FROM BACH TO BANKER
How sheer competence gets you to the top

P. 18

Monique Leroux, head of Desjardins Group
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Our commitment to developing the right corporate culture is more than just talk. We’ve recently been recognized as one of the Best Workplaces in Canada. For the second time.

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A woman at the helm

Monique Leroux is the first woman to lead a major financial institution in this country. She’s also a chartered accountant.

In the spring of 2008, the global financial system was beginning to sputter. The asset-based commercial paper debacle that would trigger a worldwide credit crunch and the ensuing recession was in full swing. In Canada, Quebec-based Mouvement Desjardins, the country’s largest credit union and its sixth largest financial institution by assets, was in the midst of a campaign to choose its next leader. The member-based organization doesn’t appoint its CEO; it elects him. Or her.

They chose Desjardins’ CFO, Monique Leroux. Leroux is the first woman to join the exclusive club of financial institution CEOs. The challenge facing her was daunting, but she was well prepared. A CA, she spent 17 years at Ernst & Young, where she was one of the first women to become a partner. After stints at the Royal Bank and Quebecor, and serving as president of the Ordre des comptables agréés du Québec, she joined Desjardins in 2001. Writer Yan Barcelo and I met with her to discuss her career, her assessment of the financial crisis and her vision for Desjardins. We also talked about her personal life and her first career choice: concert pianist. Meet Leroux in “Harmony at the top” (p. 18).

Our other feature looks at CAs who left their careers to pursue their passion: winemaking! In the Niagara Escarpment Mauro Scarsellone teamed up with his CA wife, Lucy, and his sister and brother-in-law to found Ridgepoint Vineyard. Two kilometres north, Bob Ferguson left his Vancouver firm to establish Kettle Valley Winery with his brother-in-law, Tim Watts, a geologist. They shared their stories with Paul McLaughlin in “The wine sellers” (p. 24).

Responding to the AcSB’s concerns, the IASB is proposing to change its IFRS 1 rule on rate-regulated activities. To learn more, read “Lightening of the load” (p. 41). Other Regulars include taxation (p. 34), education (p. 38), technology (p. 44) and legal issues (p. 48).

In Netwatch (p. 10), Jim Carroll illustrates how economic development has gone international, even for local or regional entities such as boards of trade. He invites readers to look at their region’s economic development websites. Marcel Côté, for his part, congratulates Canada and other western countries for their intervention to save the financial system and boost the economy out of the ensuing recession. But, he warns in Outlook (p. 56), our government better be prepared to make unpopular cuts to attack the deficit it has just created.

Christian Bellavance
Editor-in-chief
upfront

4 PEOPLE
Zarin Mehta developed an attachment to music early thanks to his violinist and conductor father. However, he was also good with numbers, so when the Montreal symphony called, he was able to marry his mathematical mind with his musical heart. Today the CA is president and executive director of the New York Philharmonic.

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She's come a long way from performing on the concert stage and winning celebrated music competitions. Today, the accomplished pianist Monique Leroux is chair, president and CEO of Desjardins Group, one of the leading financial institutions in Canada and a dominant player in retail banking.

BY YAN BARCEOLO

24 The wine sellers
Would you leave the world of spreadsheets for the life of toiling in the soil, growing grapes and operating a winery? Well, there are a number of CAs across Canada who did just that. Meet the winemakers.

BY PAUL MCLAUGHLIN

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Breaking news, tax updates, job postings, archives, more articles: you'll find them all at www.CAmagazine.com
You don’t have to convince Zarin Mehta of the power of music. As president and executive director of the New York Philharmonic, the 71-year-old CA has witnessed how a live performance can bring an audience to its feet — and, sometimes, achieve feats of diplomacy that politicians cannot.

Last year, the orchestra made headlines by performing in North Korea, a country that allows few foreigners inside its borders. This month, it will make history again by performing in Vietnam, and possibly Cuba, marking a giant leap for not just the arts but US foreign relations as well. Diplomacy is always a part of the philharmonic’s mandate, says Mehta: “When the orchestra plays in a foreign country, we are representing our country.”

The seeds of Mehta’s deep connection to music were sowed early. Growing up in Bombay with a violinist and conductor father, Mehta was surrounded by the sound of classical music. He didn’t play an instrument, preferring instead to play records. Besides, his parents, who knew how difficult it was to make a living as a musician, had decided their two sons should pursue more reliable careers. While his older brother, conductor Zubin Mehta, quickly shrugged out of medical training to study music, Zarin stuck to the original plan of becoming an accountant. “I happened to be good at math, and numbers didn’t concern me,” he recalls.

After obtaining his CA designation in 1962, Mehta moved to Quebec, where he practised with Coopers & Lybrand for nearly 20 years — making partner in 1970 — until the Montreal Symphony Orchestra selected him to become managing director, a position that allowed his mathematical mind and musical heart to marry.

Mehta believes in running an orchestra like a business, not a charity, a formula that’s proven successful. He was invested as a Member of the Order of Canada in 1987 for bringing “unprecedented financial stability” to the Montreal Symphony Orchestra, and under his administrative leadership the New York Philharmonic has continued to have money to record CDs, do public outreach and tour internationally. Without that, he says, “you’re simply playing in your hometown — and nobody knows how good you are.”

Sandra E. Martin

**Résumé**

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<td>2009</td>
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MICROSOFT APPS STILL POPULAR

More than 90% of Canadian CA firms continue to use Microsoft software for word processing, computer networking, spreadsheets, e-mail and Internet browsing, according to a practice benchmarking survey conducted by the CICA and provincial institutes/ordre.

The responses of more than 500 primarily small and medium CA practices also indicate a shift in the proportion of non-Microsoft product usage since the last such survey was conducted in 2006. Most notably, practices are less likely to use non-Microsoft word processing and spreadsheet software and more likely to use non-Microsoft Internet browsers than they were three years ago. The most frequently mentioned non-Microsoft packages in each of these categories are CaseWare/CaseView for word processing, Lotus 1-2-3 for spreadsheets and Firefox for Internet browsing.

The results are from a broader three-part Managing a Public Practice survey, conducted biannually with the partners of CA firms across Canada, which provides invaluable information for managing a CA practice. Owners of CA practices who want access to the results must participate in the survey. There is no cost to participate and the detailed results are not sold or made available to those who do not participate.

Paul Long is CICA’s manager of marketing and marketing research.
Pay and display  While Canadian public companies have had to disclose the pay of senior executives for 16 years, there's no such requirement for private companies. Nice people, it seems, still aren't supposed to ask how much others earn

1.8 Compensation in millions of dollars collected by Bank of Montreal CEO Matthew Barrett in 1992. Barrett boasted the highest wage among bank executives at TSE-listed firms required to disclose their compensation for the first time.

3 Years after the introduction of individual corporate wage disclosure that Ontario required civil servants earning $100,000 or more to disclose their incomes.

3 Number of executives included in an unsuccessful legal action in 1978 by Canadian Pacific against the US Securities and Exchange Commission to keep salaries private. Beginning in the '50s, firms listed in the US were required to disclose the wages of top staffers.

1984 Year the Quebec Securities Commission agreed to drop a proposal requiring firms to disclose the names and positions of their top five executives and their total remuneration. Companies complain the requirement will expose staff to "criminal actions in this age of terrorism and high crime." Steve Breamton

20 Percentage increase in TSE 300 firms adopting incentive-based pay packages for execs the year after Canadian firms were required to disclose top wages. The lead author of the 1995 KPMG study said the numbers reflected a desire to "more clearly link compensation with performance."

97 Percentage of Canadian firms that argued against greater salary disclosure when the Ontario Securities Commission sought input on the issue in 1991.

Going Concern

DAVID AIELLO, CA
PRESIDENT & CEO
SYNERGEX CORP.

COMPANY PROFILE: Founded in 1987, Mississauga, Ont.-based Synergex manages the licensing, sales and distribution of computer games and other entertainment software for multinational corporations that do not have a presence in Canada or Latin America. The companies hand off their products to Synergex, which then translates and repackages product literature for these markets and deals with foreign currencies and taxes. Synergex is also the largest logistics manager in Canada for retailers’ gift cards. The company operates in Mexico, Argentina, Brazil, Chile and Colombia, and employs about 150 staff in Canada and 65 internationally. Gross sales in 2008 were $176 million.

COOL PROJECTS: Synergex is partnering with San Diego-based wireless communications provider Qualcomm to launch Zeebo, a new gaming system, in Mexico this year. The consoles have no disk drives; software is delivered over the air via cellular phone networks. Most middle-income Mexicans don’t have high-speed Internet access in their homes, so the consoles can be used not just to download Zeebo games but to access everything on the Web.

HOT FACTOR: Business is booming for Synergex. Latin American sales are growing dramatically, leaping to $35 million in 2008 from $9 million in 2007.

IN HIS OWN WORDS: “We take on all the responsibilities of repackaging and selling products in niche markets because, being Canadian, we’re trained to do business that way for the Quebec market. We take American manuals and packaging, translate them into French, and take care of production, shipping and billing. We also do that in Spanish and Portuguese in Latin America. We don’t feel foreign: we feel Canadian, Mexican, Argentine, Colombian, Brazilian and Chilean.” Rosie Lombardi

6 CA magazine | October 2009
Is your market information less than market fresh?

You can’t afford to guess when it comes to property investments. Consult an AIC designated member to ensure you have the most current and accurate information across all areas of real property investment and value. Our experts are prepared for IFRS and ready to partner with you.

Make a real property expert part of your team today. Visit www.aicanada.ca
Businesses focused on growth, not survival

Private companies may have weathered the economic storms of the past year better than the pundits expected. According to an annual survey of Canadian private companies conducted by PricewaterhouseCoopers in June, the percentage of businesses on the brink of failure is up from July 2008 — but not by much. “The number of companies fighting for survival has only increased to 23% from 19%,” says Eric Andrew, leader of the PwC Canada Private Company Services practice. “There are still a lot of companies out there focused on growth.” Indeed, 57% of the 466 privately held companies surveyed are striving for growth in the next year, and 61% expect their business to do better in the next 12 months — up significantly from 44% in October of 2008. The survey also found that 14% of the companies are looking to consolidate this coming year, down from 21% a year ago.

Risk-free investing

Want to manage your own six-figure portfolio without risking a dime? There’s just one catch — you can’t use real money.

RBC Direct Investing is offering “practice” accounts so clients can test-drive its website and learn about self-directed investing without jeopardizing their hard-earned cash. Users get a stash of $100,000 no-risk practice money to invest, allowing them to enter orders, create and track a mock portfolio online and explore investing strategies before putting any actual money on the line. Investors can choose from a variety of practice accounts including RSP, margin and investment cash.

Of course, there’s no payout if your practice investments show huge gains, proving yet again that zero risk equals zero reward.
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Regions that rock

Back in the spring, when the entire world was caught up in the midst of global economic doom, I had a long conversation with a Dubai-based journalist. He was seeking my insight for an article on what a nation, city or economic region should do to remain competitive in the global economy.

I didn’t realize it at the time, but I suspect his call was related to an article that had run the day before (“Dubai turns to PR to revive its image,” The Financial Times, April 2, 2009), noting that the city state had hired a public relations firm to handle its financial communications strategy and “head off negative media coverage of its troubled economy.”

The world certainly changes fast and, as I stated in my August column, “a brand is no longer what you say it is — it’s what they say it is.” I was talking about consumer products, but we now live in a time when the perception of an entire economic region can change literally overnight.

Think about that in the context of Dubai: just a short time ago, it was one of the world’s most dazzling success stories. Then came the market meltdown, the huge challenges in the global economy — and suddenly the shine was off this burgeoning world-class city.

