of our processes, and every product we create is essentially new. Before implementing SYSPRO, we literally had to sit down at the computer, look at a drawing, and create a Bill of Materials. Processing a job took up to eight hours.”

With Dupar’s CAD program integrated to SYSPRO, the sales order process is much simpler, and many times faster. “All we have to do now,” says Foleanu, “is click a button to import the Bill of Material data from AutoCAD to SYSPRO.

After that, we go into the Quotations module in SYSPRO and find the already created quote, which contains the line items and their respective BOM’s. From there we pick the customer the order is meant for and update the selling prices on every line. SYSPRO converts the quotes to a sales order, then prints the order acknowledgement and the factory documentation.”

One of the reasons SYSPRO is right for Dupar, says Foleanu, is its out-of-the-box performance. “We didn’t want to reinvent a computer system. We wanted some flexibility and control, but if we had too much latitude we might end up breaking it. We also appreciate the fact that SYSPRO supports Microsoft .NET, which itself has great advantages.”

“Since implementing SYSPRO,” says Foleanu, “we can process even the most complex job in about fifteen minutes. To tell you the truth, with SYSPRO it takes longer to print the paper, collate it and send it to the shop, than it does to create the sales order, related work orders and purchase orders.”

“The result of integrating our systems with SYSPRO,” says Foleanu, “has been a net savings in time. That’s allowed us to channel our employee’s intelligence and strength in other directions. Our inventory accuracy has improved; we’ve reduced costs, and been able to get product to our customers in a more timely fashion. We’re extremely pleased with the result.”

For more information on Dupar Controls please visit their website, [www.dupar.com](http://www.dupar.com)

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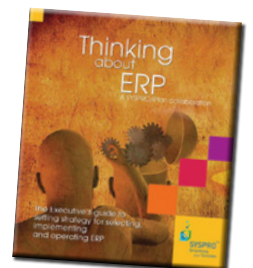


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as part of its 60th year celebration, the program will provide winning companies with a special electronic seal for use on websites that communicates their achievement in reporting excellence.

Companies that strive to be the best in corporate reporting are invited to submit their entry until July 8. Eligible companies are those listed on the TSX as of March 31, 2011, and incorporated in Canada. Federal and provincial Crown corporations are also invited to participate. Crowns are judged only in the Financial Reporting category.

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Entry information and criteria can be found at [www.cica.ca/cra](http://www.cica.ca/cra).

## Responding to new cornerstones of our profession

If all the activity resulting from the adoption of new accounting and auditing standards seems like it is culminating on your desk right now, you're not alone. "Members have been under increased pressure this year," says Gordon Beal, CA, director of the CICA's Guidance and Support department. "Whether you are involved in financial statement preparation or auditing, I encourage you to visit the CICA's designated Canadian Standards in Transition website, which provides insight and resources regarding new accounting standards for public and private companies as well as the new Canadian auditing standards."

New resources are posted on the site regularly. The vast majority of them are available at no cost, and they are intended to help practitioners and members in industry respond to the changing standards environment.

Recent additions include:

- A web page dedicated to the preparation of interim financial statements under IFRS. It outlines key areas

of consideration and provides links to resources relating to each area.

- **First-Time Reporting on Financial Statements — Adopting Accounting Standards for Private Enterprises** is a concise document that provides guidance to auditors engaged to report on the first set of statements prepared in accordance with accounting standards for private enterprises.
- **Anatomy of a 12-Hour Audit of Micro-Entities using International Standards on Auditing** is a nonauthoritative paper intended to provide insight to practitioners as to how an audit of a micro-entity in accordance with the new Canadian auditing standards might be approached. Author Phil Cowperthwaite and his firm have specialized in the audits of small entities for more than 25 years.
- Resources that address the unique challenges the transition to IFRS poses for the Canadian mining industry.

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# News from the **profession**

A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES

## New peer networking opportunities for SME advisers

Many CAs in SME advisory firms have told us they lack a readily accessible network of peers with whom they can raise questions, share experiences and compare best practices. If you are a member of an SME advisory firm, you may have already given some thought to such questions as:

- Is your firm really built on a solid foundation with core values?
  - Are your partners and your team totally committed and aligned?
  - Is there a healthy urgency around your practice?
- How does your firm measure up with other CA firms?
  - Are you exploiting new technologies to their fullest?

This summer, CICA's continuing education group is sponsoring a unique program that will provide an opportunity for SME advisers to enhance their knowledge and network with their peers. CICA's new Practice Management Workshop will be held in Whistler, BC, and Blue Mountain, Ont. Practice management experts will facilitate the workshops and share innovative strategies being employed by successful firms today. Visit [www.cpd.cica.ca/PracticeManagementWS](http://www.cpd.cica.ca/PracticeManagementWS) for complete details.

## Canada's CAs launch website for internationally trained accountants

April saw the launch of the profession's website to help internationally trained accountants understand the process of becoming a Canadian chartered accountant. The website was created with the input of qualification experts from provincial institutes across the country and was funded by the foreign credential review program of Human Resources and Skills Development Canada.

The site, [www.BecomeaCAinCanada.ca](http://www.BecomeaCAinCanada.ca), answers many questions faced by internationally trained professionals in Canada and abroad. It includes a growing collection of materials for internationally trained professionals, links to government websites and a downloadable application form that can be submitted to the provincial institute/ordre where an applicant wishes to become a member. We also encourage Canadian employers to visit the site, to find out how they can help internationally trained employees become Canadian CAs.

## Who says lawyers have all the fun?

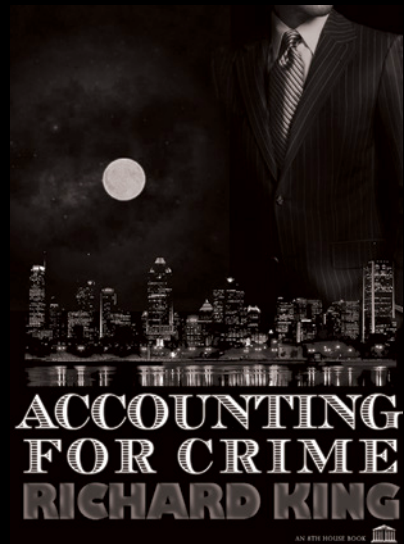
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## RECENTLY ISSUED PRONOUNCEMENTS

<b>CICA Handbook – Accounting</b>	<b>Date issued†</b>
Amendments to Preface and Introductions to Parts I, II and III	March 2011
Amendments to IFRS 1 regarding Severe Hyperinflation and Removal of Fixed Assets for First-time Adopters (Part I)	March 2011
Amendments to IFRS 9 regarding the Fair Value Option for Financial Liabilities (Part I)	March 2011
Amendments to IAS 12 regarding Deferred Tax: Recovery of Underlying Assets (Part I)	March 2011
<b>CICA Handbook – Assurance</b>	
Conforming amendments to Sections 7050 and 7200 regarding the adoption of ISAs as CASS	May 2011
Clarification of recent Handbook changes	May 2011
<b>CICA Public Sector Accounting Handbook</b>	
Financial Statement Presentation, Section PS 1201	June 2011
Foreign Currency Translation, Section PS 2601	June 2011
Government Transfers, Section PS 3410	March 2011
Financial Instruments, Section PS 3450	June 2011

## RECENTLY ISSUED DOCUMENTS FOR COMMENT (to May 31, 2011)

<b>Accounting</b>	<b>Comment deadline</b>
ED 2011 Improvements to Accounting Standards for Private Enterprises	June 30, 2011
<b>Auditing and Assurance</b>	
ED Commenting in a Comfort Letter on Pro Forma Financial Information	June 30, 2011
ED Standards Affected by Changes in Canadian Securities Regulations	June 30, 2011

### WATCH FOR

#### Documents for Comment

IASB proposals regarding Annual Improvements 2009-2011; Consolidation — Investment Companies; Three-yearly Public Consultation on Technical Agenda

IAASB proposals regarding Assurance Engagements Other than Audits or Review Engagements of Historical Financial Information; Auditor Reporting

#### Legend

ED – Exposure Draft

DII – IASB Draft Interpretation

EDI – ED based on IFRS/ISA

ITC – Invitation to Comment

RVI – IASB Request for Views

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

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# A century *of* CAmagazine

WHEN *THE CANADIAN CHARTERED ACCOUNTANT* BEGAN PUBLISHING

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100 YEARS AGO, EDITORS SAID ITS PAGES WOULD BE “OPEN FOR DIS-

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CUSSIONS, FOR NEWS AND FOR ANY OTHER PURPOSES TENDING TO

---

BRING THE MEMBERS MORE CLOSELY IN TOUCH WITH ONE ANOTHER.”

---

Sensibly, they made no claim for *how* the magazine would strengthen the com-

---

munity and instead focused on reporting and offering insight on events and

---

issues critical to CAs. For a century, the magazine has acted as the profession’s

---

adviser, referee, historian and, occasionally, conscience. Here we celebrate those

---

who built, sustained and helped *CAmagazine* prosper. Happy birthday to us.

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BY STEVE BREARTON

# '10s

# The Teens



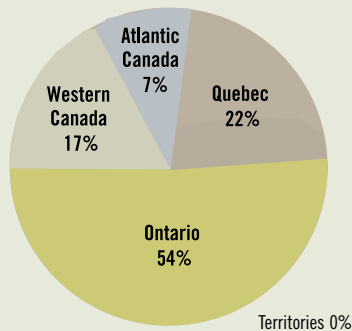
Small beginnings are no indication of ultimate results," noted the foreword to the first issue of *The Canadian Chartered Accountant* in July 1911. Launched from temporary offices in Toronto with the slogan "Of the Profession; by the Profession; for the Profession," the 32-page quarterly magazine was an effort to knit the far-flung members of the Dominion Association of Chartered Accountants into a cohesive fraternity. At the time, there were only seven provincial accounting organizations, with Alberta having formed its institute the previous

year. In September 1911 at the national convention in Montreal, the magazine received its first and most important review: "Let it be printed," members voted.

## The BIG issues

- In 1917, the feds introduce income tax as a "temporary measure." Firms advised it is "within reason to expect that everyone should keep a record of all earnings."
- Editorial calls for women in accounting, arguing it is too late "to waste any time in asserting that woman's sphere does not extend to the realms of all the professions."
- Educating and connecting fellow Canadian CAs, the magazine vows to strengthen "our usefulness to ourselves and to the public."

### Regional representation of CAs, 1911



## 1911

"With the birth of this Magazine a new opportunity comes to the Chartered Accountants of Canada"

[Foreword, July 1911]

### Fee structure for junior and senior assistants

JUNIORS

**\$3 to \$6**  
per week\*

**\$7.50 to \$12.50**  
per week

SENIORS

\*Based on a 42-hour week

## FROM THE PAGES

### On working in Western Canada

"[In 1911] the business public [in the West] was not 'sold' on the idea of audits; and with the exception of businesses which were either owned or controlled by British or Eastern Canadian houses, there was a repugnance, quite openly expressed at times, at the idea of 'outside' auditors."

[John Parton, FCA, July 1961]



### On work-life balance

"With a multitude of daily duties pressing in upon us, we are ever in danger of 'becoming enslaved to the vice of over-work.' Our duty in this regard [planning Summer Holidays] cannot be fully discharged until we recognize that Days Off are good business for our clients, ourselves and our employees."

[Editorial notes, April 1914]

## Snapshot



Members: **246**

Canadian population: **7.2 million**

GNP: **\$2.2 billion**

The profession: "[Our] duties ... were to 'detect fraud and correct errors.' I can recall [one] client being most annoyed because we had failed to report that two chickens had been stolen [from] his delivery wagon."

[Col. H.D. Lockhart Gordon, FCA, reminiscing in July 1961]



## A century of CAMagazine

IN THE BEGINNING, ACCOUNTING MEANT CORRECTING OTHER PEOPLE'S BOOKKEEPING. TODAY, ACCOUNTING HAS BECOME SYNONYMOUS WITH A VAST RANGE OF TAX, AUDITING, FORENSIC AND OTHER BUSINESS SERVICES, BUT 100 YEARS AGO CANADIAN CAs — ALL 246 OF THEM — WERE KNOWN FOR CASTING A WARY EYE TO DETECT DECEIT AND REMEDY ERRORS

in company accounts. The profession has changed in other ways as well. In 1911, Canadian CAs were often sole practitioners who represented the only accounting resource in a community. The Institute of Chartered Accountants of Alberta, for instance, boasted 13 members and a complete, unabridged report of a firm's books may have amounted to the four words "audited and found correct." The scope and custom of accounting changed slowly but steadily during each of the succeeding decades. Below, we chronicle five areas where the profession has seen the most dramatic changes, as reflected in the pages of *CAMagazine*.