I spoke to the fellow about a wide variety of issues, but emphasized that one of the most important things politicians, economic development officers, community leaders, boards of trade executives and others should be thinking about now is their region’s image on the global stage.

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News from the profession
A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES

Are you in the loop about new Canadian accounting and auditing standards?

Keeping up with the changing Canadian standards landscape can be a challenge, particularly now that the timelines for IFRS and the new Canadian auditing standards are getting tight — and proposed new standards for private enterprises are in final stages of development.

The CICA has launched a new communications vehicle called In the Loop — Standards in Transition that is emailed to subscribers every couple of weeks. It is short, conversational and points readers to resources that address their unique needs.

“There is no shortage of resources to help people manage changes to accounting and auditing standards, but people are busy, and they sometimes do not have time to find tools and information that address their specific circumstances,” says Gord Beal, project leader for standards implementation support at the CICA. “By highlighting key resources on all the standards undergoing change, In the Loop offers something to meet the needs of every practitioner.”

Visit www.cica.ca/InTheLoop.

Director Alerts for tough economic times

While the unsettled economy is fraught with risks and challenges, there are opportunities for companies managing their way through these turbulent times. Two Director Alerts published this summer by CICA’s Risk Management and Governance Board (RMGB) are intended to be catalysts for promoting useful dialogue among directors and between directors and management as they address today’s issues and set the stage for tomorrow’s growth.

Human Resource and Compensation Issues during the Financial Crisis — Questions for Directors to Ask is an easy-to-read alert that highlights key topics and questions for corporate directors to consider in addressing the implications of the economic downturn on their compensation and human resource programs. The publication focuses on specific areas that directors should review in light of the current economic conditions, including executive pay levels; equity compensation; talent management; pay for performance; say on pay and pensions.

The second alert, Fraud Risk in Difficult Economic Times, provides guidance to directors on how to satisfy themselves that management has implemented reasonable and prudent measures to manage the risk of internal and external fraud.

It points out that beyond direct financial loss, the real harm that fraud inflicts on an organization is the element of misrepresentation, which can erode trust relationships, impair reputations and spawn concerns about what else remains undetected. The CICA publication also notes that while it is not practical to guard against all possible frauds, there are key elements that should be addressed in any anti-fraud program.

“Committee governance processes and procedures are currently the subject of close scrutiny,” said Peter W. Roberts, FCA, a member of the RMGB. “Now is the time to review them against best practices.”

Both alerts were issued by the CICA’s RMGB and can be downloaded at www.rmgb.ca. They can also be found on a CICA site dedicated to the global financial crisis (www.cica.ca/financialcrisis).
Layfield Leverages SYSPRO

The Layfield Group of Companies was founded in the mid-1950s as a fabricated plastics business. In 1978, the current owners purchased Layfield and diversified its product line, which today includes polyethylene film products, printed and laminated packaging film and pouches, geotechnical fabrics, industrial fabrics, and plastic-lined environmental containment systems and covers. Layfield’s operations are divided into three divisions, each providing products and services to a different market segment.

Layfield is headquartered in Richmond, B.C., with manufacturing and distribution facilities in Vancouver, Edmonton, Calgary, Toronto, San Diego and Seattle. The company pursues expansion through acquisition, in-house development, and diversification. According to Ivano Nichele, Director, Information Services, Layfield has doubled in size over the last five years, and currently employs 300 people.

“We’re a rapidly growing company,” says Nichele. “Historically, a paper-based shipping system was sufficient, because we tend to sell large truckloads of product, which keeps the number of shipments we make relatively low.” In the last five years, however, Layfield has experienced a period of accelerated growth. As the company’s shipping requirements grew more complex, it became apparent that parts of the business, shipping in particular, were running on obsolete technology and last-millennium business processes.

Since 2000, most of Layfield’s companies have been running on SYSPRO ERP software. With the advent of SYSPRO 6.0, Microsoft®.NET component architecture and XML standards have been leveraged to deliver “e.net solutions,” an open architecture framework that provides users with a standardized method for directly accessing SYSPRO’s business functionality. “Once we understood SYSPRO’s capabilities,” says Nichele, “it was a fairly simple matter to create a tool that would connect our shipping department to the rest of the company.”

To create the bridge between the shipping yard and the rest of the company, Nichele created a simple and intuitive interface. “The shipping application keeps track of each order as it’s worked on, from the moment it’s opened, to the time it’s staged, and finally shipped.” As the order is processed, the information from the shipping yard is simultaneously updated in SYSPRO. That makes the order’s status visible to anyone with authorized access to Layfield’s ERP. “A customer service representative, dealing with a customer query, can see exactly what’s happening with an order – there’s no need to phone the shipper, or track down a piece of paper.”

Because the shipping application was designed specifically with shippers in mind, says Nichele, training was extremely straightforward. “The shippers were initially concerned, but the transition went smoothly. With e.net we were able to build a cost-effective tool that followed their logic and met all their needs.”

“All-in-all,” says Nichele, “extending the functionality of SYSPRO to the shipping yard has had very clear business benefits. By closing that loop, everyone in the company can now see the status of our orders.” One immediate effect of order visibility was the elimination of back-and-forth telephone calls. “We tracked that measure for four months,” says Nichele, “and pretty much from the time we went live the number of phone calls reduced dramatically – a five-fold improvement. Our customers now have their queries answered immediately. That makes for better business relationships, and saves our CSRs and shippers a great deal of time.”

Layfield has also noted a significant cost saving associated with eliminating the expensive three-part forms. In addition, since the application uses SYSPRO to generate automated reports, customers now receive clean and professional-looking documentation. And because the shipping interface also displays future orders, shippers have the ability to create further efficiencies through strategic planning.

The successful deployment of the shipping application has given Layfield the confidence to continue extending SYSPRO ERP across its entire operation. “Currently,” says Nichele, “our Environmental Systems Division is still using too many manual processes, but we’re making plans to ensure that soon changes. Increasing our competitive edge is an on-going concern, and one of the most effective ways we can do that is by continuing to leverage SYSPRO.”

For more information on the Layfield Group please visit their website at: www.layfieldgroup.com.
What are you doing New Year’s Eve? You can be forgiven if your social plans are not yet in place, but a new bulletin issued by the staff of the Accounting Standards Board reminds Canadian enterprises that are adopting international financial reporting standards (IFRS) that important planning is needed before January 1, 2010. IFRS requires adopters to provide one year of comparative financial information with their first annual financial statement prepared in accordance with IFRS. For adopters with calendar year ends, that means the collection of information must begin on January 1, 2010. The bulletin outlines why you must make some decisions on the choices available in IFRS 1, First-time Adoption of International Financial Reporting Standards, in the months leading up to January 2010 or miss out altogether.

The bulletin Only Months to go — IFRSs (Not the New Year) draws a comparison to a New Year’s resolution. If you want to have washboard abs by January 1, 2010, you need to start training now. Similarly, to meet the IFRS adoption date of 2011 in Canada, you need to be ready for January 1, 2010 — and that requires some important planning now!

Financial Instrument standard proposed for governments

With the new Exposure Draft, Financial Instruments, open for comment until December 11, 2009, the Public Sector Accounting Board (PSAB) has set out its proposals to improve financial reporting of derivative and non-derivative instruments in financial statements issued by governments. Recognition, measurement, presentation and supporting disclosure requirements are fully integrated into a single new handbook section.

Two measurement categories will apply. All derivatives and equity instruments that are portfolio investments quoted in an active market will be measured at fair value. Other financial instruments will be measured at cost or amortized cost. Fair value measurement may also be applied to groups of items when they are managed and evaluated on that basis.

Derivatives and equity instruments are susceptible to significant price variability. For this reason, historic cost has limited usefulness. Recent events have shown that dramatic economic changes are possible and not predictable. As governments hold these instruments to manage risk and generate financial returns, fair value enhances accountability as it does for others who broadly disseminate financial information.

Budget-to-actual comparisons are a distinguishing characteristic of public-sector financial reporting. To maintain this accountability, measurement changes prior to realization will be distinguished by their presentation in a separate section of the statement of operations. Generally, budget-to-actual comparisons are not anticipated for items that are measured at fair value.

Disclosure provisions have been tailored to provide further detail on items recognized in the financial statements and details as to the nature and extent of risks arising from financial instruments. Governments may choose to integrate disclosures that apply to financial risks within a financial statement discussion and analysis when it is provided together with the financial statements.

An Issues Analysis prepared by PSAB staff is a companion document to the Exposure Draft. It sets out alternatives that were deliberated and why the proposed approach was selected. Comments are due by December 11, 2009. Visit www.psab-ccsp.ca to make your voice heard.

Plan a seamless transition to the new quality control standard and auditing standards

The CICA has made a number of resources available to help public accounting firms prepare for the adoption of new Canadian auditing standards (CASs), and the new quality control standard for firms (CSQC 1).

Coming into effect on December 15, 2009, CSQC 1 applies to all Canadian firms that perform any audits or reviews. This robust new quality control system will benefit firms by allowing them to demonstrate a strong commitment to quality. The remaining 36 other new CASs will be adopted approximately a year later, for audits of financial statements for periods ending on or after December 14, 2010.

The time to begin preparing is now

An updated edition of the CICA’s Guide to New CASs in Canada is available to help you get started.

The updated guide highlights areas of similarity and differences between the CASs and existing Canadian standards. The CICA is pleased to provide the electronic file of the guide at no charge.

Another useful way to learn more about CSQC 1 is by viewing a webinar, Getting Ready for the New CSQC 1. To access the free webinar, download the new CAS guide and learn more about CASs, visit www.cica.ca/cas.
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## Standards digest  
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### RECENTLY ISSUED PRONOUNCEMENTS

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**EIC Abstracts**

Application of Section 3465 to Mutual Fund Trusts, Real Estate Investment Trusts, Royalty Trusts and Income Trusts, EIC-107 (revised)  
July 8, 2009

**CICA Handbook – Assurance (Part I)**

Preface to the CICA Handbook – Assurance  
Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, CSQC 1  
Canadian Auditing Standards  
Retained Sections and Guidelines

### RECENTLY ISSUED DOCUMENTS FOR COMMENT (to September 30, 2009)

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The information published above reflects best estimates at press time. Please visit our website for the most recent information.
Helping corporate directors better understand business implications of climate change

A new publication from the CICA’s Risk Management and Governance Board entitled “Climate Change Briefing — Questions for Directors to Ask” aims to increase corporate board members’ awareness of the business impacts and governance issues associated with climate change.

“Climate change is a business and shareholder value issue affecting strategy, risk management and financial performance,” said Julie Desjardins, CA, who with Alan Willis, CA, co-authored the document.

There are two aspects of climate change for companies to address. First is adaptation or what action is being taken to respond to the anticipated effects of climate change on company operations, such as extreme weather conditions.

Second is mitigation or what is being done to reduce a company’s greenhouse gas emissions that contribute to climate change.

“Ongoing board vigilance is required to keep abreast of the fast evolving business impact of climate change,” said Willis. “Directors are key players in providing the necessary leadership, tone and management oversight in determining how climate change issues are factored into a company’s strategic decisions.”

The publication is available online, along with other CICA products relating to climate change, at www.cica.ca/climate.

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Harmony at the TOP

She once aspired to be a concert pianist. Today MONIQUE LEROUX heads one of the leading financial institutions in Canada

By Yan Barcelo

FROM THE CONCERT STAGE TO THE HEAD OFFICE OF a major Canadian financial institution, Monique Leroux’s journey has seen her successively embrace piano playing, accounting, finance and banking. But when you feel her energy, experience her radiant smile and see a countenance ready to take on the world, no one is surprised to learn that this woman blazed a pioneering trail for herself.