### The changing workplace

Those joining the fraternity of Canadian accountants 100 years ago might have earned \$50 a month and likely would have walked or taken a horse and cart to a client's office. Once there, as recounted in the magazine by Col. H.D. Lockhart Gordon, FCA, in July 1961, they pored over heavy, bound ledgers or attempted to reason with business owners who were keen to be issued a certificate stating the books were in order, but often unwilling to open the heavy brass locks on private ledgers. Pens and coloured inks were used to tick off figures. Working hours were strictly 9 a.m. to 5:30 p.m. from Monday to Friday and 9 a.m. to 1:30 p.m. on Saturday.

The expansion of large-scale industry and the arrival of income tax occasioned by the First World War increased the number of clients and the variety of work. In the following 40 years, improvements in bookkeeping and financial controls (many recommended by accountants) would convince businesses

of the value of a CA's work, while new office technologies, such as counting machines and computers, now looked after many of the more tedious elements of the job. Firms began to abandon the generalist and divide staff into accounting and auditing, tax and other specialized departments, such as management services. The Second World War introduced another progression: the international business trip. In May 1940, the magazine wrote of travelling auditors required to work in all parts of the world who travelled "by air in the course of their duties."

If the nature of the work had changed, so too had the physical environment. In an August 1960 editorial, editor Renny Englebert noted that the charmless modern office buildings were nevertheless better places to work because of improved lighting and better furniture. "Yesterday, seniority and position were judged by the size of the desk, the room and the rugs. Today the elite work near the windows and the rank and file occupy the windowless air-conditioned centre areas." There was more emphasis on social skills and communication. Times changed and employee-employer relations "call for human diagnosis and even psychology."

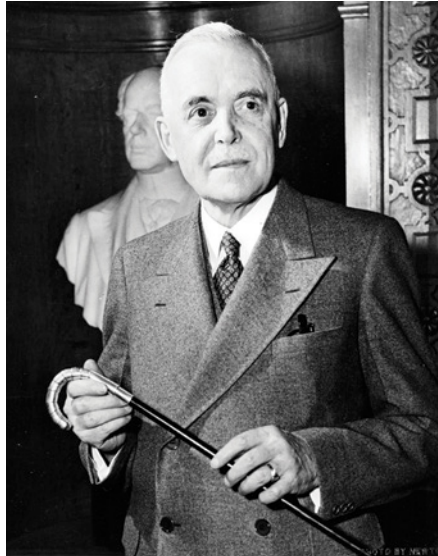
The '80s occasioned a shift to open-office systems that were sold to accountants for their impact on the bottom line. "The main criterion for their acquisition ... should be the return on investment that can be realized," wrote Willson Business Environments' regional sales manager Elroy Jopling in August 1981.

If the shift from a wooden roll-top desk and office to a bull pen with a view of the parking lot would have been a dramatic new concept to a CA working 70 years ago, then the change in social relations within the workplace would have amounted to a



# '20s The Twenties

During the '20s, a rapidly growing profession is occupied by an increasingly complex world: the phrase "labour relations" is no longer a contradiction, government seems to be meddling everywhere and a "temporary" wartime income tax becomes permanent. As people and places become more interconnected, the Dominion Association of Chartered Accountants attempts to build bridges between English- and French-speaking professionals. In 1924, the accounting profession holds its annual convention in Quebec City, and "for the first time a welcome [is] extended ... in the language of old France," while 42-year-old lawyer, and later prime minister, Louis St. Laurent addressed the gathering on differences in the law in Quebec.



## The BIG issues

- Accounting balance sheets are attacked by financial writer Hartley Withers as "an impossible cryptogram with an esoteric meaning that is only revealed to an initiated caste, after much fasting and mortification."
- Income tax (now permanent) brings another complication: tax evasion — in the US, half of all obligated taxpayers are alleged to be delinquent.
- Following debate about the fairness of the CPA exams, a November 1926 article momentarily quiets the dispute by determining the tests are "not too long or too hard."

## WOMEN MEMBERS of the DACA and CICA



1922: 2 (.34%)  
 1944: 9 (.4%)  
 1966: 125 (.86%)  
 1988: 5,920 (13.16%)  
 Today: 26,186 (33.09%)

## FROM THE PAGES

### Golf humour

Indifferent Golfer (to caddie):

"I say boy, did I take fourteen or fifteen strokes to the last hole?"

Caddie: "I dinna ken, sir."

Golfer: "What! You call yourself a caddie and you can't count my strokes?"

Caddie: "It's no caddie you want, sir. It's an accountant!"

[September 1922]

### On the trial balance

"At various intervals an upheaval very similar to that occasioned by a terrier searching for mice, takes place among the books and is called 'taking a trial balance.' After one or more sleepless nights the bookkeeper emerges triumphantly from this festival of figures with one significant sum which may or may not represent correctly the gain over the period which brought on the balance."

[playwright and writer Merrill Denison, May 1928]

## Snapshot



Members: **570**  
 Canadian population: **8.43 million**  
 GNP: **\$5.1 billion**

**The profession:** "As to where accountancy ends and management begins no one can tell exactly, but accountancy is fast evolving from the art of keeping records to the art of making reports. It is now dealing more and more with the things that ought to be done, as well as with the things that have been done. But accountancy is not merely a matter of auditing."

[Editorial notes, March 1926]



## A century of CAMagazine

revolution. The profession was no longer the domain of white men. Women had moved from the typing pool to positions of leadership and cultural minorities worked on an equal footing with other CAs. In October 1996, writer Sylvie Halpern asked readers to look beyond traditional stereotypes of accountants to discover that “the public accountant’s world has become incredibly diversified.”

Along with the newfound sensitivities to social and cultural differences came a new consideration for the needs of employees: maternity benefits and parental leave, flexible work arrangements and wellness plans offering massages and stress counselling. And let’s not forget casual Fridays, which for men at one large firm in 1993 meant topsiders, socks, dress slacks and short-sleeved polo shirts — while sneakers, sandals, jeans and shorts were forbidden, as reported in the November issue.

In the summer of 2008, the magazine demonstrated how much the office had changed by profiling Todd King, a dedicated surfer who worked at Deloitte in Halifax. “As a surfer, if you know there are waves breaking in reach of you and you can’t get to them, you’re like a rat in a cage,” King said. “No one is surprised to see me walk out the door at 2 p.m. to go surfing.”

CAs, it seemed, had caught a wave and ridden it right into the future.

### Accountants and public image

Before there were deprecating remarks about boring accountants, there was fear and apprehension. “Those damned auditors again!” were words Winnipeg FCA John Parton was accustomed to hearing in the years around 1911. “As we entered ... we would be greeted with a barrage of black looks, of forced sickly smiles — even of glances of trepidation [and] the very air would shimmer with resentment,” he wrote in the July 1961 50th anniversary issue.

The accountant’s traditional role as an outsid-

er probing business has meant that those directly involved have always had strong views of the profession. In the early years, bankers, with their dependency on outside audits, loved accountants, while company owners often viewed them with suspicion. And the public, well, the public back then barely thought of them at all, and when they did there was generally confusion. “Please, Mr. Accountant,” begged public relations executive Don Knowlton in February 1948, “can’t you figure out words that will mean to everybody what they mean to you?”

In turn, that lack of understanding bred disinterest. By the ’50s, the profession struggled to gain equal status with doctors and lawyers as professionals in the eyes of the public. When one poll asked Canadians which of the professions they would recommend to a young person, accounting wasn’t even listed. In March 1953, an editorial commented: “We believe [the public] look upon accounting ... [as] an esoteric mystery to which they have not been admitted, and one, moreover, to which many of them have no desire to be admitted.”

As the demands on the profession increased through the ’60s and accounting’s range of services expanded to meet new challenges, the accountant’s place as central to business success was recognized. The affirmation was welcome, and during the ’70s and ’80s when business was increasingly viewed with suspicion for alleged sins ranging from poisoning the environment (Hooker Chemical and Love Canal) to knowingly selling defective products (Ford Pinto), CAs were shining knights armed with rules and regulations to defend the public from rapacious companies. The magazine chronicled the pursuit of “turning good intentions into good business practice,” as one April 1985 feature on ethical management put it, with articles on corporate social audits appearing throughout the period beginning in November 1974.

In terms of public appreciation it was never better for accountants. In 1990, *The Financial Post’s*

# '30s

# The Thirties



We have had major depressions in the past which have affected most or all of the leading countries of the world,” read a June 1932 editorial in the magazine. “But none of these is to be compared with the present devastation from which no industry and no community, even in the remotest corner of the globe, has escaped.” The '30s brought economic misery the likes of which Canadians had never seen; growth and trade were in freefall and in 1933, at the depth of the crisis, unemployment stood at 27%. Accountants, typically buffered from the worst effects, still asked if the profession was too large — even though professional membership grew by a scant 68% over the decade compared with 152% during the '20s. Gross domestic product would be lower in 1939 than it was in 1929.

## The BIG issues |||||

- The arrival of approximately 125 new accountants annually prompts members to wonder if the profession is becoming overcrowded.
- Despite a lack of uniformity in corporate law, accountants hope the “near future” will bring consistent local standards for accounts and audit. If only they knew.
- Fraud and embezzlement involving “widows, the fatherless and those who have no other helpers” inspire calls to toughen provisions for safeguarding trust funds.

1936

“If the accountant is to enjoy years of useful effort he must see to it that his strength and health ... are renewed by vacations”

[Editorial notes, August 1936]

## FROM THE PAGES

### To the Auditor



Two signatures he pointed out  
Not quite alike — as though in doubt  
As to their authenticity.  
(Oh, he was very mean to me).  
He said, “Why do these figures show  
In this account, I’d like to know,  
Instead of that?” I wished he’d go  
Before my temper he would maim,  
When the auditor came.

[Humour, May 1931]

### The Auditor’s Hedge

We have audited the Balance Sheet  
and say in our Report:  
That the Cash is overstated, the  
cashier being short;  
That the Customers’ Receivables  
are very much past due;  
That if there are some good ones  
they are very, very few;  
That the Invent’ries are out of date  
and practically junk;  
That the method of their pricing is  
very largely bunk;  
That, according to our figures, the  
undertaking’s wrecked;  
But, subject to these comments, the  
Balance Sheet’s correct.

[January 1930]

## Snapshot



**Members:** 1,440  
**Canadian population:** 10.2 million  
**GNP:** \$5.7 billion

**The profession:** “Present day accounting strives not only to obtain satisfactory records, but also to interpret them to serve as a basis for management ... [and] aids in developing plans and methods of efficient operation of the business enterprise.”

[Professor Philip H. Hensel, University of Western Ontario, February 1936]



## A century of CAmagazine

*Moneywise* magazine ran an article titled “No More Mr. Dull Guy” that profiled “wild and crazy — well, *interesting* accountants.” Of course, that increased attention — especially in a time of turmoil — was a double-edged sword. The plight of firms such as Enron Corp. and Nortel Networks would soon raise many questions about financial transparency, accounting standards and the role of accountants in abetting some of these abuses.

If the '90s were a high point for the public's view of CAs, the first decade of the new millennium was likely a low point. (The only bright spot for accountants was the estimated \$400 million Nortel spent on outside auditors and consultants to help fix the mess.) Reforms, including uniform international accounting practices and a turn toward principles-based standards, subsequently made most people forget about the scandals. “The profession is taking itself much more seriously. What Enron has done is recast the landscape,” said Royston Greenwood, head of the University of Alberta's Centre for Professional Service Firm Management, in John Lorinc's December 2002 feature “After Enron.”

The ever-increasing complexity of accounting rules and regulations, however, had another effect; it reinvigorated the age-old myth of the accountant as a boring number-cruncher lost in arcane regulations and statutes. Or as CA and funnyman Perry Truster, a partner at Truster Zweig LLP, said in a feature on humour and the profession in April 2000, “I use lots of funny stories and jokes in my lectures and presentations, but my jokes are hardly ever about accountants — we're too dull.”

### Use of technology

The image of the ink-stained accountant may be popular, but the industry has always been attuned to the potential and the necessity of new technologies and adopted them quickly. Audit reports handwritten by a principal were standard in the first years of

the magazine's publication, but by the '30s, stenographers and the typewriter reigned supreme. A subsequent June 1949 article in the magazine by Charles Goldsmith, a manager at the International Business Machines Co. Ltd., called the development of the typewriter the “most important forward step in modern accounting” for its ability to simplify the recording of business transactions, loosen requirements for single-bound journals and establish “loose-leaf records as an acceptable form of accounting record.”