When she took the helm of Desjardins Group (Mouvement Desjardins) in 2008 at age 53, the financial institution occupied a unique position.

Photography by PIERRE CHARBONNEAU
In 2009, British magazine *The Banker* ranked it among its list of top 1,000 banks in the world, placing it 109th according to capital strength. With her appointment, Leroux became the first woman to head Desjardins and the first to head a top 10 financial institution in Canada. Internationally there were three women holding positions as president or CEO, but Leroux was the only one stacking up the top three spots of chair, president and CEO.

Leroux welcomes visitors to her spacious office on the 40th floor of the Desjardins Complex in Montreal, which features a wall of windows with a panoramic view of the St. Lawrence River. One wonders how this gracious woman rose to break through the glass ceiling that hangs over the careers of many women. Leroux says she was fortunate as she didn’t have to spend time or energy worrying about it. “I’ve benefited considerably from people who reached through the ceiling to give me a hand,” she says. “All my mentors have been men and they’ve given me their wholehearted support.”

“I have benefited considerably from people who reached through the ceiling to give me a hand,” says Leroux. “All my mentors have been men and they’ve given me wholehearted support.”

Succeeding in a man’s world must not have been easy, says Réal Brunet, partner in auditing services at Ernst & Young in Montreal. “But she did it through sheer competence, always remaining feminine, but never using feminine wiles. With Monique, what you see is what you get.”

This sentiment is shared by Richard Jacques, general manager of the Ordre des comptables agréés du Québec, where Leroux was president from 1993 to 1994. “My perception of her, which all her colleagues shared, is that she wanted to be one of the boys and treated on an equal footing. She got ahead through competence and dedication.”

**Climbing up curtains**

If anything testifies to Leroux’s competence, it is her election to Desjardins’ presidency. The process, which extends over six weeks, is a gruelling exercise that involves making presentations to the 256 delegates of the overwhelmingly male electoral college, follow-up phone calls to each and a weekly submission of a concise four-page plan. She accomplished all this while assuming the financial stewardship of Desjardins during one of the most challenging years in the institution’s history when markets were in upheaval and the company was experiencing important losses. That she won the round shows her mastery of the issues and her people skills.

Her self-assurance and professionalism have impressed many colleagues. Michel Lanteigne, a retired partner in taxation at E&Y, Leroux’s first employer, recalls a particularly thorny mandate handed to her in Toronto in the late 1980s. One of the firm’s clients, like many other large financial institutions, was experiencing hardships. “Audits were quite difficult and people even questioned the capacity of the institution to survive,” says Lanteigne. E&Y sent in Leroux, a francophone in charge of the client’s audit, to confront the institution’s board, justify her evaluation of its assets and determine its ability to survive. Much was at stake: “If you over-evaluate assets, you mislead readers of the financial statements. If you under-evaluate them, you sign the company’s death warrant. So find the right numbers,” says Lanteigne.

In one exchange with the institution’s bigwigs, Leroux said, “Don’t climb into the curtains!” — a literal translation of the common French Canadian expression “ne grimpez pas dans les rideaux;” idiomatically speaking it means calm down, keep your cool. Meaningless in English, it stunned the group and eventually the phrase “don’t climb into the curtains” became legendary in E&Y’s Montreal offices.

A lesser person might have lost credibility. Not Leroux. “Her propositions helped resolve the institution’s problems and she won everyone’s respect,” says Lanteigne. “That reveals Monique so well, her competence, her energy, her self-assurance. All that at a time, at the end of the 80s, when women’s standing was still not so firmly established.” It’s not only Leroux’s competence, but also her drive that is evident to most. For example, after her election at Desjardins, she took a vacation to Florida. Rather than relaxing and enjoying Miami’s beaches, Leroux took the opportunity to visit a number of Desjardins branches and lined up dinners with executives.

But she is not all business and numbers. Music is Leroux’s first love. Holding a bachelor’s degree from Quebec’s Conservatoire de Musique, she has won many Canadian music competition awards. And her musical training turned out to be a preparation for her accounting and financial career. Her father fell ill and was unable to take care of the small shoe store he owned in Montreal. Her mother was forced to take a job and Leroux also had to put up her shoulder to the wheel, working many hours in the shop and giving concerts at churches and accompanying ballet groups. “To keep our heads above water, we had to maintain seven-day work weeks,” remembers Leroux. Whether it was $10 earned for a musical accompaniment or a few hundred dollars awarded from a competition, everything went into the family budget. “That’s where I learned the importance of finance and it always stayed imprinted on my mind. Each penny counted.”

But it’s without nostalgia or regret that she abandoned a musical path to take up accounting. “She proved her clarity by concluding that, even though she attained a very high level on the
piano, she couldn’t really aspire to a concert career,” says Marc Leroux, her husband and president of Univalor, the University of Montreal’s technology transfer office. However, she still plays the small Kawai grand she and Marc acquired when they married in 1974. The piano, purchased for $4,500, was the only piece of furniture the young couple bought. Everything else — stove, refrigerator, sofa, bed — they picked up here and there for free. “We lived in a very modest apartment, but we had a grand piano,” recalls Marc. And it’s no surprise that Bach, “the most mathematical of the composers,” is Leroux’s favourite.

An unusual accountant
Fresh from accounting studies at Université du Québec à Chicoutimi, Leroux headed to E&Y in 1978, where Brunet, then team manager of auditing, was the first to welcome her. “She didn’t present herself like your regular accountant. She left me with the impression that she was very open-minded,” he remembers. “This was probably the result of her musical studies, which contributed in taking away the typical accountant’s armour.”

Throughout her 17 years at E&Y, Leroux showed initiative, becoming one of the first 10 women to attain partner status in a Big Four firm in Canada. She didn’t hesitate to study taxation to deepen her understanding of auditing. However, this detour proved too staid for her active temperament. To liven things up, she wrote a book on individual taxation.

Later, Leroux took up another challenge by taking on the presidency of the Ordre des comptables agréés du Québec, the first woman to hold this position in the history of the ordre. “There was a prevalent view that the ordre lacked visibility,” says Hugues Laliberté, partner at E&Y. Leroux quickly turned that around by establishing two milestones in the ordre’s history: compulsory CICA exams for accounting graduates (which was opposed by Quebec universities); and addressing federal and Quebec government debts. The ordre occupied centre stage for that year and, Jacques says, “won on both issues.”

Leroux’s presidency at the ordre showcased another quality: her talent as a communicator. “This ability involves more than the simple capacity to be understood,” says Laliberté. “It’s the ability to make her decisions go through, a skill not everyone masters, and her ascension to the head of Desjardins shows that she excels at it. She knows how to win people over by identifying problems and, most of all, formulating solutions.”

From counsel to action
Her years at E&Y laid the groundwork for her next big step: the jump into the action at the Royal Bank of Canada, now part of RBC Financial Group.

This decision was not premeditated in her career plan. “I’ve never designed a career plan for myself,” says Leroux. Instead, it was the influence of a key individual. “Over and above a career plan,” says Leroux, “what has guided me most often is meeting people who have proposed projects, causing me to think that I could contribute in a significant way. That’s a lot more important than a career plan.” In this case the force was Émilien Bolduc, at that time Royal’s CFO and a director. “I recruited her because we were looking for a chief financial executive to replace me,” says Bolduc, now retired. He hired her as senior vice-president of finances, a job that gave her a front row seat to the workings of the financial institution. “That gave her an all-encompassing view of the organization,” he says. “Then, from a spectator we changed her into an actor as vice-president for the Quebec region.” She didn’t know it at the time, but it was grooming her for the job at Desjardins.

At the turn of the millennium, the Royal was shifting its head office to Toronto, a move Leroux would eventually be asked to make. The memory prompts this revealing quote: “It’s important for me to not only sell the service, but to influence the firm in which I work.” But to continue to influence the fate of the bank, she would have been compelled to centre her life in Toronto. However, it was in her native culture that she wanted to continue exerting her influence.

So barely two years later, in 2000, Leroux left the Royal for the position of senior executive vice-president and chief of operations of Quebecor. Thanks to the prompting of another mentor,
Pierre Karl Péladeau, president and CEO of Quebecor, Quebecor Media and Sun Media Corp., Leroux found a challenge that corresponded to her deeper aspirations.

But her stay at Quebecor was short lived. By 2001, she had joined Desjardins as president of Desjardins Financial Corp. and CEO of the personal insurance, general insurance, trust and investment funds subsidiaries. When Desjardins Financial Corp. was dissolved in 2004, she was appointed CFO of Desjardins Group before moving onto the top rung of the ladder in March 2008.

Does the pioneering Leroux intend to revolutionize the co-op? André Chapleau, information and public relations manager at Desjardins, explains her work is the logical follow-up of a project started in 2000. During the reign of Alban D’Amours, Leroux’s predecessor, 11 federations that worked independently were fused together, unifying their strategic direction. “Leroux is spreading this coherence to every level of the company by regrouping it around its largest services,” says Chapleau. That’s why on May 15, 2009, she announced the unification of the institution around four key business sectors: asset management and personal insurance, enterprise services, personal services, and general insurance.

This structural reorganization is no mean feat. In a company with 42,000 employees and assets of $160 billion, it requires a major flattening of the hierarchy from nine levels to five, and the elimination of 900 jobs, including 200 managerial positions.

It takes a firm hand to bring such a project to completion. Some would carry out such a task in an authoritarian fashion, but Leroux prefers a collegial approach. “I believe in representation and team diversity,” she says. “When you have people who all think the same way and who all have the same profile, chances are your decisions will be weaker and less relevant.” And in an environment of representative democracy, such an attitude is called for. “In a regular bank, a structural change like this one could have been thought out and decided by a small group of five or six people. That’s unthinkable at Desjardins.”

Through this substantial transformation, some may think Desjardins is losing its credit union nature to become a bank like any other. Leroux denies this. “You need to be inside to understand Desjardins’ different dimension,” she says. “Our ultimate purpose is not to create return for shareholders but to contribute to the economic well-being of the community and its financial education. That does not exclude performance. The founder, Alphonse Desjardins, mixed performance, capitalization and cooperation. And I believe this way of thinking remains relevant today.”

In fact, Leroux says, “The events of the past five years, during which we’ve witnessed huge transactions built from disproportionate leverage, force us to be more vigilant and they highlight the relevance of the cooperative model.” And what form should this vigilance take? To begin with, she uses a maxim Alphonse Desjardins was fond of: “a preoccupation with savings saves us a lot of preoccupations.” Furthermore, financial institutions have to practise full disclosure not only within their own reporting, but within their clients’ portfolios. And, she adds, “it’s very important for a financial institution to have a clear vision of its perimeter of action, whether for on-balance or off-balance sheet items.” In other words, a bank should take full responsibility for its assets and not try to transfer it through securitization to some investor on the other side of the planet.

If it were up to her, Leroux would reserve a key role for accountants in a revamped financial industry. First, she is convinced she wouldn’t be where she is now if she hadn’t been through this school of apprenticeship. She is also convinced that had accountants been more involved in decision making positions within financial institutions, instead of economists and financial wizards, banks would not have faltered as they did. “Accountants have the advantage of analyzing things by bringing them back to very pragmatic components,” she says.

The alliance at Desjardins between economic action and social mission strikes a deep chord with Leroux. She has steeped herself in the history of the group and has read all the works of Alphonse Desjardins. That’s why, when asked what her life might be like after Desjardins, she sees it unfolding on a continuum with two imperatives: economy and community. “Desjardins is part of a worldwide cooperative movement,” she says. “It opens a lot of possibilities.”