In June 1937, the magazine wrote that accounting has “been revolutionized by the adoption of tabulating equipment, which includes devices for making original records of information, and also for distributing or analyzing these records in any manner required.” And in December 1940, an article was published entitled “Handwriting — a dying art.”

Technology was now simplifying tasks such as billing, creating inventory lists or stockholders' records, improving efficiency as well as generating new kinds of information on sales or tabulating payroll. It also conjured dreams of a future dominated by machines. “Replacement of manual and mental labour with machine power will bring about the most fascinating of the changes in our profession,” prophesied Montreal CA Edward W. Netten in “Accountancy of the future,” published in the December 1956 issue. “The day will come when all the manifold functions of making and selling a product can be handled automatically by electronics.”

In fact, it was already coming true. The previous year, the CA Club of Western Ontario heard from Toronto CA Gordon H. Cowperthwaite how Canadian businesses would benefit from electronic computers “sooner than they anticipate” and by 1960, businesses were using computers for payroll applications. During the decade, as FCA Harold E. Crate wrote in a March 1967 article, “The computer — a challenge to accountants,” Canadian accountancy firms sent staff to computer-auditing courses throughout North America, hoping they would

# '40s The Forties



Canada heads out of the Depression and into another world war. The country's CA association begins preparation in May 1939 by tallying the skills of members and sending accounts on to Ottawa in case of a national emergency. By August 1940, some 45 full- and part-time positions were filled in the Foreign Exchange Control Board and another 60 appointed in the pay and accounting services of the National Defence for Air. Bringing a business-like efficiency to the armed forces is suddenly a national priority, but so too is ensuring the smooth operation of local commerce and industry. The only problem: there aren't enough accountants to go around.

## The BIG issues

- With the public clamouring for less complicated tax forms, CAs find a way to defend complexity, arguing that "painstaking efforts" to be equitable are making the process so laborious to the taxpayer.
- Canadian CAs worry so-called degrees from overseas accounting organizations that secured charters through "devious means" are threatening the profession.
- Expectations that income tax questions would become less frequent as years pass prove naive and the profession regrettably calls for permanent tax appeal bodies.

## My brilliant career

US army tests "indicate accountants may be the smartest occupational group.... Accountants, on the average, made the highest rating in the tests, lumberjacks the lowest"

[September 1947]

## FROM THE PAGES

### On the war for talent

"War shortages are becoming visible not merely in commodities but also in humans. [There is a] shortage which is developing in regard to professional accountants."

[Editorial, quoting from *The Chronicle of Montreal*, December 1941]

### On women in accounting

"A young woman who has spent five or six years of her time and life, sacrificing many of the joys of youth, is going to think twice before she forsakes her career for marriage. After five years of studying, a young woman is apt to have enveloped herself in other interests."

[Jean M. Nettle, "Women in accounting," January 1945]



## Snapshot



Members: **2,422**  
 Canadian population: **11.4 million**  
 GNP: **\$6.7 billion**

**The profession:** "While [the CA] continues to fill the mission of auditor and to perform the duties inherent in that office, the public accountant has assumed an even greater role — the diagnostician of the health of the commercial firm and the consultant of the business executive."

[Editorial, May 1940]

# '50s

# The Fifties

The 1950s brings explosive growth in the profession to cope with the greatly increased demands of industry, finance and government in a global economy. Between the end of the Second World War and 1961, membership in the Canadian profession grew to 9,721 from 2,918. Among the many decisions accountants face is whether to follow other occupations — such as law and medicine — to consciously create specialists or continue to focus primarily on providing audit and tax services for clients.



## FROM THE PAGES

### On mysteries of accounting

"We believe [the general public] look upon accounting in much the same way as our medieval ancestors looked upon alchemy in their day. It is an esoteric mystery to which they have not been admitted, and one, moreover, to which many of them have no desire to be admitted."

[Editorial notes, March 1953]

### Was Shakespeare a CA?

"I am well aware that in claiming Shakespeare as a principal forerunner of the modern chartered accountant, I am taking arms against a sea of troubles."

[Derek Lukin Johnston, "Was Shakespeare an accountant?" November 1954]



## The BIG issues

- Is an accountant's training too restricted for an ever-complex global village? "Is the modern chartered accountant," asks the magazine in September 1955, "a really educated man?"
- The absence of a ruling accounting authority and "natural inertia" explain why accounting language fails to match changes in accounting techniques.
- Out of 265 federal MPs, there is one CA. The reason, suggests the Honourable J. Waldo Monteith, FCA, minister of national health and welfare, is their training makes CAs "introverted, conservative in outlook and hesitant about taking the risks."

## Snapshot

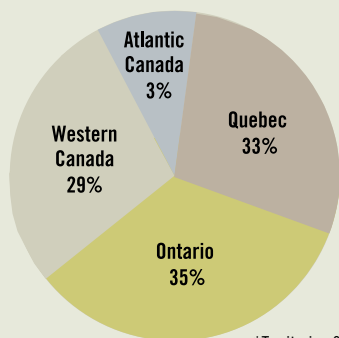


Members: **3,939**  
 Canadian population: **13.7 million**  
 GNP: **\$18.5 billion**

**The profession:** "It is nearly impossible for ... a small group of men to master the diverse subjects of our work. Industrial size and ever-increasing complexity will encourage large practices with many specialists. As industry broadens out on an international scale, our firms will too."

[Edward W. Netten, CA, "Accountancy of the future," December 1956]

Regional representation of CAs, 1951



1950

"Quebec [CAs], no doubt because of the French influence, display a certain elegance in appearance and manner"

[Editorial, September 1950]



## A century of CAmagazine

spread the knowledge to others upon returning.

During the '70s, computerization impacted almost every operational and reporting aspect of business and in the following decade, the arrival of microprocessors and personal computers would similarly revolutionize the way accountants worked and communicated.

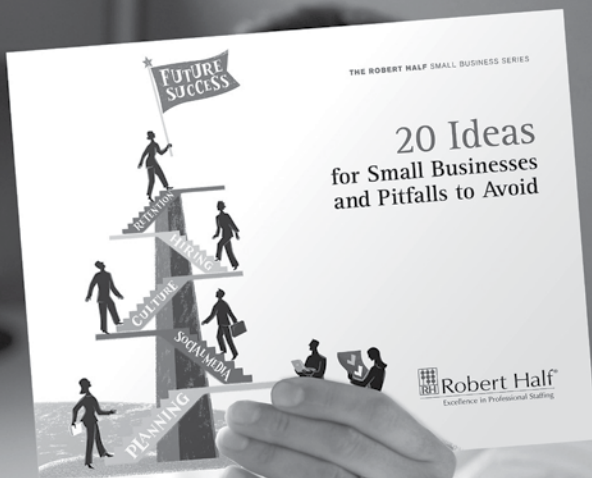
Even then, there was recognition that computers would fundamentally alter the way we interacted with the machines and among ourselves and the magazine routinely dedicated entire issues, such as the August 1973 "Machines and management" cover, to the subject.

In August 1980, an editorial envisaged "Management by keyboard." Four years later, the magazine

introduced CAs to the office of the future and asked them to imagine arriving at work with their athletic bag in hand. "What you pull out of that bag is not running shoes or a racket, however, but a small computer you have been using to do work on over the weekend," wrote Marion Hart, president of marketing and communications firm Marion Hart Associates, in August 1984.

Within a few years, the magazine was offering instructions on when to use e-mail instead of voicemail (see p. 44, "E-mail vs. voicemail"). And to remind people how rapidly the waves of computer technology wash over us, it was a mere five years ago, in December 2006, when *CAmagazine* noted (without irony) that "manufacturers have discov-

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*Congratulations to CAmagazine  
on your 100th anniversary!*

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# '60s

# The Sixties



Increasing corporate complexity, the importance of computers, increased specialization and the ascendancy of multinational firms dominate discussion in the CA profession, but no single theme is as contentious as how best to educate and train accountants. In 1960, the greatest source of student accountants training at local firms was high schools: 70% or more of trainees arrived directly from secondary institutions. In 1961, a continuing education program was started to recognize education didn't end after accreditation, and by 1970 provincial institutes agreed students would need a university degree to qualify as a CA.

## The BIG issues

- Can small and large firms coexist? The schism that exists between national and local practitioners may widen into serious proportions unless steps are taken soon.
- A raise just won't cut it in affluent society. "There are no quick, practical answers to understanding and motivating people," wrote D.S. Wells, CA, in November 1969.
- There's a fight for survival between computers and accountants; some accountants may not survive, but "those who perish will do so because of themselves," commented FCA Harold E. Crate in March 1967.

## Who earns more?

Average annual salaries of professionals in Canada, according to the Department of National Revenue

[October 1968]

Doctors:	\$24,993
Engineers & architects:	\$21,200
Accountants:	\$13,946

## FROM THE PAGES

### On the role of the CA

"Everyone makes mistakes ... and if all the CA does is look for them, he won't know why I am in business, how I am doing in business, or even if I should be in business. I want my auditor to look about him and see the entire business. As it is, he spends the morning telling me about 16 cents missing from the petty cash."

[Practitioners Forum, May 1968]

### On the office

"The office of ... thirty years ago would be unbelievably foreign to the young people of today. It had none of the features they take for granted nor such social benefits as coffee breaks, Blue Cross, unemployment pay, a thirty-five-hour week and paid vacations. In those times ... employees were material to be used; they could readily be replaced — and they were. A fifty-hour week was not unusual."

[Editorial, August 1960]

## Snapshot



Members: **9,721**  
(10,000 in September 1961)

Canadian population: **17.9 million**

GNP: **\$38.4 billion**

**The profession:** "One hundred years ago, accountants were bookkeepers, estate agents, trustees, and carried out ... other commercial businesses in order to eke out a living. Over the years, they have both subtracted and added responsibilities and today our members in practice are auditors, tax consultants, management consultants and licensed trustees."

[J.R.M. Wilson, CICA president, September 1967]





## A century of CAmagazine

ered that many notebooks ... are used primarily as desktop replacements. They are purchased because they take up less room than desktop computers and they are easier to move around the office.”

### Women in the profession

*CAmagazine* represents all chartered accountants, but surveying a century of news, features and commentary it is clear the publication has always worked to advance the status of women. As early as January 1913, the magazine editorialized that it was “foolish to attempt to claim that woman has no right to engage in professional accountancy.”

It was an advocacy, however, often out of step with industry practice. Women were grudgingly accepted into practice in 1922 (1930 in Quebec) when Mercy Ellen Crehan and Florence Eulalie Herkins became the first accredited female CAs. Even the opportunities afforded women during the Second World War to demonstrate their obvious competence barely opened doors.

In June 1966, FCA and former federal MP Ellen Fairclough wrote: “While it is undoubtedly true that it has been difficult for women to find acceptance in the offices of the average chartered accountant, either at the training or graduate level, it is my opinion that the very need for their services will provide the leverage which will open these doors in the foreseeable future.”

Despite reluctance within the profession to accommodate women, writers and editors continued during the '60s and '70s to examine issues ranging from the suitability of a career for females to women's liberation in the boardroom and the appropriateness of using “Ms.” in the workplace. “Men do not have a monopoly on the right to choose a career that fulfills their intellectual needs,” wrote managing editor Dorothy Cooper in September 1973. “Yet the old myths that women have certain problems such as requiring long leaves of absence for child bear-

ing, a lack of mobility and insufficient dedication to work ... are still used to prejudice the exercise of their right.”

The truth was, even the United Nations' declaration of 1975 as International Women's Year couldn't generate “one energetic yawn” within the profession. The suggestion was made (only half-seriously) in a May 1975 editorial that any discussion regarding the use of the word “chairperson” was a topic better suited for linguists than accountants.

Despite the challenges, by the early '80s, about one-quarter of all new CAs were women and they were finally becoming partners in large accounting firms. Maternity leave and flex-work arrangements were also available — but taking advantage of those benefits was still seen as “tantamount to committing career suicide,” noted managing editor Judy Margolis in a June 1989 editorial.

The following decade, in a March 1994 feature by Carol A. McKeen, CPA, and Merridee L. Bujaki, CA, readers of the magazine read about the glass ceiling and sexual harassment. “Though almost equal numbers of male and female students enter public accounting firms, only a few women reach partnership.” There remain gender imbalances that need to be addressed, such as the lack of women in leadership positions.

“I still think it's tough when you don't see anybody in leadership who's like you,” said Mary Lou Maher, partner and chief human resources officer at KPMG Canada in a November 2005 feature. “If you are a woman, a visible minority or whatever, I think it is tough to feel that you have a clear road ahead of you, or that there's a place for you at the top.”

But the profession has, indeed, come a long way. In 1913, when the magazine recommended that women should simply be given the opportunity to prove whether they could succeed in accounting, it noted that some in the profession would receive the message with “scant courtesy.” Regardless, it was a message that needed to be heard then. And today.

# '70s

# The Seventies

**M**oving beyond the mechanical age and post-war conservatism, the '70s are defined by the prospect of radical change at home, in the workplace and in social relations. The January 1970 editorial discussed robots and machines "slaved" to humans, and chemical methods to improve human analytic abilities. And the Apollo space missions made anything seem possible — including new possibilities for accounting. "Will the '70s," asked the magazine in a January 1970 editorial, "be a decade of fulfilment for accountancy?"



## The BIG issues

- Corporate social responsibility arrives. "It can no longer be doubted that ... corporations have become increasingly concerned with the impact of their operations on society," wrote accountant Steven C. Dilley in November 1974.
- Profit becomes a four-letter word as businesses become "shame-struck" if, heaven forbid, a positive number is reported to the shareholders. [B.M. Grant, CA, March 1973]
- Quebec's Official Language Act is introduced in 1974, while an April 1975 editorial says, "English is the language of business." Quebec nationalists: 1. Language purists: 0.

### When I grow up I wanna be...

Accountant	6%
Doctor	22%
Lawyer	9%
Teacher/professor	7%
Engineer/architect	7%
Business/finance:	5%

Senior high-school students' and university undergraduates' ideal job, according to a Canada-wide career survey conducted in 1976 and 1977. [January 1978]



## FROM THE PAGES

### The dull meeting dilemma

"Listen carefully as your fellow committee members bleat on, but every twenty seconds write down the word that is being said right then. In ten minutes you will have written thirty words if you haven't dozed off. Try to arrange these words in sentences that make more sense than what is being said in the discussion. You shouldn't have too much difficulty. Your fellow committee members will be impressed when they see that you are writing down some of the things they are saying."

[Reproduced from *Hospital Accounting*, February 1970]

### On red tape

"One of today's wonders is that business has not yet choked to death on red tape or been strangled by bureaucracy; and that businessmen have managed to remain on the fringes of sanity while trying to ferret out and comply with all of the rules, regulations and laws that have been directed at, around and about them by all levels of government."

[Lorne J. Reesor, editorial, March 1972]

## Snapshot



**Members:** 18,100  
**Canadian population:** 21.3 million  
**GNP:** \$85.7 billion

**The profession:** "The self-regulating professions are losing their grip on the good graces of society. Dr. Sylvia Ostry, Canada's deputy minister of consumer and corporate affairs, charged that professions have been more effective in reducing competition ... than in providing significant, positive benefits to the public."

[Editorial, December 1976]



## A century of CAmagazine

### Becoming a CA

“In the course of his training, the Junior ... starts off more or less under the thumb of a so-called Senior and ... must go through all the drudgery and take the same punishment as the Senior has undergone and suffered.” Sound familiar? That was written in January 1931, but the burden of qualifying as a CA has nettled for years. Take this May 1986 lament from an articling student: “I’m sick to death of working in a ‘Popsicle-stick’ profession run by a bunch of workaholics.”

The sentiment of toil and servitude may remain, but much has changed for student accountants. In

1911, the process of apprenticeship through which students became a CA wasn’t even standardized. In Montreal, according to a notice on uniformity of standards among provincial societies appearing in the magazine in October that year, four years of work was required. Ontario prescribed three years, while Alberta had no service demands except “accounting experience satisfactory to Council.” The prerequisite for admission to the profession then was to pass up to three examinations demonstrating competency in disciplines ranging from penmanship and mercantile law to municipal accounting.

Taking the examination has also been contentious over time, particularly the issue of the fairness

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# '80s

# The Eighties



**D**uring the '80s, desktop computing becomes commonplace, flexible work arrangements take hold and women finally enter the partnership ranks of the Big 10 national firms. Not only that, but (male) managers might have to learn how to type: "In this new era, executives at all levels ... may well find that their skills at the keyboard will be the key to their management

success," wrote editor Nelson Luscombe, CA, in August 1980 (see profile "Editor's account," on p. 8). It is the decade when the future finally arrives. Not that the past exited without complication, however. The pressures of changes in the workplace, industry consolidation and erosion in public confidence in business make it a future imperfect.

## The BIG issues

- Big gets bigger as large firms thrive on large-fee national and international clients and grow by merger. Small offices will survive, but what about medium-sized firms?
- Bank failures sink public faith in accounting, and show how great the gap is "between what an unqualified auditor's opinion means to those who give it and what it means to the public," wrote editor Nelson Luscombe, CA, in December 1985.
- Flexible work arrangements arrive, but at what cost? "Daring to be different," notes managing editor Judy Margolis in June 1989, "is tantamount to committing career suicide."

### Top areas of concern among accounting practitioners in 1984

1. Tax matters
2. Computer literacy
3. Management advisory services
4. Management competencies
5. Treasury and financing decisions

1981

"Our capacity at present to develop CAs is severely limited ... competition is going to be fierce for first-rate university graduates in the very near future"

[Irvine E. Millie, March 1981]

## FROM THE PAGES

### On consolidation in the industry

"The big accounting firms will get bigger and bigger, continuing to thrive on large-fee national and international clients ... the small, one- or two-office accounting firms will survive — primarily on local business — [and] the medium-sized firms will almost certainly get caught in the squeeze."

[Editorial, March 1981]

### On new accounting models

"To be able to measure the cost of the Exxon Valdez oil spill only in terms of a 77-cents-per-share quarterly loss to shareholders just goes to prove how limited our present accounting model is."

[Editor Nelson Luscombe, CA, November 1989]



## Snapshot



Members: **30,148**

Canadian population: **24.5 million**

GNP: **\$314.4 billion**

**The profession:** "Our marketplace has changed. The law is changing but the [public accounting] firms aren't changing. I think they're going to be ill-equipped to meet the needs of the marketplace and to fulfill their responsibilities."

[Ken Dye, auditor general of Canada, January 1985]



## A century of CAMagazine

of the test. In November 1926, Vancouver CA J. Hugh Jackson wrote, “The percentage of failures has been entirely too large,” and 50 years later, Erma Patterson Morrison, president of the New Brunswick Institute of Chartered Accountants, raised the concern that the low pass rate was deterring young people from entering the profession. Despite the importance of exams, the magazine wasn’t beyond poking fun: a mock test printed in July 1927 answered the question, “Discuss the means for elimination of undue detail work on Continuous Audits” with “Leave the detail work to your Junior.”

Prominent during the magazine’s history has been the debate surrounding the necessity of formal education versus practical training for stu-

dent accountants. In October 1914, the magazine published the anonymous “Recollections of an old accountant,” which stated, “Examinations nowadays are splendid instances of the pursuit of the perfect, but they would ill-equip a man for some of the problems we were frequently faced with.”

Despite that sentiment, education has slowly won out. In 1921, the Dominion Association of Chartered Accountants approached Queen’s University to produce a course of study and a year later students had to complete those classes before writing exams. For decades, those courses were the only contact most articling students had with higher education — a November 1964 editorial entitled “Education for the profession” noted fewer than one in five CAs

## SR&ED problems? There may be a new solution.

New information is emerging that we believe will soon open the door to more favourable outcomes in the appeal of SR&ED claims that have been either wholly or partially denied by the CRA. Of course, this can’t happen without working through due process, but indications are that the chances of winning back some of that lost SR&ED money are about to get better.

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# '90s

# The Nineties



**G**ordon Gekko haunts Wall Street and the Exxon Valdez leaves a sticky legacy for business. If the '80s ended with the popular imagination equating commerce with greed, then the '90s positions accountants as trustworthy antidotes to rapacious businessmen. CAs as superheroes? "Accounting is suddenly very sexy," wrote managing editor Judy Margolis in an April 1990 editorial. "Our staid, conservative times demand a new icon, and CPAs, long recognized for their objectivity in dealing with other people's money, happen to be it." Canadian accountants leveraged that positive impression to take a leadership role in issues ranging from the environment to diversity in the profession. Global stock markets soared, fuelled by the tech boom. The Dow Jones closed above 10,000 in 1999 and the Toronto Stock Exchange rose 112% over the decade.

## The BIG issues

- Invisible stakeholders begin to exercise rights over firms without investing a dime, in what is described as an accounting nightmare.
- Women: meet the glass ceiling. Though almost equal numbers of male and female students enter public accounting firms, few women make partner.
- The recession of the early '90s brings a painful economic restructuring; clients do more work in-house and rarely turn to outside advisers.

**E-MAIL VS. VOICEMAIL:** Where the user has a choice of communication methods, guidelines need to be established [August 1991]

### E-mail



- If the recipient will need to retain the information for future use
- If the message is going to more than one person

### V-mail



- If the individual is out of town
- If the message is urgent
- If you are following up on a previous e-mail message

## FROM THE PAGES

### On integrating French CAs

"[Institute services in French] are not adequate for francophone members and the structure of the CICA does not permit these members to fully participate in CICA activities, with the result that the CICA has deprived itself of important resources."

[CICA task force on bilingualism, July 1990]

### A child's view of accounting

"Once I got to see a balance sheet. Balance sheets are so complicated they are really not good for anything but being balance sheets."

["Accounting according to kids," Harold Dunn, December 1994]

### On the wired world

"While an estimated 10% of Canadians are online, [computer communications strategy consultant Jim] Carroll says CAs are well below the national average. 'It would be an easy step for most of them, but they are confused or there are cost constraints,' says Carroll. 'We've all got our heads in the sand.'"

[Tim Falconer, "Get wired!" March 1995]

## Snapshot



**Members: 48,404**

**Canadian population: 27.5 million**

**GNP: \$679.9 billion**

**The profession:** "The Canadian accounting profession doesn't look like it used to even 15 years ago. The old paradigms tailored to a profession of men in green eyeshades no longer fit the 1990s, when women and men from all backgrounds and cultures work together in sophisticated high-tech environments."

[Carol Loughrey, FCA, CICA chair, May 1995]



## A century of CAmagazine

had a university commerce or business degree. In fact, it wasn't until 1970 that the profession required students to be university graduates, a decision a November 1967 editorial called a "pressing and unavoidable necessity."

By the '80s, the desirability of specialized higher education for trainee accountants was unquestioned, but providing grads with BComms and MBAs a stimulating, welcoming environment was often neglected. In May 1986, the magazine asked, "Have our rites of passage turned into trials of endurance?"

Another significant change was chronicled in a December 2009 feature entitled "Industry approved," which examined the amendment allowing students

to article in industry beginning in 2007. "We have to show the CAs out there who emerged from the more familiar accounting firm world that these new [arrangements] are not diluting the brand," said Jason Berting, CA, of oil firm Nexen. "In the end, we expect they'll enhance it, make it something even more."

For the past 100 years, the magazine has recorded the tensions between protecting traditional standards of excellence and the uncertainty of incorporating best practices from other disciplines and industries. And if history is any indication, students will continue to be at the centre of those struggles for the next century.

Steve Brearton is a freelance writer based in Toronto

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# 2000s The Naughts

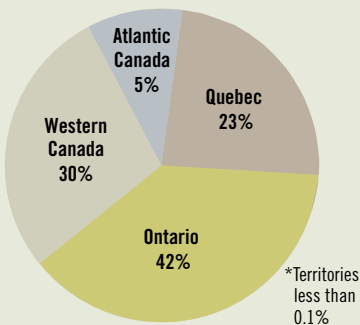


If you love someone set them free. More than six in 10 CAs now work outside public practice. And often in senior positions — a 2004 analysis of the *Globe and Mail's* Report on Business top-1000 companies found 59.2% of Canada's largest public firms have a CA in at least one of the top-six positions. Things are also changing in the industry: major firms are becoming a one-stop shop for clients whose operations span the globe, and Enron and similar accounting scandals forced unprecedented regulatory change. International commerce and international tragedies encourage Canadian CAs to commit time and toil to relief efforts from New Orleans to Malawi.

## The BIG issues

- In five or 10 years businesses will be outsourcing some or all of their accounting and finance functions to emerging economies. First it was IT and HR — now it is finance.
- Accountants work to rebuild investor confidence in the integrity of financial information. Canada's financial system must be watertight and foolproof.
- Firms failing to assess the impact of new international financial reporting standards or having inadequate implementation plans will find the transition "very rough going."