“Our ultimate purpose is not to create return for shareholders but to contribute to the economic well-being of the community and its financial education,” says Leroux
The need to frame action within a social dimension explains why Leroux left the Royal when it was shifting its head office to Toronto. She wanted to stay close to her roots. “The location of head offices constitutes an essential component of any economic locus,” she says. That’s why she deplores the number of Canadian firms now in the hands of strangers who are unable to support their communities. “It’s a major advantage of Desjardins; we are not purchasable!”

But this does not mean she is a protectionist; she just believes parameters are needed to ensure that it’s not the markets-at-all-cost mentality that drives society. “Markets have their role, but democracy and government also have theirs. If we leave our evolution up to the discipline of the market, we will end up with a democratic problem. There will be an insurmountable chasm between firms that are increasingly off-shored and the aspirations of communities they don’t meet anymore,” she says.

For the time being, Leroux has her hands full with her mandate as president. At this apex in her career, is she experienced enough to guide Desjardins to port? Louise Roy, who has served in senior positions in diverse industries including a stint as president and general director of the Montreal Urban Community Transit Corp., believes in her leadership without reservation. “Leroux has great human, political and technical skills, and she can count on a solid network to support her. There isn’t much missing in her formula. In fact, she is as well-equipped as any man to be where she is now.” With one difference; now Leroux is the mentor.

Yan Barcelo is a Montreal-area freelance writer
Mauro Scarsellone, the co-owner of Ontario’s Ridgepoint Wines, cradles a bottle of his prize Nebbiolo, a premium red wine made from grapes that originated in the Piedmont region of Italy, home of the renowned Barolo wines. “It’s a question of art versus accounting. I could sell this 700 times over and generate much-needed cash flow. But the Nebbiolos in my cellar need to age longer. The CA in me wants to get the money now but the winemaker in me says no, not yet. Better to wait.” The son of Italian immigrants who left the old country

Photography by PAUL ORENSTEIN

Mauro Scarsellone and his wife, Lucy, at their vineyard in the winemaking area of the Niagara region
at a young age to get away from a life of toiling in the soil, the Canadian-born Scarsellone nevertheless grew up with a sense that winemaking was a natural thing to do. “My family in Italy always had an olive grove and a little vineyard,” he says, a tradition his grandparents in particular continued in Canada. “Every year I would help them make wine, enough for their personal use.”

Strongly encouraged by his parents to become a white-collar professional, Scarsellone obtained his CA in 1987 and joined PricewaterhouseCoopers in Toronto as a staff accountant, later becoming an audit manager. One day in 1995, a visit to a PwC client in the St. Catharines, Ont., area, about an hour’s drive south of Toronto, brought him to the winemaking region of the Niagara Escarpment, a massive ridge of fossil-rich sedimentary rock that spans some 725 kilometres. “I wasn’t intending to get into wine,” he says. “It may sound stupid, but a hidden gene went off inside me that day.” A short time later, he and his wife, Lucy, along with his sister Anna Gottardo and her husband, David, purchased a 20-acre property perched atop the escarpment and christened it Ridgepoint, due to its location. His parents were not impressed. “They said, ‘We left Italy to get out of farming. What the hell are you doing getting into it?’”

Scarsellone continued at PwC for the next seven years while he and his partners slowly developed their new venture. He left accounting in 2002 to devote all his energies to the winery, which officially opened that year. Like the other CAs in this story who departed the profession to pursue a career in the wine industry, the 45-year-old has found tremendous personal satisfaction in his new endeavour and a lot of challenges. “It’s an incredible amount of work,” he says, “and you’re constantly battling elements that you can’t control, especially the weather. We didn’t produce any Nebbiolo in 2003 because the crop was wiped out by frost.”

Balancing the books is a constant concern. Neither he nor Gottardo, who runs the restaurant side of the business, has taken a salary in the seven years since they opened Ridgepoint. “We’ve reinvested everything back into the business,” he says, “particularly for winemaking equipment, which is very expensive.” Being a CA, he says, has made his foray into winemaking much
easier. “There are a lot of business decisions, such as pricing and full costing versus variable costing, that are much easier to make because I have a CA background.”

The accountant in him was also tested when he had to decide whether to purchase French oak barrels for his wine, at a cost of about $1,000 a barrel, or American oak barrels, at half the cost. “French oak creates a slightly nicer, more refined flavour. It makes a nicer wine,” he admits. “But in buying them I wouldn't have been able to keep the price per bottle at a range where people feel comfortable paying. Maybe a few drinkers can tell what kind of oak was used to age the wine, but I didn't think enough of them could to justify the higher cost.”

His winery has won numerous awards in the past few years, a result, he believes, of his insistence on using European grapes instead of the Niagara and Concord varieties that he inherited upon buying the winery. “I remember when I was growing up my grandfather would say that Niagara and Concord are the most awful grapes for growing wine,” he says. “He had tried using them and said the wine was the most awful stuff.” When Scarsellone told his father Ridgepoint would grow European varieties of grapes his dad predicted they would never grow in southern Ontario. But Ridgepoint is blessed or cursed (depending on your point of view) with clay soil, unlike the sandier type that predominates in nearby plots of land. “There's an old world adage that the more difficult the soil the better the wine,” says
Scarsellone laughingly recalls a saying many in the wine business like to recite: “If you want to make a small fortune making wine, start with a large fortune.” What allows him to survive is the steady income brought in by his wife, a CA as well.

Scarsellone. “It’s harder to grow grapes in clay because it’s a heavy soil. But the vines tend to work harder to ripen, which benefits the fruit. It’s like athletes. The harder they train the better they perform.”

Ridgepoint has performed well but it’s still not a big moneymaker. As Scarsellone ponders the financial rewards of running a winery, compared to the steady income he generated as an audit manager, he laughingly recalls a saying that many in the wine business like to recite: “If you want to make a small fortune making wine, start with a large fortune.” What allows Scarsellone to survive is the steady income brought into the family by his wife, a CA who works as a business manager of finance for Cisco Systems Canada Co. “Thank God for her,” he says. “Somebody in the family has to have a stable income!”

The Scarsellones are not the only husband-and-wife CA team to have combined their resources to make a financial go of it in the Canadian winemaking business. Gary Reynolds, 54, obtained his CA in 1993, at age 38, after having dabbled in several careers, including some in which he gained retail experience. For almost the next 10 years he applied his accounting expertise to help turn around the continuing education division of the Edmonton public school board, which was struggling financially. At the same time his wife, Tracey Ball, FCA, was establishing herself at the Canadian Western Bank in Edmonton, where she serves as its senior executive vice-president and CFO.

The two had always shared a love of wine and had been members of a wine club when they lived in Vancouver before moving to Edmonton in 1988. On Victoria Day weekend in 2001, they were scouting for a small summer property in BC’s Okanagan Valley, which they hoped would be large enough to allow them to have a small personal vineyard. For a lark, their companions, Drew and Barbara MacIntyre, suggested they stop at Lake Breeze Vineyards, which was up for sale. Situated on the Naramata Bench in the south central part of the valley on Okanagan Lake, the 17-acre vineyard, which was bathed in sunlight that afternoon, made an irresistible impression on all of them. At dinner that weekend, the four decided to buy the business, which Gary would run (his wife retained her job in Edmonton, and travels to the Okanagan as much as she can; Barbara MacIntyre, CA, is a homemaker, while Drew MacIntyre is vice-chair of investment banking for TD Securities in Calgary). As the winery’s website says, “The owners of Lake Breeze are a bunch of financial folks — bankers and CAs.”

Lake Breeze Vineyards had been operating since 1996 but not particularly well. One reason was that the previous owner had little interest in developing the retail wine shop that so many small wineries rely on for a significant portion of their income. Another was its overwhelming reliance on white wine, which...
customers tend to buy in small amounts, unlike red, which is more often purchased by the case. Reynolds was confident he could rectify those problems.

“With my small business, retail and accounting background, I felt I could fill in all kinds of blanks,” he says. “The only thing I couldn’t do was make wine, but I had a great winemaker who could do that.” Although owned by four people with extensive financial experience, Reynolds admits that even though they “crunched the numbers, we sure got a lot of surprises down the road concerning cash flow and requirements for capital injections. Even with our so-called smarts, we discovered this was a different business with a lot of different timing issues and cash-flow challenges. One example is purchasing grapes. You have to buy a lot of them and you’re not going to make a dollar back from that purchase for at least six months and in a lot of cases at least 24 months.”

For the first couple of years, Lake Breeze was “almost under water,” says Reynolds, and the first six were “very tough.” But through trial and error and a lot of study, he began to see positive results. “Being a CA really helped because it requires you to be very organized and to plan and strategize, which you have to do in the wine business. And being comfortable with the taxes and the accounting itself made a big difference.”

Under Reynolds’ stewardship, Lake Breeze has been the winner of numerous awards for its reds and especially its whites. In 2006, the Calgary Herald proclaimed, “Lake Breeze is slowly but surely gaining a reputation as one of the Okanagan Valley’s premium producers of white wine.” Now producing about 9,000 cases in total each year, Lake Breeze had a breakthrough year in 2008, when it was named one of the top 20 wineries by the prestigious Wine Access Canadian Wine Awards. Says Reynolds, “We are a small winery but we’ve focused on quality and value and it’s now starting to pay off.”

About two kilometres north of Lake Breeze, another accountant sits at the helm of a small winery. In this case it’s 59-year-old Bob Ferguson, who obtained his CA in 1979. While working at Dyke & Howard in Vancouver (now D&H Group LLP) he met Tim Watts, a geologist, when they began dating two sisters in 1980. The men shared a passion not just for the sisters, whom they married, but also for wine, which they began to make together. In 1986 the now brothers-in-law bought land on the Naramata Bench and planted some vines. By 1990 they had acquired two other parcels of land. Two years after that Ferguson left accounting in order to begin making wine commercially with Watts. In 1996 they opened their winery, named after the Kettle Valley Railway that had serviced the region from 1915 to 1989.

As Ferguson and Watts evolved their hobby into a business, they too learned it was a very capital-intensive undertaking that required a lot of hard work. “Tim is the geologist so he understands the earth sciences and the soil,” says Ferguson, “while I had the CA background to let us know we should have never been doing this,” he jokes.
While Lake Breeze leaned more on its white wines, Kettle Valley Winery became best known for its reds, such as Pinot Noir, Merlot and Cabernet Sauvignon. Named BC Winery of the Year 2009 by Wine Press Northwest, Kettle Valley produces most of its wines in extremely small lots, often generating just a barrel of wine from one of its vineyards, which results in just 25 cases of a Cabernet Sauvignon, for example. “Virtually everything we do is in small lots,” Ferguson told Wine Press. “We keep each vineyard and variety separate throughout the process and try to release wine as vineyard-designated products. It’s a lot of fun to work that way.” According to the publication, “selling the wine is never a problem, as the winery has gained near-cult status in British Columbia and beyond. The vast majority of the wine is sold to restaurants, primarily in Vancouver, Whistler, Tofino and Victoria.”

The success of Lake Breeze, Kettle Valley and numerous other wineries in the Okanagan Valley has a lot to do with the climate (it’s one of the warmest parts of Canada) and soil of the region. It averages 2,000 hours of sunshine annually, which combined with moderate temperatures and cooling breezes makes it an ideal area for growing grapes. The rolling hills are blessed with variable soil types that an experienced grape grower, especially a geologist like Watts, can exploit to produce numerous different wines, 29 in the case of Kettle Valley. These natural advantages have also caused the price of the land to skyrocket. “When we started an acre cost about $10,000,” says Ferguson. “Now it’s probably $200,000 to $250,000.”