Regional representation of CAs, 2011



2007

“Sole practitioners are a dying breed because they can't keep up with the flow of regulations”

[Ross McNichol, Calgary-based sole practitioner, March 2007]

## FROM THE PAGES

### On international accounting standards

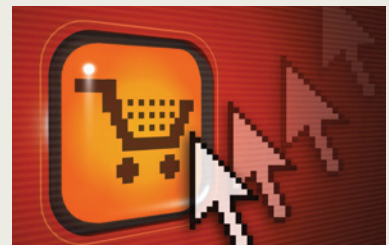
“Despite the best efforts of a number of groups ranging from the World Bank to the International Federation of Accountants, emerging markets are being left behind in the push to establish global accounting standards.”

[writer Lawrence Richter Quinn, “Emerging pains,” April 2004]

### On the net tax nightmare

“The existing tax system is based on the concept of physical presence, which electronic trade eliminates.”

[Pierre Bourgeois, Canadian tax leader for PricewaterhouseCoopers in Montreal, March 2001]



## Snapshot



Members: **63,985**

Canadian population: **30.7 million**

GDP: **\$1.076 trillion**

**The profession:** “Within the major firms, accounting is less important now than it was five years ago, and hugely less than it was 15 years ago. Five years from now, it will not necessarily be the central service of a large, diversified, professional services firm.”

[Steve Glover, executive director of the Institute of Chartered Accountants of Alberta, January/February 2000]





## CAMagazine timeline

### July 1911

First issue of *The Canadian Chartered Accountant*

### October 1911

First review: "The initial issue is small, but it has a dignity both in form and matter, that promises well for its future"

*Journal of Accountancy*

### October 1911

Business Systems of Toronto takes out first advertisement

### April 1912

Magazine publishes first letters to the editor under "Correspondence"

### July 1921

Becomes a bi-monthly

### June 1932

Becomes a monthly

### September 1946

"*The Canadian Chartered Accountant* has struggled through the war period against a paper shortage which on many occasions has meant holding an issue, already made up for the press, for a week or two for delivery of enough paper to print it, and on other occasions substitute grades of paper have been used"

### January 1947

"Some of our members have expressed the view that the cover and design of the printed pages of this Magazine are drab and, to say the least, soporific. They suggest that something be done about it"

### February 1952

Circulation surpasses 10,000

### July 1961

Prince Philip congratulates the journal on its 50th anniversary

### January 1963

Magazine shifts from pocket size to standard size. New look is the most significant change since inception in 1911

### July 1967

Magazine shortens its name to *Canadian Chartered Accountant*

### July 1968

Bilingual cover introduced

### August 1970

"It is against this background [of a world bubbling with change] that comments are offered on the editorial policy of the *Canadian Chartered Accountant*; particularly for those of our readers who seem firmly convinced that we rigorously avoid controversy"

### April 1973

Title changed to *CA magazine*

### July 1974

Dorothy A. Cooper becomes the magazine's first female editor

### October 1979

Separate French supplement issued

### June 1994

Former associate editor Brian Banks wins the magazine's first National Magazine Award for his March 1993 article "The nonconformist, his ex-wife, the gambler and the alien"

### July 2011

100th anniversary

### List of editors

George Ussher Stiff (1911-1916)  
W.J. Valteau (1916-1932)  
Austin H. Carr (1932-1942)  
W.A. McKague (1943-1946)  
R.F. Bruce Taylor (1946-1948)  
Melville I. Pierce (1948-1954)  
Renny Englebert (1955-1969)  
Lorne J. Reesor (1969-1974)  
Dorothy A. Cooper (1974-1979)  
Nelson Luscombe (1979-1996)  
Christian Bellavance (1996-2010)  
Okey Chigbo (2010-)

—SB



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Deloitte & Touche	Mackenzie Financial	Travelex Canada Ltd
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Doc-It	MASA Business Solutions Inc.	Utilimax/Unit-Technologies
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## CICA congratulates *CAMagazine* on **100 years** of spotlighting the CA profession


The Canadian Institute of Chartered Accountants congratulates *CAMagazine* on turning 100 in July, a significant milestone few Canadian publications can claim. Starting in 1911 as a journal called *The Canadian Chartered Accountant*, Official Organ of the Dominion Association of Chartered Accountants, the magazine evolved over the years into the informative, award-winning magazine CAs have come to know.

In the publication's first foreword were these words: "Our pages will be open for discussions, for news and for any other purposes tending to bring the members more closely in touch with one another, building up the bonds of union and strengthening our usefulness to ourselves and to the public." And a century later, the magazine remains true to this mandate.









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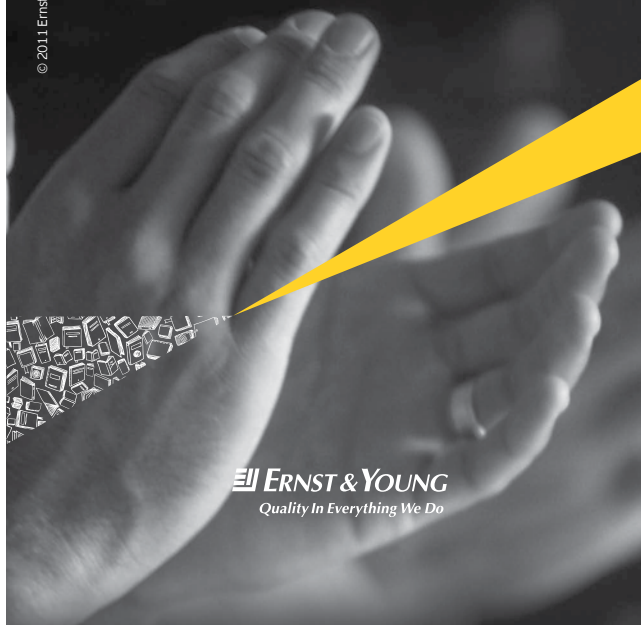
  

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## Governance and risk in a global economy

Getting global tax risk management wrong can mean financial disaster, but getting it right can yield many competitive benefits

In recent years, globalization has literally changed the face of Canadian business. Enhanced market access and sales opportunities at home and abroad have impacted companies for better and some for worse in virtually every sector of the economy. A number of long-established corporate names have disappeared forever, while others have flourished. Some have merged or been acquired, while new entrants have rapidly grown to become market leaders.

This ever-changing tapestry underlines the dual reality of operating in global markets. With new business opportunities come new challenges, new competitive pressures and heightened risk.

The global economic downturn and distressed financial markets put additional pressure on many businesses to re-examine their supply-chain relationships with related and unrelated parties in order to find greater efficiencies, better manage their cash flow and operate more effectively.

For these reasons, never has the need for strong internal corporate governance, oversight and risk management been more mission critical for corporations, their boards and their shareholders. The companies that manage risk in

a way that is tailored to changing market conditions and aligned with their overall business strategy will emerge as the biggest winners.

Businesses are not alone in dealing with the dual reality of globalization. Governments have also been impacted by the same global forces as businesses — once again, some for better and some for worse. Many have had to make difficult fiscal policy choices to finance their economic recoveries, maintain their domestic employment levels and preserve their tax revenue bases. Protecting or enhancing tax revenues derived from taxing multinational corporations with large crossborder transactions has become a common objective of governments in both established and emerging markets.

Many revenue administrations, including the Canada Revenue Agency (CRA) and the Internal Revenue Service, have expanded their audit staffs in the international tax and transfer pricing area. They closely scrutinize transactions that involve, for example, business restructurings, high-cost services and intangibles such as patents and royalties. An unprecedented level of cooperation and information sharing is taking place between revenue administrations on a bilateral or multilateral basis to ensure compliance with tax laws. Tax authorities are comparing notes on the transfer pricing documentation being prepared for local authorities to ensure consistency at a global level.

Revenue administrations have also signalled their expectation that large corporations will strengthen their corporate governance in the area of tax-risk management. They did not arrive at this position overnight but gravitated toward it over several years. It is worth setting out for the record a chronology of the major turning points.

Traditionally, in their own internal resource allocation decisions related to audit activity, revenue administrations only addressed tax risk in a rudimentary way. (The CRA's agency management committee now undergoes a rigorous annual enterprise risk management exercise and the CRA has hired a chief risk officer.) They typically audited large businesses over a certain threshold on a cyclical basis with little regard to their compliance history and the results of prior audits. In the CRA's case, this included the 900 companies with \$250 million or more in gross annual revenues.

That started to change over the past decade. As large business audits started to generate more material assess-



ments, especially those resulting from transfer-pricing reviews, the “opportunity cost” of valuable audit resources became higher and authorities started to become more conscious of cost effectiveness. As a result, many adopted compliance risk management strategies as an essential management tool.

Authorities also saw the advantage of identifying behavioural factors that influence voluntary compliance and incorporated them into their business risk models. In 2008, the OECD’s Forum on Tax Administration (FTA), comprised of about 40 national tax administrations and related international organizations, released its Study into the Role of Tax Intermediaries, concluding that revenue administrations needed to take a broader approach and develop a more cooperative relationship with taxpayers and tax intermediaries to facilitate higher levels of voluntary compliance.

This enhanced relationship, as it is known, is based on a quid pro quo: more transparency from the taxpayer in return for more openness and impartiality from the revenue administration. The tax administration benefits by reducing its compliance costs; the taxpayer benefits by having greater tax certainty with earlier resolution of disputes and fewer intrusive audits.

At its meeting in South Africa in January 2008, the FTA issued a communiqué recommending that FTA countries risk assess large corporate taxpayers and develop appropriate compliance responses, acknowledging that the relationship between tax administrations and taxpayers varies between countries in accordance with different administrative and legal frameworks.

These recommendations were followed by a report, *General Administrative Principles: Corporate Governance and Tax Risk Management*, on corporate governance and tax risk management in July 2009. It noted that many large businesses have changed the way they approach corporate governance and tax compliance, reflecting an environment of heightened community sensitivity to social responsibility. It pointed out that leading practice corporate boards are mandating that tax risk must be managed like any other enterprise risk.

In that context, it referenced the introduction of new legislation and standards in many countries requiring greater transparency in financial reporting by public companies, including the Sarbanes-Oxley legislation in the US. Mentioned in the same vein were new FIN 48 requirements mandating an analysis of material tax positions in financial statements, in accordance with the Financial Accounting Standards Board.

Of course, these requirements not only apply to US firms, but also US subsidiaries of foreign-based large businesses and non-US entities registered with the US Securities and Exchange Commission. The CRA may use these tax disclosure and reporting requirements in deciding which transactions to focus on in its transfer pricing audits. The Department of Finance could also consider expanding legislated disclosure requirements in Canada, along the lines already set out for consultation in the 2010 federal budget or beyond them.

The FTA report contained three member-country case studies describing different experiences in promoting good corporate governance and enhancing relationships with large business. One

of these was from Canada. It indicated that the “CRA is revising its audit program to recognize differences among large businesses with respect to the strength of their governance and their willingness to deal with CRA in an open and transparent manner.”

In brief, audits will be eliminated or limited to certain issues for companies with evidence of strong compliance and a willingness to work with CRA on an open and transparent basis. An important feature of this approach will be that the CRA will advise the taxpayers how their governance and risk factors are perceived and the compliance approach that will be utilized.

So, where is the CRA heading with this? I asked CRA commissioner Linda Lizotte-MacPherson whether corporate boards and their audit committees should have firmer oversight of tax issues. Her reply (and the full interview) is published in the February issue of Ernst & Young’s Tax Policy and Controversy Briefing.

In part she said: “Yes, I agree that oversight of tax issues needs to occur at the boardroom level. How a company manages tax risk can affect its financial performance and reputation, and CEOs and boards of large businesses are increasingly considering tax risk management as part of their overall corporate governance.

“Increased transparency on the part of taxpayers helps us

## **Multinationals operate in a dramatically changing world.**

### **Adapting requires them to think strategically about**

### **their tax positions and approach to managing tax risk**

administer Canada’s tax laws with the least compliance burden for taxpayers and the most effective use of our resources.

“Tax administrations have a vital role to play in helping corporate boards in relation to their responsibilities for tax strategies and material outcomes. I think there is merit to engaging in direct dialogue on this topic with CEOs and boards, given the significant and material risks inherent to tax.”

It is possible to manage tax risk in a global business environment by using leading practices that address both the needs of businesses and the expectations of tax administrators. The goal is to achieve a level of certainty about tax positions, tax reporting and tax planning that aligns with the principles of good corporate governance and that will satisfy the concerns of both parties.