While Scarsellone, Reynolds and Ferguson have all applied their CA backgrounds to making their wine businesses prosper, wine writer Michael Botner found in wine a passion that his profession had not provided him. Botner achieved his CA designation in 1972 and spent most of his career working for Public Works and Government Services Canada in Ottawa, until he took early retirement in 2003 and moved to BC. “I don’t think I was terribly compatible with some aspects of the day-to-day work of a CA,” he says.

Nevertheless, the 64-year-old named his bed and breakfast Accounting for Taste, which he runs with his wife, Rosemary, in Kelowna, BC. His three-room operation is also located in the Okanagan Valley, and it too looks out on the lake. In addition to running the seasonal business, Botner offers guided tours of the wine area, known as Napa North, which has more than 90 wineries, including at least a dozen in Kelowna.

Self-taught in the nuances of wine, Botner began writing about his passion in 1979 for the now-defunct Ottawa Review. That launched a successful freelance writing career that saw him, among numerous achievements, found the sommelier program at Algonquin College in Ottawa, at which he also taught. He also organized and chaired the Cellars of the World, an international wine competition in the nation’s capital, for 20 years.

Although Botner doesn’t directly con-
Winemakers have to spend too much time and energy fighting the government bureaucracy that controls the sale and distribution of alcoholic spirits. “I thought the Handbook was tough to follow. It’s nothing compared to the rules for this industry.”

Botner plans on writing a book about the wineries in the Okanagan Valley. When he does it will surely include a chapter on the local climate, which seems ideal for making wine. Southern Ontario, where Scarsellone is based, is not as fortunate. If not for the Niagara Escarpment, it’s likely the wine industry would not exist there at all. “The escarpment is basically a barrier that recirculates the warm winds that come in off the lake [Ontario],” he says. “It acts like a convection oven.” Because his winery sits on top of the ridge, it benefits from a more temperate climate than some of his nearby neighbours. “You go a kilometre further south and you can’t grow the grapes we do here,” he says, referring to the European varieties he favours. “If someone had told me that when I first started I would have said, ‘you’ve got to be kidding.’”

Nonetheless, he is constantly fighting the weather, and has installed a 30-foot-high wind machine powered by a V-10 motor. “On really cold nights it moves the air around and covers an area of about 10 acres,” he says. “We monitor temperatures around here like a woman trying to get pregnant.”

As with all the CA winemakers, Scarsellone has to spend too much precious time and energy fighting the government bureaucracy that controls the sale and distribution of alcoholic spirits. “I thought the Handbook was tough to follow,” he says. “It’s nothing compared to the rules for this industry.”
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*In Quebec, government regulations prohibit professionals from describing themselves as specialists. The Quebec Branch of Chartered Accountants has initiated discussions with the government to amend these regulations.*
an example, he notes that it took him three years and thousands of dollars in legal fees to get permission to open a restaurant and serve wine at his winery.

It’s hard for bottles from a small winery such as Ridgepoint to gain access to the biggest marketplace in the province, the stores run by the Liquor Control Board of Ontario. “The LCBO can’t make as much profit off Ontario wines as it can from imports,” says Konrad Ejbich, a wine expert and author of A Pocket Guide to Ontario Wines, Wineries, Vineyards, & Vines, who rated Ridgepoint’s Nebbiolo, “an admirable wine” in his book. “The LCBO is all about profit and corporate thinking,” he says, “not like in BC, where the liquor board has supported the industry.”

Scarsellone points to the recent Fuzion craze in Ontario as an example of what he and his colleagues have to contend with. Made in Argentina, Fuzion’s Shiraz-Malbec blend retails for $7.45 a bottle. It has evaporated off the shelves. “The supplier would generally be getting about 40% back per bottle,” he says. “Even if we retalied one of our bottles at $10 to compete (his wines are generally in the $15 to $20 range), we couldn’t pay for the bottle and cork and packaging for $4. How does Fuzion do it? Because they’re being subsidized by the [Argentinian] government. There’s no other answer.”

Another obstacle Scarsellone and his fellow boutique wineries in Ontario face is a cold shoulder from many restaurants. “In BC, restaurants carry BC wines,” says Ejbich, unlike in Ontario, where that is the exception rather than the rule. Reynolds agrees that wine drinkers in his province are very supportive of the local vintages: “In the past three to five years it’s been hard to find a good restaurant in BC without BC wines on the menu. A lot serve only BC wines.” Ferguson attributes this to a grassroots influence. “The people in BC got behind the wine industry more than the restaurants did,” he says. “That’s what drove the restaurants to come on board.”

Despite the hard work, low profit margins and bureaucratic frustrations — “I often say there’s more politics in wine than there is in politics,” laughs Ferguson — all the CAs who have embraced this new career call it a passion, one that fulfills them deeply.

Reynolds wants to encourage others who might have a passion on their radar screen. “If you have the stuff to be a CA then you can do pretty well anything you are interested in. All too many of us get in a comfort zone and stay there. So my message is to go after that passion.”

Ferguson says it’s because of his chartered accountant training that he was able to take a chance with Kettle Valley. “I probably wouldn’t have done it if I didn’t have that business background.” He also thinks that the risk wasn’t really that great. “The worst thing that could have happened was that I failed and would have had to go back to the accounting business. So there was no downside. I just replaced one thing I loved with another that I loved.”

Paul McLaughlin is a Toronto writer
To settle or not to settle?

There’s some question whether settlement agreements are binding on the taxpayer and the CRA and if they’re worth it.

Most tax disputes settle long before reaching the courthouse steps and settlement agreements are often negotiated by experienced tax counsel. Despite this, the courts have generally held that such settlement agreements bind neither the Crown nor the taxpayer.

This contentious issue was recently revisited in Cummings v. The Queen (2009 DTC 1178), in which the Tax Court of Canada considered the operation of a limitation period where the Canada Revenue Agency (CRA) and the taxpayer had reached a settlement in a high-profile tax shelter case.

The facts were relatively simple, but the nuances of the assessing requirements under the Income Tax Act were somewhat labyrinthine.

The taxpayer owned units in Norfolk Partnership, a tax-shelter limited partnership involved in film and television show productions with other limited partnerships including Sentinel Hill Alliance Equicap Millennium Ltd. Partnership (Associated Partnerships).

For the tax year ended December 31, 2000, the taxpayer was allocated a proportionate share of Norfolk’s partnership losses. The CRA audited Norfolk and the Associated Partnerships, the result of which was settlement discussions in respect of the CRA’s proposed adjustments. In a letter dated March 31, 2004, the CRA proposed a settlement that stated, generally, that the CRA would assess Norfolk and the Associated Partnerships, and that the partnerships wouldn’t object to such determinations.

The settlement was accepted by Norfolk on March 31, 2004. The same day, the CRA issued to Norfolk a Notice of Determination for the 2000 and 2004 taxation years.
There was some back and forth between the CRA and Norfolk and Associated Partnerships in respect of a small error in the expenses allowed to Norfolk. The CRA later made adjustments to correct the error, the propriety of which was accepted by the court. Nonetheless, on June 24, 2004, Norfolk filed a Notice of Objection to the March 31 determination. The objection was subsequently withdrawn on November 10, 2004. However, the CRA confirmed the determination on November 26, 2004.

On August 22, 2005, the CRA issued Notices of Reassessment to the taxpayer, as a Norfolk partner, in respect of the 2000 and 2004 taxation years in order to give effect to the March 31, 2004, determination for Norfolk. Subsequently, the Minister confirmed and the taxpayer appealed to the tax court (the 2004 appeal was later withdrawn).

In court, the taxpayer argued that it understood the settlement agreement to have required the CRA to assess Norfolk in a certain manner, and that Norfolk’s objection and appeal rights had been irrevocably waived by such agreement. Thus the CRA was required to assess Norfolk’s partners within one year of the date of the settlement agreement. This did not happen, and the CRA’s assessment of the partners was statute-barred.

In response the Crown argued that, under the settlement agreement, Norfolk had not waived its rights to object or appeal because the waiver was conditional on the issuance of a determination consistent with the terms of the settlement letter. Further, since Norfolk had filed a Notice of Objection to the determination, the one-year period limitation on the assessment of Norfolk’s partners did not start to run until after the November 26, 2004, confirmation. Accordingly, the August 2005 reassessments of the taxpayer were not statute-barred.

The tax court agreed with the Crown and stated that, despite the taxpayer’s understanding of the effect of the settlement agreement, such agreement did not extinguish Norfolk’s right to object or appeal the CRA’s determination. Generally, the limitation period for assessing Norfolk’s partners ran from the date of the Minister’s confirmation and thus the assessment was not statute-barred.

When considering the nature of the settlement agreement, the tax court stated that the terms of a settlement agreement do not bind the Minister, who is under a statutory obligation to assess tax in accordance with the facts and the law (Cohen v. The Queen, 80 DTC 6250 [Fed. C.A.]), and neither is the taxpayer bound by such an agreement (Consolotex v. The Queen, 97 DTC 724 [T.C.C.]).

This was clearly a case where the taxpayer and the CRA had diametrically opposed views of the consequence of the settlement agreement. In the view of the taxpayer, the CRA assessed it in a manner that directly conflicted with the terms of the agreement. The court’s support of the CRA’s position raises a number of issues in respect of the interpretation and implementation of settlement agreements.

The tax court may have made a distinction without a difference when it stated that the settlement letter did not have the effect of extinguishing or determining Norfolk’s objection and appeal rights. This is because the determination was, in fact, issued the same day the settlement was reached. There were some discussions in respect of the CRA’s calculations, but it did not appear that the CRA’s determination for Norfolk was not in accordance with the terms of the settlement agreement. If so, it would seem Norfolk’s objection and appeal rights would have been conclusively determined as of the date of the issuance of the determination.

Additionally, the tax act specifically contemplates the rights that remain after a taxpayer has waived his or her objection or appeal rights in writing. Subsection 165(1.2) states that a taxpayer may not object in respect of an issue for which the right of objection has been waived in writing. Subsection 169(2.2) states that a taxpayer may not appeal to the tax court in respect of an issue for which the right of objection or appeal has been waived in writing. These subsections were not referred to in the court’s decision.

Further, there are a number of additional authorities that bear upon the nature of and rights under settlement agreements that were not considered by the court in Cummings.

Under the act, the Minister may settle a dispute only on a "principled" basis (i.e., in accordance with the provisions of the act). In Galway v. The Queen (74 D.T.C. 6355 [Fed. C.A.]), the Federal Court of Appeal stated that the Minister must assess on the facts and in accordance with the law and not on the basis of a compromise settlement. In Cohen v. The Queen, supra, the Federal Court of Appeal stated that a compromise agreement would not bind the Minister and would not prevent him from assessing tax in accordance with the requirements of the act, as he has an obligation to do.

This is the line of cases that captured the attention of the tax court in Cummings. However, there are conflicting authorities on this issue. In Smerchanski v. The Queen (76 DTC 6247 [S.C.C.]), the Supreme Court of Canada considered a situation where the Crown had dropped a threatened criminal prosecution for tax evasion in exchange for the taxpayer’s waiver of his appeal rights. The court stated, “There is no doubt of the enforceability of compromise agreements on liability for disputed debt as an escape from litigation, absent vitiating circumstances.”