The key is to ensure governance covers all aspects of the tax life cycle — planning, provision, compliance and controversy. This means that before making a strategic decision on any type of tax, that decision’s impact across each life-cycle phase is considered.

Too few companies have formally documented tax governance policies that address all stages of this life cycle. Most organizations have stronger governance surrounding the tax provision stage but planning, compliance and controversy tend to be weaker.

Some leading practices that companies should consider are:

- adopting and deploying a global approach to tax controversy and risk management (companies that develop tax strategies from this broader bilateral or multilateral perspective can mitigate risk and exposure from audits);
- evaluating global systems and resources for tax risk man-



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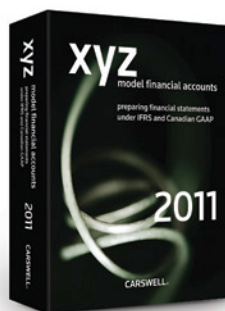
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agement (global tax risk management systems should have processes in place to identify, assess, measure, mitigate risk and monitor actions and strategies not unlike risk management strategies for corporate or enterprise risk. The key is having the right people understand they have ownership of the risks identified and take appropriate actions);

- managing ongoing and potential controversies at a strategic level (comprehensive risk management strategies help companies anticipate controversy issues, avoid unnecessary disputes and mitigate the impact of those disputes that do arise);
- including global tax risk as a corporate governance issue (CEOs and boards are increasingly seeing tax risk management as being part of overall corporate governance and audit committees are expanding their focus from a narrow examination of tax compliance issues to a broader consideration of tax risk management);
- staying connected with tax policy and legislative changes (changes can create significant risks and great opportunities for businesses and the integration of tax policy awareness into business planning ensures that current decisions are made with potential future outcomes in mind).

Multinational firms operate in a dramatically changing world. Adapting to these changes requires companies to think strategically about their tax positions and overall approach to managing tax risk. There is a growing expectation they will engage with tax administrations and work in new ways to resolve disputes or avoid disputes before they occur.

Those that succeed will incorporate tax risk management into the core of their business decisions — from the boardroom and audit committee agendas to the operations on the ground in various tax jurisdictions. Getting global tax risk management wrong can mean material financial and reputational damage. Getting it right can yield significant competitive benefits.

Fred O'Riordan is national adviser, tax services, with Ernst & Young LLP in Ottawa and a former CRA assistant commissioner, appeals

Technical editor: Jay Hutchison, tax managing partner, Canada, E&Y

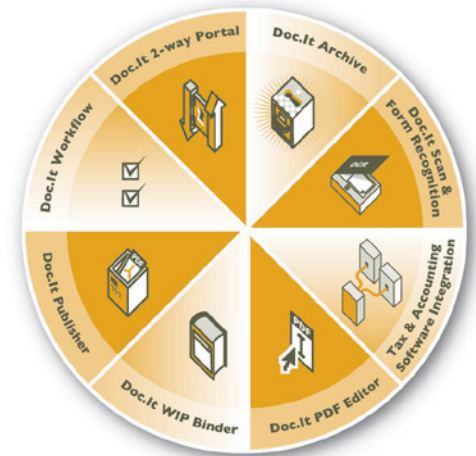


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## Too good to be true

Investment fraud is on the rise. So make sure you know what red flags to look out for when giving a client advice

In 2008, two men, one American, one Canadian, catapulted investment fraud into headlines around the world. The American was 70-year-old Bernie Madoff, who for years had operated a massive Ponzi scheme that cost his many investors billions of dollars when it collapsed. In 2009, Madoff pled guilty to 11 felony charges, including fraud, and was sentenced to the maximum punishment — 150 years in prison.

The Canadian was 67-year-old Earl Jones, a Montreal native who bilked 158 investors, including his cancer-stricken brother, his own daughter and other family members, out of \$50 million. Like Madoff, Jones had managed to get away with his Ponzi-type schemes for a long period of time, about 30 years in his case. In 2010 Jones was sentenced to 11 years in jail, which in Canada means he could be released after serving only one-sixth of his sentence, depending on his behaviour behind bars. Madoff, on the other hand, will almost certainly die in prison.

Both men were by all accounts charming and seem-

ingly trustworthy. Their intricate financial webs, which they kept going for so long, became undone by something beyond their control — a sudden downturn in the economy. When many of their clients decided to cash out their investments, the financial house of cards the fraudsters had so carefully built could no longer remain standing.

Investment fraudsters are by no means all cut from the same smooth cloth. They come in every size and shape imaginable. And they are far more prevalent than the average person likely imagines.

For every Madoff or Jones, there are thousands of fraudsters trying to separate gullible and often greedy individuals from their savings. This was made patently obvious by the results of Operation Broken Trust, a US federal investigation organized by President Barack Obama's Financial Fraud Enforcement Task Force.

Operation Broken Trust, the first US nationwide initiative to combat investment fraud, was established in the wake of the recent financial crisis. The objective was to nab fraudsters who preyed on the general public. The results of the Justice Department's undertaking, which spanned only three-and-a-half months, shocked the investigators.

In early December 2010, US Attorney General Eric Holder announced that criminal and civil charges had been brought against more than 500 people. The schemes exposed by the investigation had defrauded thousands of investors out of US\$10.5 billion. "These are staggering, staggering numbers," Holder said. Prior to his news conference, 87 people had already received prison sentences; several were given more than 20 years. One defendant received 85 years in prison.

The investigation looked at more than 120,000 cases of fraud, including Ponzi schemes, foreign currency fraud, investment scams and market-manipulation. Holder noted that the fraudsters targeted communities, churches, immigrants, the elderly and the disabled.



The Justice Department said that in some cases church members exploited their fellow worshippers. One man in Texas offered his congregation lucrative foreign exchange rates he said were a “blessing from God.” Fraudsters often targeted friends and coworkers. In one example, a police officer lured other members of his force into a Ponzi scheme.

Operation Broken Trust was a joint effort among Justice, the US Postal Service, the Commodity Futures Trading Commission and the Securities and Exchange Commission. Robert Khuzami, director of the SEC’s enforcement division, said that while Wall Street banks have received the biggest fraud headlines, hundreds of other scams devastate working families and retirees.

Indeed, investment scams ensnare victims of all stripes, and their losses can range from small amounts to many millions of dollars.

Although it’s impossible to prevent all potential victims from being scammed, there are many telltale signs an investment opportunity might not be legitimate. If advisers are aware of what to look for, they should be able to help clients avoid losing money unnecessarily.

Large-scale investment frauds typically promise investors unrealistic returns. One example featured a slick-talking con man — most investment fraudsters are male and have the gift of the gab — who somehow convinced a large number of Toronto-area residents that he could get them returns of 20% or higher in a scheme involving the sale of high-technology components to countries in the developing world.

He met his prey at several business networking events, where he casually mentioned the investment opportunity. When some showed an interest he first feigned reluctance to share his good fortune but gradually relented. Professing a dislike for office meetings, he suggested they have breakfast gatherings at a local low-scale diner. At the breakfasts, the impeccably dressed con man slowly spun a tale of incredible sales and amazing profits.

To be eligible for such a windfall, he said, they all had to pay a nonrefundable enrollment fee of \$2,500. Once they anted up, he played them like a cult leader, making them believe they were a specially chosen and elite club, one that was about to become incredibly wealthy.

Then he announced the deal was happening faster than scheduled. If they wanted in they had to invest immediately. A couple of the group members balked, saying they needed time to conduct due diligence. Some mentioned they had been cautioned by advisers and friends that the opportunity sounded too good to be true. No adviser, however, had aggressively warned them to walk away from the deal.

The con man quietly agreed with the dissenters. He urged them to leave the group. He said there were many others waiting to replace them. He even offered to return their enrollment fee. His gambit worked. No one left. Within days the con man received \$7 million in total from the investors. Within a week he had disappeared with their money.

Although some of the advisers had voiced concerns about the

deal, they had not done more than offer a few words of caution. However, this scheme had so many red flags they should have considered an intervention to protect their clients.

In addition to the promise of unreasonably high returns, the breakfast meetings were an indication that something was wrong. Although the con man had cards and letterhead for an office in a downtown high rise, it was no more than a mail drop-off box. Who would invest large sums of money with someone who only held meetings at a greasy spoon?

The man’s background was dubious. He had a website that glowed with his accomplishments and recommendations from previous investors. But apart from the website there was nothing about him in the main Internet search engines. That was a result, he explained, of his penchant for privacy and his policy of offering opportunities only to small and exclusive groups.

In truth, he had no real track record or credible financial credentials. Any meaningful due diligence would have unmasked him as a fraud.

The other major red flag was the ticking clock. Like many a movie plot, a con man’s story includes an impending deadline. Any time an investor is told it’s now or never — leaving no time

## **Not all individuals spinning scams are strangers to their victims. Many, like Montreal’s Earl Jones, are quite the opposite: they are trusted friends and even family**

for effective due diligence — the investor should immediately step away from the deal.

It’s possible investors would not have listened to anyone who challenged the legitimacy of the deal. Greed can be blinding. But none was directly told that this sounded like a scam. And none was confronted with any evidence that might have shaken his or her faith in the con man. A visit to the purported office, which was a few minutes walk from where some of the advisers worked, likely would have provided enough cold water to throw on an investor’s raging fire.

Not all individuals spinning scams are strangers to their victims. Many, like Jones, are trusted friends and even, at times, family. Understandably, it might seem awkward or uncomfortable conducting effective due diligence on a close acquaintance for fear of offending him. “Are you saying you don’t trust me?” the acquaintance might respond. But if the deal is legitimate and the person presenting it is professional, the response should be to welcome the scrutiny. Any attempt to dissuade meaningful inquiry should be taken as a bad sign and an incentive to dig into the person’s background and claims even more diligently.

Jones ingratiated himself into the lives of his victims. He was someone people easily liked. He was also not qualified to invest their money. A quick check of his background would have revealed that he was not a certified financial planner, contrary to what he claimed.

As one forensic accountant likes to say, when it comes to family and friends keep your chequebook separate. Fraudsters tend

to be expert at reading human nature and know how to take advantage of a person's weaknesses. One such trait they like to exploit is vanity. When touting a scam one approach is to couch it in difficult-to-follow language that makes it sound incredibly impressive. "Unlike a lot of people, you understand how this all works," they will say, or words to that effect. As soon as the victim nods in agreement, the bait has been taken.

As an adviser, make sure you and your client are completely clear as to what a potential investment entails. If not, warn your client to stay away from it. No legitimate investment should be unclear in any way. All risks should be understood and closely assessed.

If the client is being offered exceptional returns and has been told the individual or firm making such claims has a history of similar achievements, do not take the assertions at face value. A red flag in the Madoff case was that his reported performance was too good to be true. If the returns are far above industry norms, follow the advice of the CFA Institute: "Find out if the firm has its reported performance numbers independently audited, who audits them, and whether these figures comply with Global Investment Performance Standards, a set of ethical principles for calculating and reporting investment results."

While a client should not automatically avoid investing with an individual or a small firm, the risk, understandably, is greater than when doing business with a large entity that is subject to oversight. For that reason, thorough due diligence is even more critical when considering a deal when there are no safeguards if the deal turns out to be fraudulent. A transaction involving a broker or a financial institution affords some degree of protection. The institution might make restitution or the victim could seek recourse from bodies such as the Investment Industry Regulatory Organization of Canada or the Canadian Investor Protection Fund, which provides insurance for investors who lose money in a transaction involving a CIPF member.

Doing business with a seemingly respected broker does not guarantee that investment fraud won't occur. There are too

many cases of brokers misusing clients' money to dispel that notion. In many instances of broker fraud the evidence shows that the client paid scant attention to what was happening with his or her account. One red flag clients should watch out for is if the broker, and not the firm, is sending out the account statements. A client should also be careful not to sign any papers sent by the broker without obtaining professional advice on what the papers state. This is especially true if the client is elderly. And, needless to say, a broker should not be allowed to make transactions without a client's authorization. If such a relationship exists, especially if a bond of trust has developed between a broker and client over the years, it needs to be curtailed. Sometimes an outside adviser can help such a change take place by presenting it as a matter of business practice and not as a personal slight to the broker.

These days a lot of the smaller investment frauds are launched via the Internet. Although many people — hopefully most — are aware of the variations in the so-called Nigerian scams that offer large amounts of money to help someone access a small fortune in some foreign bank, they do occasionally work. Clients should be advised never to respond to any e-mail investment solicitation. There are far too many scams to itemize, but they tend to have similar characteristics: they are not addressed to a specific individual and the spelling and grammar are poor.