The decisions in Smerchanski and Cohen have been called “not readily reconcilable” (Mindszenthy v. The Queen, [1993] 1 C.T.C. 2648 [T.C.C.]) and “inconsistent” (Consolotex, supra) and the Federal Court of Appeal has noted this conflict and suggested that a future court revisit the jurisprudence (Enterac Property Corp. v. The Queen, 98 DTC 6202 [Fed. C.A.]).

Subsequent decisions have not reconciled these cases. In Garber v. The Queen (2005 DTC 1456 [T.C.C.], aff’d 2006 DTC 6358 [Fed. C.A.]), the court stated that the Minister had the author-
ity to repudiate a negotiated agreement and that such agreements bound neither party. In *Oberoi v. The Queen* (2006 DTC 3110 [T.C.C.]), the tax court relied only on the holding in Smarchanski in dismissing the taxpayer’s motion to annul an out-of-court settlement.

What would have been the result in *Cummings* had the court stated its views on the Smarchanski and Oberoi line of cases?

In any event, practitioners and even the tax court have noted the importance of early settlement of tax disputes (see *Tax Court of Canada, Practice Note No. 10 “Settlements”* [23 July 1997]). A 1998 report of the Department of Finance recommended that settlement of disputes regarding taxpayers’ liability for tax be further encouraged by introducing a legislative mechanism that would authorize the CRA, in appropriate circumstances, to enter into compromise arrangements on the basis of “risks of litigation” (Report of the Technical Committee on Business Taxation, 1998).

Compromise settlements are available under the taxing legislation in the US (26 U.S.C. § 7121 and 7122) and United Kingdom (Taxes Management Act, 1970, s. 54). Such settlements are also possible under the Ontario Corporations Tax Act (R.S.O. 1990, c. C-40), which states that, where a tax dispute arises, the Minister of Revenue “may accept such amount as he or she deems proper.”

Such uncertainty regarding negotiated settlements in Canadian federal tax reminds one of the occasional problems that arise in respect of the CRA’s position on the binding nature of Advance Tax Rulings. For example, recall that the CRA has previously taken the position in the tax court that it is not bound by its Advance Tax Rulings (see *Sentinel Hill Productions (1999) Corporation v. The Queen*, 2008 DTC 2544). It is difficult to see how the continued uncertainty around settlement agreements and Advance Tax Rulings contributes to an efficient and reliable system of taxation in Canada.

Nonetheless, the current law is that the CRA is bound to assess in accordance with the act regardless of the terms of a settlement. The result is that taxpayers — as in the current case — must expect a significantly high risk that a carefully negotiated settlement with the CRA can be torn to shreds and thrown out by the Crown at any time. Until the case law is reconciled or the act is amended to include a provision that authorizes the Minister to settle on a proper rather than principled basis, taxpayers should be prepared to dodge the sharp side of a double-edged sword.

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Benefits of a designation

A study on the economic role of the CFA charter indicates that it might in cases provide a critical difference.

Why get a professional designation? There are two schools of thought on the role of education and certification. The human-capital theory represents the traditional view of education in which people improve their skills as a result of the knowledge they directly acquire during their educational program. The signaling view of education characterizes a situation in which talented individuals cannot directly prove their worth to potential employers. Instead, these talented people obtain educational credentials, such as a degree from a prestigious university or a hard-to-obtain designation, which requires a certain level of talent, time and effort to enter and complete. Employers observe the educational signal and then hire the more talented employees. In this theory, it is not necessary that you learn anything, only that the educational credential is correlated with your ability.

Given this educational context and an interest in sell-side analysts, an empirical experiment about the chartered financial analyst (CFA) designation was conducted. Our purpose was to determine whether sell-side equity analysts with a CFA charter actually perform better than analysts without one. If so, which theory of education helps to explain the differential performance? Rich and publicly available data on equity analysts, the characteristics of their annual earnings forecasts and whether they hold a CFA designation makes such an investigation possible. The sidebar on page 41 provides an overview of our research design, including data, measures and method.

CFA designation

Investment professionals, broadly defined to include analysts, investment managers, financial executives and accountants, can join the CFA Institute. Passing a series of examinations, along with meeting other criteria, earns them a CFA designation. Demand for the CFA designation continues to grow. According to the CFA Institute, the number of charterholders rose to more than 82,000 charterholders by 2008 as compared with 10,000 charterholders in 1990. These charterholders work in 134 countries and territories. Tens of thousands of candidates will take the CFA examination this year. Clearly CFA charterholders and candidates exercise significant influence on the global capital markets as well as the financial decisions of corporations. US regulators have even awarded special status to charterholders. (For more information on the CFA designation please go to www.cfainstitute.org.)

Finding #1: analysts with a CFA designation perform better

We find evidence that charterholders issue earnings forecasts that typically run ahead of the other analysts that cover the same firm (i.e., timelier forecasts). Charterholders also tend to issue forecasts that deviate more from the...
consensus view of other analysts (i.e., bolder forecasts) and that are less optimistic than other analysts. But we also find that CFA charterholders are average in terms of their forecasting accuracy — perhaps because other analysts have the advantage of observing the forecasts issued by CFA charterholders before developing their own.

The economic significance of these differences, however, is modest. Our very large sample allows us to document a difference in performance in a statistical sense. Actual performance-measure differences are in the range of 4% or less. This result is interesting because of the significant effort that people exert to become charterholders. This relative lack of economic significance could simply be because analysts acquire the CFA designation to address a relative deficiency with respect to other analysts. Non-charterholders could have acquired similar skills via MBA or CA or CPA training. Non-charterholders could also have unique and relevant experience in particular industries. For example, some analysts hold degrees such as a PhD or MD; others have industry work experience or a large network of industry contacts.

The fact that analysts with a CFA designation perform better is consistent with both the human capital and signaling theories of education. To disentangle the effects associated with each of the two theories we turn to the next two tests.

Finding #2: analysts with a CFA designation perform better even before they obtain their CFA charter

For a subset of our charterholders, we can determine when they became charterholders and hence measure their performance in the period prior to obtaining their CFA designation. In this pre-CFA period, we find that the forecasts of future charterholders are timelier and bolder than a carefully matched group of non-charterholder forecasts. This result is consistent with the signaling theory of education. More talented analysts decide to obtain the CFA designation, consistent with their desire to signal their ability.

Finding #3: analysts with a CFA designation perform better after they get their CFA charter

For the same subset of charterholders, we measure the change in performance from before to after they obtain their CFA designation. We find that charterholders improve the timeliness of their forecasts during this period. This result provides support for the human-capital view of education. In our setting, charterholders acquire additional financial knowledge and skills via the CFA program, which in turn leads to improved forecasting performance.

Finding #4: investors respond more strongly to forecasts issued by analysts with a CFA designation

We find that when charterholders revise their earnings forecasts, equity prices of those stocks tend to rise more than when non-charterholders revise forecasts upward. Similarly, with downward forecast revisions, the equity returns are more negative for charterholders. In other words, the market reacts more strongly to forecasts issued by charterholders. This result is consistent with credentialism, a variant of signaling theory. Instead of employers using the CFA designation as a signal, the real value of the designation is to let potential client investors know the quality of the analyst. It is not easy for investors to figure out which analysts are better than others. Since CFA certification is consistent with both the human capital and signaling theories of education. More talented analysts decide to obtain the CFA designation, consistent with their desire to signal their ability.

Research design

DATA

The sample includes 798,272 annual forecasts for 4,920 firms issued by 909 charterholder and 2,794 non-charterholder analysts. The period studied ranges from January 1, 1999, to December 31, 2005. Detailed information on analysts’ forecasts is from I/B/E/S. Charterholders are identified by the letters CFA after their names on their reports (from Investext).

MEASURES

We have four performance measures. First, analysts’ timeliness, which follows the work of Cooper et al., is based on the pattern of forecasts surrounding the forecast of interest. The intuition is that a timelier analyst will be ahead of the pack, interpreting the news more quickly than other analysts. A less timely analyst will be at the back of the pack, either reacting to the earnings forecasts of other analysts or interpreting the same news that other analysts interpret but at a slower rate. Second, analyst forecast accuracy is the absolute value of the difference between an analyst’s forecast and the actual earnings number reported by the firm. The more the analyst’s forecast misses the mark (in either a positive or negative direction), the less accurate we consider the forecast. Third, we measure the optimistic bias in analysts’ forecasts. For example, an analyst who issues a forecast that is 10¢ above the reported earnings number is optimistic and relatively more optimistic than a miss of 5¢ above the reported number. Optimism is important because analysts are notorious for issuing positive comments. Fourth, the greater the degree to which an analyst’s forecast revision deviates from the current forecasts of analysts, the bolder the forecast. Analysts take a risk by deviating from the consensus view; however, investors may appreciate this more, particularly if the analyst is correct.

METHOD

In addition to multivariate regressions, we also use a matched-pair design in which we directly match charter-holder and non-charterholder forecasts for the same firm, the same forecast period, and the same day. Less-skilled analysts can simply wait a day and mimic the forecasts of more skilled analysts, so matching the day of the forecast is important.
is based on standardized tests administered by one organization, the CFA designation is an objective signal. The highly visible placement of the letters CFA following the analyst’s name in reports to investors is consistent with charterholders’ desire to advertise this trait.

Concluding comments and discussion

Our study provides empirical evidence that analysts with a CFA designation perform better than other analysts, at least in part. The results are consistent with analysts being more talented to begin with and then further improving as they progress through the CFA program. Hence our results support both human-capital and signaling theories of education. Would we expect to find similar effects in other investment occupations? There is no obvious reason why we shouldn’t. The CFA designation is available to individuals in a variety of financial roles.

The real benefit of a designation is a way for professionals to signal their skills to employers and clients. This benefit will be much greater for professionals who operate in fields in which their output is intangible or private. When a client has no idea whom to appoint, having a designation may be the critical difference.

References:

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Lightening the load

PAEs with rate-regulating activities are invited to participate in the development of a standard that will affect them.

The impending move to IFRS for Canadian publicly accountable enterprises (PAEs) poses a particular challenge for entities with rate-regulated activities. The IASB has recently issued an exposure draft that will lighten the load. Rate-regulated activities require special attention in the run-up to 2011 and the IASB's proposals are helping to steer first-time adopters in this sector in the right direction.

In some industries, the capital costs to a supplier or service provider of entering the market are so high that they can prohibit competition and act to create a natural monopoly. When this is the case in industries providing essential public services, governments have traditionally instituted rate regulation. Rate regulation acts as a substitute for competition by restricting the prices that can be charged to customers for products or services. Examples of entities often subject to rate regulation are electric utilities, gas distribution utilities, pipelines, telecommunication companies and transportation companies. The objective of rate regulation is twofold: to protect consumers from exploitation by those in a monopoly position and to ensure the continued viability of entities providing the regulated product or service. In Canada, the authority responsible for regulating the rates charged for a particular product or service might be an agency established by the federal or provincial government or the government itself.