They also tend to promise that their investment is a sure thing. That's definitely a red flag. The only sure thing about an investment is that there is an element of risk. That risk can be reduced by effective due diligence. The investigation has to take place, however. Too often the lure of easy and quick money trumps common sense. That's where an adviser can play an essential role by pointing out the red flags, providing, of course, that the adviser doesn't also fall for the pitch.

David Malamed, CA-IFA, CPA, CFF, CFE, CFI, is a partner in forensic accounting at Grant Thornton LLP in Toronto. He is also *CAMagazine's* technical editor for Fraud



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## Will changes bring transparency?

Some fear that proposed changes to pension accounting may make DB plans less attractive to companies

**P**ension accounting for defined benefit (DB) pension plans has long been criticized for its complexity and lack of clarity. In 2005 Mary Williams Walsh of the *New York Times* wrote, “It is no secret that pension accounting is a hall of mirrors that distorts the appearance of both pension plans and the companies that sponsor them.”<sup>1</sup>

In April 2010, the International Accounting Standards Board recognized the “urgent need to improve the financial reporting of long-term employee benefits” by proposing sweeping changes in the Exposure Draft Defined Benefit Plans.<sup>2</sup> The key proposed change is to end the smoothing of pensions by recognizing the pension funded status directly on the balance sheet. In addition, proposed pension rules would remove discretion in choosing an expected return on pension assets (EROA) rate and break pension expense into three components.

Will the proposed changes improve transparency? How will Canadian companies be impacted, particularly those with large underfunded pension plans? The proposed changes, incorporating the empirical findings from academic research on pension accounting, and

estimating the impact on Bombardier Inc., a Canadian firm with a significant pension deficit, are evaluated and summarized in the following.

### Recognition of funded status, elimination of smoothing

With the existing smoothing mechanisms under IAS 19, Employee Benefits, pension assets and liabilities recognized on the balance sheet often differ significantly from the funded status of employer DB pension plans (i.e. the fair value of pension assets less accrued benefit obligation).<sup>3</sup> For example, in its January 31, 2010, financial statements, Bombardier recorded a net pension asset of \$338 million on its balance sheet, while its pension funded status was a deficit of \$1.514 billion. The difference of \$1.852 billion, comprised primarily of unamortized actuarial losses, remains off-balance-sheet and is only disclosed in the notes to the financial statements. Because the proposed full recognition of these amounts is expected to significantly impact the financial statements of many firms, opposition is expected. In a comment letter on the exposure draft, British Airways Plc notes that removal of the corridor method would cause a significant reduction in equity and cause confusion to users of financial statements.

Bombardier Inc. Impact of funded status recognition All figures are in millions of US\$, except percentages					
Year	2010	2009	2008	2007	2006
Shareholders' equity — original	3,769	2,554	3,188	2,733	2,425
Shareholders' equity — exposure draft	1,917	740	1,810	1,184	385
Percentage change under exposure draft	-49%	-71%	-43%	-57%	-84%
Change in shareholders' equity — original	1,215	(634)	455	308	127
Change in shareholders' equity — exposure draft	1,177	(1,070)	626	799	(274)
Difference between original and exposure draft	(38)	(436)	171	491	(401)
Difference as percentage of original shareholders' equity	-1%	-17%	5%	18%	-17%

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**Bombardier Inc.**  
**Impact of eliminating discretion for expected return on assets**

All figures are in millions of US\$, except percentages

Year	2010	2009	2008	2007	2006
Expected return on assets — original	6.98%	7.33%	7.42%	7.23%	7.20%
Expected return on assets — exposure draft	6.01%	5.39%	4.99%	4.77%	5.39%
Percentage change under exposure draft	-0.97%	-1.94%	-2.43%	-2.46%	-1.81%
Pension expense — original	234	248	282	366	287
Impact of exposure draft rate change	51	109	122	97	60
Increase as a percentage of pension expense	22%	44%	43%	27%	21%

Critics of current pension accounting argue that smoothing is misleading and hides the fiscal reality underlying pension plans. However, earlier academic research finds that investors generally consider pension liabilities when assessing firm value and credit risk. An early study finds that pension assets are positively associated with stock price and pension liabilities are negatively associated with stock price, supporting the notion that the market views pensions as assets and liabilities of the corporation.<sup>4</sup> Another study finds that the fair value of pension assets and the accrued benefit obligation reported in the notes to the financial statements explain market values better than the balance sheet pension assets and liabilities.<sup>5</sup> Research also finds that the funded status of the pension plan is incorporated into corporate bond ratings.<sup>6</sup> While this literature suggests that financial statement users take pension information into account, more recent research finds that analysts and investors have difficulty fully processing the complex information available for pension plans.<sup>7</sup> Specifically, investors fail to accurately assess the long-run cash flow and earnings implications of the off-balance-sheet portion of the funded status and the pension liability. Further, the bond market incorporates unfunded pension liabilities into bond spreads but appears to give more weight to liabilities reported on the balance sheet than to those reported off-balance sheet. The more recent findings support the proposal to fully recognize the funded status on the balance sheet.<sup>8</sup>

For some firms, the balance sheet impact of immediate recognition of funded status can be significant. The table on p. 60 demonstrates the estimated impact on Bombardier from 2006-2010.<sup>9</sup> Shareholders' equity decreases by between 43% and 84% and the volatility of changes in shareholders' equity increases. On transition to IFRS this year, many Canadian firms may elect to fully recognize unfunded pension liabilities, reducing the initial impact of the proposed standard.

**Elimination of EROA discretion**

Under the existing IAS 19, EROA is calculated using the expected long-term rate of return for plan assets and requires judgment in determining these expectations. The proposed rules will remove any discretion by requiring a net interest charge to be applied to the funded status of the plan, effectively using the discount rate for both the accrued benefit obligation and plan assets.

Accounting researchers have documented numerous instances where managers opportunistically use discretion allowed under accounting rules to achieve a desired result, such as increasing earnings. Specific pension research has found that managers will often reduce the pension expense by taking advantage of the judgment required in estimating EROA. One study finds that the relation between EROA and pension port-

**Financial statement users take pension information into account, but research finds that analysts and investors have difficulty fully processing the complex information**

folio asset allocations is weaker than expected.<sup>10</sup> Another finds that EROA assumptions appear to be more aggressive when these assumptions have a greater impact on reported earnings. This study also finds evidence that firms use higher EROA rates to meet earnings targets, prior to acquisitions and secondary stock offerings, and when CEOs exercise stock options.<sup>11</sup> These studies provide support for the proposed standard, since managerial discretion would be reduced.

However, companies legitimately argue that applying the discount rate to both the accrued benefit obligation and the plan assets is problematic, since each has different economic drivers. For example, in an exposure draft comment letter, Ford Motor Co. disagrees with the proposed treatment by arguing that an EROA better reflects underlying economics relative to the discount rate. The EROA, when faithfully estimated, reflects the pension asset allocation and the investment strategy specific



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to a given pension plan in a way that the discount rate does not.

Since the discount rate will generally be lower than companies' EROAs, most companies will have a higher pension expense as a result of the proposed change, which may cause some pushback from impacted firms. The table on p. 62 details the estimated impact on Bombardier of using the discount rate instead of EROA. The change reduces the rate in use by between 0.97% and 2.46% for 2006-2010 and causes an increase in pension expense by between 21% and 44%. Company opposition to the proposed changes is not surprising given the potential magnitude of impact. As a further consequence, companies may choose to invest in less risky assets since they are not able to report a lower pension expense when taking on more pension asset risk.

### Disaggregation of pension expense components

Under IAS 19, all pension expense components are aggregated into a single pension expense figure. The exposure draft proposes to break pension expense into three separate components:

- service cost, which would include current service costs and past service costs (no longer amortized) and be recorded as an operating expense;
- finance cost, which would include the interest on the accrued benefit obligation less the interest on the plan assets and would be recorded as a component of financing; and
- remeasurements, which would include all actuarial gains and losses and would be recorded as other comprehensive income (OCI) as they occur (i.e., there would be no smoothing).

Past research in accounting and finance demonstrates that

investors place different value on permanent versus transitory components of earnings (i.e., permanent earnings will recur, meaning the impact on firm value is significant, while transitory earnings are expected to occur only once). For pensions, actuarial gains/losses are transitory, while service and finance costs are recurring. A recent study concludes that fair-value pension accounting can actually impair the equity and credit value relevance of income statement pension information unless gains and losses are separated from other income components.<sup>12</sup> The authors argue that disaggregation is important as it allows more persistent components, such as service cost, to be valued separately from less persistent components. Therefore, academic research provides support for disaggregated reporting of pension components.

The net impact of the exposure draft on pension expense will vary across firms. Firms with large amortization expense may have lower pension expense since actuarial losses would be recorded in OCI under the proposed rules. However, firms with significant past service costs in a given year may have dramatically increased pension expense. For Bombardier from 2006-2010, pension expense would have been lower in 2006 and 2007, and higher in 2008-2010 (see the table below).

Under existing rules, only foreign exchange gains/losses are required to be recorded in OCI, while the exposure draft proposes to include all remeasurements, most notably all actuarial and experience gains and losses. This change will increase the volatility of amounts reported in OCI. For Bombardier the impact on OCI is quite significant under the exposure draft, as outlined in the lower part of the table below.

Bombardier Inc.					
Impact of exposure draft on pension expense					
All figures are in millions of US\$, except percentages					
Year	2010	2009	2008	2007	2006
<b>INCOME STATEMENT</b>					
Pension expense — original	234	248	282	366	287
Service cost — exposure draft	196	252	259	111	164
Finance cost — exposure draft	50	70	100	114	106
Total pension expense — exposure draft	246	322	359	225	270
Percentage change under exposure draft	5%	30%	27%	-39%	-6%
<b>OTHER COMPREHENSIVE INCOME (OCI)</b>					
Pension impact on OCI — original	(177)	347	(157)	(105)	35
Pension impact on OCI — exposure draft	(43)	(373)	156	319	(382)
Change under exposure draft	134	(720)	313	424	(417)
Change as percentage of original shareholders' equity	4%	-28%	10%	16%	-17%

## Conclusion

Pension accounting has long been criticized as being opaque, confusing and open to manipulation. Academic research generally supports key elements of the proposed rule changes, including recognition of the funded status on the balance sheet and disaggregation of pension components. The new presentation should help investors, analysts and creditors more fully incorporate pension information into their assessments. However, companies that sponsor DB pension plans will be noticeably impacted if all proposals are accepted, particularly companies with large unfunded deficits. Sponsors will certainly experience increased volatility in shareholders' equity, which could make covenant violations more likely based on existing borrowing agreements. With the many risks companies already bear by sponsoring DB plans, the proposed rules could make such plans even less attractive.

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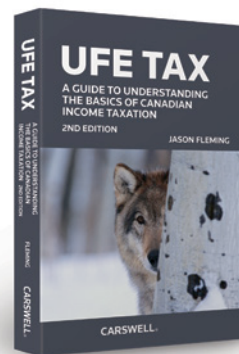
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Darren Henderson is an assistant professor at the Richard Ivey School of Business at the University of Western Ontario in London, Ont. Christine Wiedman is KPMG professor of accounting at the School of Accounting and Finance at the University of Waterloo in Ontario. She is also *CAMagazine's* technical editor for Education



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## Income tax, then and now

A quick review of the past four decades of the tax system proves it's a complex Canadian tax world

It has been almost 40 years since Canada overhauled its tax system, eliminating estate duties and bringing in capital gains tax. Since 1972, we have seen no less than 49 editions of the Income Tax Act.

Its length has increased enormously and the complexity exponentially. Changes in technology have aided the Canada Revenue Agency in the selection and audit of taxpayers. Ever-changing legislation, powerful audit tools, information exchange agreements and antiavoidance rules have made tax planning harder, tax compliance more challenging and tax enforcement easier with key changes over the past 40 years and challenges presented to the accounting profession.

### Personal tax rates

In 1972, the top personal tax rate was close to 70%, when taxable income reached \$60,000. Today, the combined

top personal tax rate is between 39% and 48% (depending on the province) when taxable income reaches about \$128,000. While the top personal tax rate has decreased noticeably, the expansion of the tax brackets has been far below inflation.

The first meaningful reduction in tax rates occurred with the 1981 federal budget. The objective was to broaden the tax base and lower personal tax rates. In 1987 tax rates were again lowered and the tax base was broadened further, along with the conversion of tax deductions to tax credits. We moved from higher rates and a smaller tax base to lower rates and a broader tax base.