Rate regulation can affect the way a company accounts for its events and transactions. This fact has long been recognized by standard-setters in North America. Since 1982, the US Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71), has been the principal source of guidance on accounting and financial reporting requirements for US entities with rate-regulated activities. SFAS 71 requires such entities meeting specified criteria to defer the recognition of a cost as an expense (when GAAP would otherwise require immediate expense recognition) or to recognize an obligation (when one would not otherwise be recognized under GAAP) when it is probable that there will be a corresponding increase or decrease in future revenue because of the action of a rate regulator. The resulting general purpose financial statement items are often called "regulatory" assets and liabilities. The CICA Handbook – Accounting does not currently contain a corresponding standard. However, a number of sections address the application of their requirements to rate-regulated activities and produce the same result in each area as
would be obtained by applying SFAS 71. For example, Property, Plant and Equipment, Section 3061, permits the capitalization of carrying costs directly attributable to the acquisition, construction or development of property, plant and equipment over time. It specifies that in the case of rate-regulated items, these carrying costs include the regulator-approved allowance for funds used during construction (AFUDC), which is the amount that an entity with rate-regulated activities is allowed to earn to recover its cost of financing assets under construction. It is included in the cost of the related assets for rate-making purposes and recovered in future periods through the depreciation charge. AFUDC usually includes an interest component and also a designated cost of equity funds. As a result, carrying costs capitalized by entities with rate-regulated activities generally exceed those capitalized in similar circumstances by other entities. The excess is a regulatory asset that, for general financial reporting purposes, is also typically included in the cost of the item of property, plant and equipment to which it relates.

But what will happen after January 1, 2011, when Canadian entities with rate-regulated activities that meet the AcSB’s definition of a PAE will begin reporting in accordance with IFRS? Will PAEs continue their current accounting practices or will they be required to write off regulatory assets and liabilities now on their balance sheets and adopt new accounting policies? If the latter, how will they deal with the requirement to apply IFRS retrospectively at the date of transition? Until recently, the answers have been far from clear. Unlike Canadian and US GAAP, IFRS is silent on rate-regulated activities. It is well understood that after the changeover to IFRS, Canadian PAEs with rate-regulated activities must apply existing IFRS, including the “Framework for the Preparation and Presentation of Financial Statements.” What has been unclear is whether regulatory items that have been recognized to date will qualify for recognition as assets and liabilities under IFRS and, if so, which IFRSs apply.

The IASB recognizes the importance of this issue for countries such as Canada whose national GAAP permits or requires the recognition of regulatory assets and liabilities and that are about to converge with IFRS. In order to resolve the issue, the IASB added a project on rate-regulated activities to its agenda in December 2008. The expected end-product is a new IFRS that defines regulatory assets and liabilities, sets out criteria for their recognition, specifies how they should be measured and requires disclosures about their financial effects. The project is on a fast track. In July, the IASB published an exposure draft of its proposals. The following describes the main features of the proposed standard and its effects relative to existing Canadian GAAP.

Core principle
The IASB proposes to require an entity to recognize the effects of rate regulation on its financial statements when it has operating activities subject to cost-of-service regulation. The articulation of such a core principle for rate-regulated activities would be an improvement to the piecemeal approach taken thus far to this subject by Canadian GAAP. This approach has sometimes forced entities with rate-regulated activities to analogize from the few sections explicitly addressing their circumstances or look to Financial Statement Concepts, Section 1000, or US GAAP for guidance.

Scope
The new IFRS would apply to regulated operating activities when a regulator is empowered to set binding rates and the entity is subject to a cost-of-service form of regulation. Such regulation is based on a cause-and-effect relationship between the entity’s costs and its future revenue cash flows that the IASB considers key to the existence of an asset. As stated in the Basis for Conclusions accompanying the exposure draft, “The regulator’s action promising the recovery of a cost creates a future economic benefit, which is the critical feature in the definition of an asset.” The exposure draft includes indicators of cost-of-service regulation to help entities determine whether they meet this criterion.

Recognition
An entity with operations meeting the scope criteria would automatically qualify to recognize regulatory assets and liabilities.

The new IFRS would apply to regulated operating activities when a regulator can set binding rates and the entity is subject to a cost-of-service form of regulation

provided it has the right to increase, or the obligation to decrease, rates in future periods as a result of a regulator’s actions. Unlike current Canadian and US GAAP, the IASB is not proposing an additional recognition criterion based on the degree of assurance that rates intended to recover costs can be charged to and recovered from customers. Instead, recoverability would be considered when measuring the regulatory asset or liability. The effect of the proposed standard is that in many cases regulatory assets and liabilities entities have recognized in accordance with Canadian GAAP will qualify for recognition after the move to IFRS, provided an entity’s regulated operating activities meet the proposed scope criteria.

The exposure draft makes clear that an entity would first apply all other IFRSs and then the proposed standard. As a result, any regulatory assets and liabilities recognized would be in addition to the assets and liabilities recognized as a result of other IFRSs.

Measurement
The exposure draft proposes that regulatory assets and liabilities be measured at their expected present value both on initial recognition and at the end of each subsequent reporting period. The proposed standard sets out the components of an expected present value measurement, including the interest rates used to discount estimated cash flows. Also, it requires an entity to include all the amounts included by the regulator for rate-making purposes in the cost of self-constructed property, plant and equipment or...
internally generated intangible assets used in regulated activities. Measuring regulatory assets and liabilities at the estimated probability-weighted average of the present value of expected cash flows would be a significant change for Canadian entities. In the absence of explicit Handbook guidance in this area, they have typically recognized the entire regulatory amount initially as if it were certain, and amortized or depreciated it over the period specified by the regulator for rate-making purposes.

Testing for impairment
Unlike current Canadian GAAP, the proposed IFRS would provide specific guidance on assessing the recoverability of regulatory assets. As stated in the exposure draft, rates set at levels accommodating the recovery of a variety of specific costs may affect the demand for an entity’s goods or services. Therefore, the entity would be required to consider the recoverability of its regulatory assets in total. When it is not reasonable to assume that sufficient revenue can be collected from customers to recover costs, the cash-generating unit that includes the regulatory assets and regulatory liabilities would be tested for impairment in accordance with IAS 36 Impairment of Assets.

Disclosures
The exposure draft proposes a number of disclosure requirements intended to provide users of an entity's financial statements with information about the nature of rate regulation and its financial effects, including the amounts of regulatory assets and liabilities that have been recognized. Canadian entities applying Accounting Guidance AcG-19, Disclosures by Entities Subject to Rate Regulation, are currently providing most of the disclosure required by the proposed standard.

First-time adoption
The IASB proposes to amend IFRS 1, First-time Adoption of International Financial Reporting Standards so that entities with rate-regulated activities could elect to use the carrying amount of an item of property, plant and equipment or an intangible asset at the date of transition to IFRS as deemed cost. The election would be available when the carrying amount includes amounts complying with previous GAAP that would be recognized separately as regulatory assets in accordance with the proposed standard. Such an election is consistent with proposals in the IASB's September 2008 Exposure Draft, “Additional Exemptions for First-time Adopters: Proposed Amendments to IFRS,” which many Canadian entities with rate-regulated activities commented on.

The IASB has not yet determined the effective date of the proposed standard. However, it currently expects to issue the new IFRS in final form some time in 2010 and to permit early adoption. The IFRS would apply to regulatory assets and liabilities that exist at the beginning of the earliest comparative period presented at the date of application. Any adjustments required as a result of applying the standard would be reflected in the opening balance of retained earnings of that comparative period. The AcSB proposes to incorporate the standard into Canadian GAAP as part of the IFRSs to be adopted by PAEs. In September 2009, the AcSB issued an exposure draft asking Canadians to comment on this proposal.

Canadian PAEs with rate-regulated activities would be well advised to gain an understanding of the IASB’s proposals and to respond to both the IASB and AcSB exposure drafts (comments on both are due by November 20, 2009). Rate-regulated enterprises have waited a long time to have their issues front and centre. Accounting standard-setters are now inviting this important sector of the global economy to participate in the development of a standard that will affect them in a most fundamental way.

Karen Jones is a principal with the AcSB responsible for monitoring the IASB’s rate-regulated activities project. Views expressed here are her own.

Technical editor: Ron Salole, vice-president, Standards, CICA
More than a thought

New mind-mapping tools are available to open new realms of possibilities and set your imagination on fire

It was 10:30, Friday morning. It had been an eventful week for Greg Parfitt of Future Systems, and it was about to become more so. The day had begun with a visit from Jane Gonzales, newly appointed CEO. Gonzales had talked enthusiastically about her latest new idea.

Parfitt was nonplussed. “You are asking a great deal. Several topics are interrelated. Once I have my thoughts together, I’ll need to work with my team to prepare a presentation to the board. This is all new — successfully presenting a new idea like this is going to be a real challenge.”

Gonzales was oblivious to Parfitt’s concerns. “You can handle it, Greg. The board meets Tuesday — we need you to develop it as a project and implement a pilot by the end of the month. That isn’t a problem is it? Anyway, let me leave it with you. Have an enjoyable weekend.”

With that, Gonzales left the office.

Each new challenge has many dimensions; Gonzales’ latest idea was no exception. Parfitt’s thoughts began to multiply. How could he bring all this information together and organize it in such a short period of time?

Parfitt turned to look out the window; a small framed photograph of his family caught his eye. Eight-year-old Josh was looking into the camera in his characteristically intense way. Last night, he had been so excited to show a new method of taking notes at school; it was helping him tremendously. Parfitt had been struck how effective the approach had been. Topics had been brought together visually and presented in such a way that was immediately understandable.

Now, if only…

Creative thinking

Creative thinking has always been essential to survival in business, but never more so than today. In A Whole New Mind, author Daniel H. Pink provides striking examples of how he believes business thinking is changing. Dominant left-brained (or L-directed), logical, mechanistic approach-
es are tempered increasingly by right-brained (or R-directed), creative, non-rule-based thinking. The author observes that the demand for master of fine arts programs has increased while the interest in master of business administration programs has decreased.

On a personal level, people only use a fraction of their mental capacity (much in the same way that they will only use a limited number of the features of a software package). One reason for this is that a creative act can become a struggle between the right-brained “writer” and the left-brained “editor.” Our natural creativity can stall and become stifled as a result of this struggle.

The problem becomes exponential when we collaborate with others.

Mind mapping

It is not unusual for a person to experience competing thoughts; for some it may be at the beginning of a day, for others the end of the day. To be effective, we have to process a thought thoroughly. The time-honoured practice of daily journal-writing encourages us to work completely with an individual thought, even though other thoughts may be clamouring for our attention. Those other thoughts may be more important yet may be lost in the process.

Mind mapping may be the solution as it consists of recording and arranging thoughts or ideas almost simultaneously in a chart or diagram. As an approach to organizing thoughts, mind mapping has been in existence for centuries. For example, Porphyry of Tyre is said to have used a similar concept in the third century to visualize the concepts proposed by Aristotle.

A typical mind map is built on an initial thought or idea, followed by any number of intuitive thoughts or ideas. Each thought, as it occurs, is recorded on a chart. The interrelationships of those thoughts are then mapped, with the emerging context providing structure and meaning to what otherwise may appear to be a random representation of data.

Mind maps are typically used in brainstorming exercises for a group exchange of thoughts and ideas. The results may be recorded on a flip chart or intelligent board and the relationships mapped. This process encourages thinking outside the box to identify solutions never thought of before.

Technology

Inevitably, software solutions have now evolved to help prepare thought charts or diagrams. These solutions allow you to work with your own thoughts and ideas, giving them meaning, structure and context. At a group level, individuals can collaborate face-to-face or at a distance.

There are several software products available, some proprietary and others made available at no charge. Some are limited to Windows or Mac platforms, and others will run on several different platforms, such as Microsoft Windows, Mac OS X, Unix,
or Linux. (Wikipedia is a source for information about various mind-mapping tools, and provides download links.)

Products such as iMindMap, MindManager, MindMapper and MindGenius can take you through several key stages of thought or idea processing at personal or business levels. For example:

- thought formulation — this is where mind mapping begins. The first central thought is recorded. Subsequent thoughts follow and relationships are mapped. This type of approach stimulates creative thinking at a personal level and brainstorming in groups. Collaboration is encouraged, ideas visualized, and new connections made.
- thought organization — the time will come when all of the raw information has to be organized into a discrete view, with all of the unconnected data discarded. A popular form is the organization chart.
  - planning and development — involves project management, to ensure effective identification and employment of resources, and the use of Gantt charts and timelines.
  - implementation — business processes and process flow management allow the project steps to be implemented.