### Corporate tax rates

Corporate tax rates have changed just as dramatically as personal tax rates. In 1972 the top corporate tax rate was about 52%. When the latest reductions come into effect in January 2012, Canada will have a combined federal and provincial corporate tax rate of about 25% (depending on



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the province) and will no longer be seen as a high-tax place to do business. Canada's corporate tax rates are now lower than those in the US. With corporate rates this low, CAs will have to revise decades-old strategies.

### Small business

Canadian-controlled private corporations (CCPC) have always enjoyed a preferred tax rate on active business income. The differential between the high corporate tax rate and the small business rate in 1972 was about 25%. Today it is only 10%. Compensating for this is the dramatic increase in the annual income eligible for the small business rate. Originally \$50,000, it is now \$500,000.

### Dividends and capital gains

The preference for dividends or capital gains has gone back and forth over the past 40 years. We have seen capital gains lose ground to dividends as the capital gains inclusion rate increased to 66⅔% from 50% in 1988, and then in 1990 to 75%. When reduced to a 50% inclusion rate in 2000, capital gains regained favour. Even with the eligible dividend system that evolved out of the income trust era, capital gains are still preferred in most provinces.

This issue has far-reaching consequences, extending even to post-mortem planning strategies.

### Capital gains exemption

It is hard to think of a change in the past 40 years with more impact on small business tax planning than the capital gains exemption. Now at \$750,000 per individual, the capital gains exemption is worth about \$170,000 of tax savings. Ensuring clients can access this significant benefit has resulted in CAs having to turn simple CCPC structures into more complicated but optimal structures that need to be closely monitored.

### Owner-manager remuneration

Until recently, three guiding principles governed the basic philosophy of owner-manager remuneration in Canada. Pay salary and bonus to eliminate high-rate income, leave low-rate income in the corporation (to defer tax) and, if additional personal funds are required, pay dividends.

With the dramatic reduction in corporate tax rates and the eligible dividend system, it is becoming more common to retain high-rate income in a corporation as an alternative to bonuses. This dramatic shift in philosophy for owner-managed business, previously unthinkable, is caused by the stark differential between the top personal tax rate and the general corporate tax rate. If the tax rates do not drop as expected, we will be revisiting this issue.

### Scientific research and experimental development program

The SR&ED tax credit program is a cornerstone of the Canadian tax system and one of the best incentive programs in the world, but it is somewhat unpredictable. Issues regarding the program's administration are under review and hopefully this incentive remains an element to drive innovation in Canada.

### Tax deferrals

There is an old adage that tax deferred is tax saved. This has not escaped the watchful eye of the government, and many changes have been enacted to prevent tax deferral.

For CAs advising owner-managed businesses, the first attack on tax deferral came with amendments to the rules on unpaid remuneration. In the past, it was permissible to accrue a bonus at year-end and pay the bonus one year later, so deferring personal tax. This advantage was eliminated in 1986, resulting in the current rule that remuneration be paid within 180 days of year-end, failing which it is not deductible until paid. Because 180 days is less than six months, the due date always falls before the date for filing the corporate tax return.

The next change occurred in 1995 and affected not only clients but also CAs. It provided that a partnership with an individual (or a professional corporation) as a partner report income on a calendar-year basis. The March 2011 federal budget proposed to eliminate the deferral from all partnership structures. Even though the budget was defeated, it is expected these particular proposals will ultimately become law as proposed.

Other changes have been more subtle. The government of

**There's the old adage that tax deferred is tax saved. This hasn't escaped the watchful eye of the government and many changes have been enacted to prevent tax deferral**

Canada records its tax revenue on a cash basis when preparing the accounts of the nation. Its year-end is March 31. In a move designed to create a one-time increase in tax revenues, the date for remittance of personal tax instalments was changed from month-end to the 15th. This gave enough time to bank the March tax instalment before the government's year-end.

### Antiavoidance rules

A striking feature of today's Income Tax Act is the number of antiavoidance provisions, many adapted from other jurisdictions, most notably the US. Most stem from a tax plan that became popular, and ultimately too popular.

Antiavoidance rules target tax shelters, restrict capital cost allowance, bring about at-risk and limited recourse financing restrictions and deny donations. We have seen antiavoidance rules directed at income splitting, first with a general cleanup of the rules in 1985 and, more recently, the kiddie tax that applies to interest and dividends in respect of closely held companies. The March 2011 federal budget proposes to extend these rules to certain capital gains.

If one had to pick the most significant tax case of the past 40 years, arguably it would be the *Stubart Investments Ltd.* (1984 DTC 6305) case where the Supreme Court held that there is no requirement under the Income Tax Act for a transaction to have a business purpose. Provided the transaction is legally effective, its form will govern, absent specific legislation to the contrary. The afterglow of *Stubart* was short-lived, with the implementation



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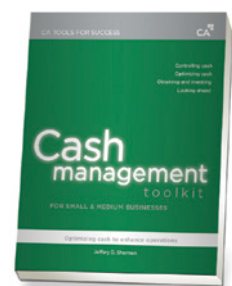
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of the general antiavoidance rule (GAAR) in 1988. We advised clients, anxiously, for 17 years until the Supreme Court clarified how GAAR was to be interpreted. We now practise in a world where tax avoidance is permissible provided it is not abusive. The CRA has not enjoyed the success it had hoped for in applying GAAR, particularly where international tax treaties are involved.

Now GAAR must be addressed in tax planning even when all technical tax provisions have been complied with.

### **International area**

We have witnessed an explosion of legislation in the international area, which began in earnest when CRA lost the Canada Trustco case in 1995. This case opened the door to structuring active businesses offshore and stuffing them with investment income earned tax free. This opportunity was closed down rapidly with amendments to the foreign accrual property income rules, forming the basis of what we have today. We are faced with lingering uncertainty in international planning. Proposed amendments to the tax rules for foreign affiliates and nonresident trusts have been out there for a decade but have not become law. The rules are so complicated that the Senate exercised its seldom-used authority to refer the proposals back to Parliament for reconsideration.

If successful, the recent Garron and Antle decisions will modify the law regarding the residence of trusts, which has been accepted since the Thibodeau Trust case in 1978.

### **Tax litigation**

The past four decades have seen a dramatic increase in tax litigation due to various factors including taxpayers becoming more litigious and/or more aggressive; the CRA becoming more unreasonable and/or refusing to settle cases; and the increasing complexity of the Income Tax Act. Whatever the reason, it is clear that tax litigation is a blossoming business. Lawyers handling tax litigation cases place heavy reliance on a support team that often includes CAs who know a client's history intimately.

### **Compliance explosion**

In 1972 the corporate income tax return was relatively simple. It had to be: it was prepared by hand. The starting point was the corporation's audited financial statements. Today, the corporate tax return is a voluminous series of schedules, condensed into a barcode or filed electronically. Changes have been significant, but the most monumental is the starting point. Fixed format (or GIF) financial statements are now used based on the corporation's internally generated figures, instead of external financial statements produced by CAs. Recently proposed aggressive tax planning rules will require that the CRA be informed of tax plans that meet certain criteria. Preparer penalties now exist that can penalize advisers in certain circumstances.

In the international area, much additional reporting is necessary. Foreign reporting forms disclose information concerning foreign affiliates, the T106 discloses transactions with foreign related parties, and there is a requirement for contemporaneous transfer pricing documentation. This contributes greatly to the cost and complexity of tax compliance and places responsibility on CAs to ensure the necessary information and filings are done.

### **Tax administration**

The CRA's audit actions have increased steadily over the past four decades. The increased compliance requirements noted above resulted in even more taxpayer information going to the CRA. With computer technology, electronically filed personal and corporate tax returns and better taxpayer identification processes, the CRA is able to run larger and broader special projects. Decisions of Canadian courts, including the Supreme Court, have confirmed the CRA's broad authority to require organizations to provide information related to unnamed third parties. For example, eBay, Amex Bank, The Redeemer Foundation and the Montreal Real Estate Board were all required to provide the CRA with information regarding their members.

Electronic searches are greatly aiding the CRA, which has been known to demand access to e-mails and other virtual information. Analyzing ratios based on electronically filed GIF information to identify audit targets has started at the CRA. Expect the trend for more international cooperation, information sharing and even joint auditing among tax authorities to continue.

This combination of access to large amounts of information and computer sorting techniques has resulted in a proliferation of special projects. Gone are the 1990s-style special projects such as audits of car expenses, hairdressers, restaurants or interest expense. Now projects range from the kiddie tax project of 2008 to complex and costly mass audits such as those of trusts and high-net-worth individuals.

Taxpayers now have the taxpayer relief measures and certain declared taxpayers' rights that can assist in dealing with the CRA.

### **What's next**

In charting a course for the future, one would be misadvised to use the signposts of the past as a guide. It is unlikely that corporate tax rates will fall further, and it is equally unlikely that personal income tax rates will drop by much. Capital gains will most likely continue to be 50% taxable, and dividends from Canadian corporations will still enjoy preferential treatment. It seems the capital gains exemption is here to stay.

Entrepreneurial business will continue to enjoy tax advantages, given its importance to the Canadian economy.

Tax avoidance will be dealt with harshly and swiftly by legislation and aggressive audit activity by the CRA. CAs will have to be careful to avoid assuming clients' tax liabilities as a result of preparer penalties, the aggressive tax planning rules and poor documentation or advice, leading to litigation by clients.

What is as sure as death and taxes is that the income tax world will continue to become more complex and that scrutiny by the CRA will increase. CAs must continue to invest in education to update their tax knowledge. Those practising in the tax advisory area will continue to live in challenging and exciting times.

Michael Cadesky, FCA, FTIHK, TEP, and Peter Weissman, CA, TEP, are partners with Cadesky and Associates LLP in Toronto

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## The language of business

**A**s a longtime columnist for *CAMagazine*, I have had a unique opportunity to observe the accounting profession. Over the past 20 years, market globalization and business automation have brought about dramatic changes in the profession. And although the profession is seen as conservative, it has successfully dealt with these major transformations. Here are some observations from my perch as a columnist.

The most drastic change was the reorganization of public practice in the 1990s, and the resulting refocus on its core mission, namely auditing. The strategic decision of large firms to divest their information system consulting activities contributed significantly to ensure the profession's requisite independence toward its clients. This strategic choice also resulted in a significant power shift within accounting firm partnerships, as the pendulum swung from consulting services to traditional specializations in auditing and taxation. What's more, the wave of consolidations among large and medium-sized firms allowed the profession to meet increasingly complex client needs.

Sweeping changes also affected accounting standards. Banking on a long-term vision, Canada aligned itself with Europe and Asia by adopting IFRS, parting with the US. This bold decision is still keeping audit committees busy, and lets them forget two other episodes where the accounting profession had been too alarmist: the Y2K transition and the implementation of controls and certification processes in the wake of the Sarbanes-Oxley Act.

Has standards reform gone too far? I am in the camp of those who oppose the widespread use of mark-to-market accounting, a rule that has pernicious effects on corporate behaviour, encouraging a short-term focus, whereas real value in business is created over the long term. Hopefully, the commitment of business to the long-term creation of value will lead to proper decision-making frameworks, and will transcend any impact of these dysfunctional mark-to-market rules. Either its application will wane or less

attention will be paid to such meaningless information.

For the past 20 years, accounting standard councils and boards have had their work cut out for them. The rapid evolution of financial management, the increasing complexity of companies, their global reach and resulting tax implications call for regular updates of what is essentially the language of business. However, this raises the question of whether those who set these standards have lost touch with the community they serve. The managers and investors who use financial statements are simply seeking to be well-informed. A case in point is the new financial reporting framework for not-for-profit organizations (NFPO). For thousands of these NFPO volunteers and donors, this framework significantly complicates

For the past 20 years, accounting standard councils have had their work cut out for them

financial statement presentations. While the financial information is no doubt more accurate and precise for accountants, and I know that there have been a lot of consultations while writing them, the new presentation is more complex for the users of these statements, who are probably using them less.

This increased complexity is also an issue for public companies, leading investors to rely on financial analysts for information they can understand. The accounting profession will have to consider whether its primary role is to present to specialists the financial position of companies, or whether its primary audience for financial statements is broader, and target first managers and investors.

The conservative image of CAs is not about to change. Today, as 20 and even 100 years ago, CAs in Canada are still pondering whether the existing accounting designations should merge. The debate about the unification of the profession is a good reminder that some accounting issues will never be resolved to the satisfaction of everybody.

Marcel Côté is founding partner at SECOR Consulting in Montreal

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