An enthusiastic supporter of the use of mind-mapping software is Ron Salole, CICA’s vice-president of standards. “I use Mindjet MindManager 7 quite extensively. It permits me to think through, marshal and review my argument on issues in a way that I find intuitive and akin to the way that I think.”

VIM applications
To gain more insight into how May and Legary use VIM tools, let’s take a look at some typical applications:

- thought management — May wanted a tool to gather up and relate the large number of topic areas that he had to oversee as head of IT. Since a VIM tool is a visual integrator of every type of information, May found he could take all the factors that concerned him about that topic, group them, gather research on the facts he needed to represent the nature of the issue and then document the solution and integrate Word documents, text documents, web links and PDF documents within the properties and attachments. Even the smallest piece of research could be included and yet six months later it could be easily recovered.
- brainstorming — Legary used a VIM tool to bring together ideas from marketing, design and operations. To build a service for the company to offer, the ideas from the brainstorming process were modelled across all three domains.
- collaboration — Legary never intended to use a VIM tool as a collaboration tool, but in the past six months, it has started to become that. “And we started to see the power,” he says.
- compliance mapping — Legary has used the approach extensively for compliance mapping. He found he could take a compliance requirement, map interdependencies and determine what level of risk might exist in the environment before completing a detailed assessment. When he began to model those interdependencies, logical groupings became apparent very quickly, especially when it came to cross-compliance requirements.

Visual information management can be used by all types and sizes of business. It can be used to manage several small companies, switching from company to company.

And beyond
Traditional mind mapping is based on a static information hierarchy. In personal computer terms, this is the equivalent to a hierarchical structure consisting of drives, folders and files. To reflect the L-directed and R-directed forces of the human brain more accurately, mind mapping needs to be dynamic. When you record a thought, and then have another thought, you need to map it immediately and not search for where it fits into a hierarchy. Visual information management (VIM), a component of knowledge management, allows you to map a thought wherever and whenever you like by enabling you to connect a current thought to a new or existing thought.

An example of this type of approach can be found in products such as Tinderbox, PersonalBrain and BrainEKP. Tinderbox is for the Mac platform, and TheBrain products are for Windows, Mac and Linux platforms.

PersonalBrain and web-based BrainEKP meet conventional mind-mapping requirements, but they are better known for their VIM capabilities. Each element within a “brain” is a thought and each thought can have multiple attributes, including links to websites and files. With this approach you can have thoughts about a particular need and develop a fully functioning business process within a very short period of time.

VIM can be used by all types and sizes of business. For example, it can be used to manage several small companies, switching from company to company or from functional area to functional area (e.g., websites, bank accounts and accounting software) within seconds. Relationships between thoughts, and information supporting these thoughts, can be changed immediately, demonstrating an approach that is truly dynamic.

Larger organizations use this approach for many applications, such as project management, business workflow and customer support. The latter application can be striking — every customer experience or problem can be recorded in a central brain, becoming accessible to others in the organization.

VIM tools
Two enthusiastic users of advanced mind-mapping software such as PersonalBrain are Mike May, senior vice-president of IT with the Katz Group Canada Ltd. of Markham, Ont., which operates 1,900 drug stores in Canada and the US; and Michael Legary, chief information officer with Securis Inc. of Winnipeg, a company specializing in information risk management, trusted security architecture, digital forensics and security information management.

For May, this approach is the next level of knowledge management and information sharing. Legary says, “It was enhancing, not just replacing, anything I had.”
operating systems — information, whether based on an individual computer, network or a website, can now be mapped out using a VIM approach. Because of this, May believes this approach surpasses the operating system as it can be tightly integrated with the operating system and key applications. “In many ways it is a super-set of the operating system. The classic operating system as we know it has served its purpose and gone beyond. There is a layer of abstraction that makes computers more valuable,” May says.

presentations — presenting information possessing complex interrelationships can be very difficult. As Legary notes, “The long, drawn-out meetings don’t seem to get the same points across.” For May, the use of a VIM approach has made all the difference. He found it helped very quickly to convey the relationship between all the topics being discussed, whether he was doing a presentation to direct reports, giving a presentation to peers or, more important, when presenting it to the C group.

“What’s interesting is the tool itself garners a ‘wow’ when you first show it,” says May, “but far more important, once the wow is gone, it allows you to gather up all the facts necessary for the individuals to understand what the issues are and to help make a decision. So I will have web pages connected to it. I will have diagrams, pictures, articles. And the goal is that any question that anybody could ask me about the topic, I have sitting right within that circle of connected thoughts.”

Legary agrees about the initial wow factor. During a compliance presentation, for example, he found that once people had become accustomed to the tool, it helped shape the flow of the presentation a lot quicker. Compliance topics, by their very nature, can be dry and hard to follow but the VIM tool allowed him to talk quickly about key topics for each of the areas — the executives could see the flow. It was clear to Legary that the audience was able to follow the structure of what he was discussing, causing fewer follow-up questions afterward.

Conclusion
The ability to manage thoughts lies at the heart of mind mapping. The new technology can help you to process thoughts, collaborate with colleagues and present the results to others in a way that can be immediately understood and acted upon. Mind-mapping tools can open up a whole new realm of possibilities — ones you never would have thought of — and, in the process, set your imagination on fire.

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Limits of liability
Audited financial statements don’t provide ironclad protection against a bank’s lack of diligence

It is well known that a company’s auditors may be held contractually liable for producing erroneous financial statements, not only to their client but also to third parties for whom the financial statements are not directly intended, if the auditors are aware that the financial statements are used by third parties such as financial institutions.

For example, in a loan-granting process banks are entitled to use the information in the audited financial statements of a company to which they intend to grant a loan. If the financial statements prove to be misleading, a bank may take legal action against the auditors if it can demonstrate that it incurred losses and that the erroneous financial statements were the proximate cause of the losses.

On May 27, 2009, the Honourable Daniel W. Payette of the Superior Court of Quebec rendered a decision in Business Development Bank of Canada v. Pfeiffer (2009 QCCS 2310), which deals specifically with the professional liability of auditors in regard to third parties, especially banks.

In this case, the BDC had granted a subordinated loan of $1.5 million to Banner Group, which produced photo albums. The financing by BDC was meant to shore up the company’s working capital at a time when it was planning to acquire the assets of a distressed foreign company.

During one of the initial meetings, BDC requested Banner’s latest audited financial statements — a fundamental requirement for BDC since a company applying for a loan had to present an acceptable business case.

Since Banner’s hierarchy was not exclusively vertical, the auditors had issued combined audited financial statements that reported sales of more than $19 million and net revenue of close to $600,000.

BDC reviewed the financial statements and a number of other documents. In August 2001, it sent a letter of intent with terms that Banner accepted. BDC subsequently examined additional information and documents supplied by the group. It was during this period that BDC learned that a one-time sale of close to $3 million had been made to a new client on the last day of the previous fiscal year, i.e. December 31, 2000. Given the magnitude and extraordinary nature of the transaction, BDC decided to investigate further. It noticed that the sale amount was to be paid in three future deferred payments.

BDC finally granted the loan on
December 20, 2001. About seven months later, Banner sent BDC the new 2001 audited financial statements, which contained a significant adjustment in relation to the audited financial statements for the year 2000. Net income of some $600,000 reported in 2000 had turned into a loss of about $550,000.

This adjustment was attributable to the cancellation of the extraordinary sale of $3 million, which had occurred without BDC’s knowledge while it was negotiating with Banner. BDC therefore gave formal notice to the auditors, holding them liable for any losses resulting from the adjustment to the financial statements at December 31, 2000. Despite this situation, BDC maintained its contractual relationship with Banner, hoping it would be able to honour its commitment. However, Banner declared bankruptcy in 2003.

Instead of taking legal action against Banner’s shareholders, BDC filed a suit against the accountants who had audited the financial statements it relied on to grant the loan. BDC demanded that the auditors fulfill the loan contract between it and Banner, even though they weren’t bound by any contract. In addition to the loan amount, BDC claimed interest, royalties, administrative costs, as well as related interest and administrative costs. The total claim against the auditors amounted to $2,978,683.44.

In court, the auditors acknowledged that Banner’s financial statements did not comply with generally accepted accounting principles (GAAP) or with generally accepted auditing standards (GAAS), since the nearly $3-million sale should never have been recorded in the company’s books. Nevertheless, they strongly opposed the amount of damages claimed by BDC and denied any causal link between the damages and their admission of fault.

The auditors claimed that several factors led BDC to lend to Banner and that the loan was not granted on the basis of the financial statements alone. The court rejected this argument, concluding that if BDC had had financial statements in its possession that fairly presented Banner’s financial position, it would have known from the start that the company was operating at a loss and would simply have terminated the subordinated loan negotiations.

The auditors also argued that BDC had been negligent in its comprehensive analysis of the company’s financial position and proposed acquisition, which had resulted in its granting the financing. BDC had in fact obtained a considerable volume of documents and information on Banner and its project from varied sources. It had also obtained information about the extraordinary deal Banner had closed on the last day of fiscal 2000. The auditors therefore argued that BDC should not have limited itself to the information about the sale contained in the financial statements and should have enlarged its analysis.

The court concluded that it would have been unrealistic to expect BDC to duplicate the work of the auditors in obtaining copies of supporting documents for the sale. Accordingly, a bank cannot use audited financial statements and related disclosures to shield itself from all liability. Where circumstances require, such as in the case of an extraordinary sale with future payment provisions, banks should be doubly diligent in their financial analysis. They cannot simply rely on the audited financial statements.

While it is true a bank should not have to duplicate the auditors’ analysis, this does not mean the bank should not thoroughly analyze the items that the financial statements do not guarantee, such as future payments from a sale. Accordingly, audited financial statements do not provide ironclad protection against a bank’s lack of diligence.

Conversely, even if a bank may be held liable for its own losses, in whole or in part, this does not mean that auditors can avoid liability when the financial statements they prepared contain errors. In this respect, we can only emphasize how important it is to comply with GAAP and GAAS (which will become Canadian auditing standards at the end of 2009) when preparing financial statements. There is no better way to guard against similar claims.

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A well established two–partner firm, where work/life balance is a reality, seeks a CA to join the firm and participate in the succession process. The ideal individual places a premium on quality and service, has 3 to 5 years of post-qualification experience in the service of owner-managers, is comfortable with related income tax and estate planning issues and motivated to assume a leadership role. The position may also appeal to a sole practitioner interested in association leading to partnership and succession. Reply in confidence to Box 668, CAmagazine.

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Spacious “new” offices in our west end Edmonton location. Perhaps for a succession planning opportunity, allowing our firm to eventually acquire the retiring practitioner’s practice or for someone starting out in their public practice career and in need of an office infrastructure. In this case we will be able to allocate client service responsibility for some of our existing clients. Over time, as our working relationship develops, the practitioner might consider transferring their practice into ours as an equity contribution towards an eventual partnership. Contact Michael Epp, CA, CMA of Hawkings Epp Dumont LLP, Edmonton, Alberta, at mepp@hed-edm.com

Markham, ON at Steele & Woodbine CA firm with attractive office space to share. Ideal for sole practitioner with up to 3 work stations. All required amenities included. Open to associations. For more info, call 905–477–5777 ext. 200.

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Burlington, ON – Small CA firm has excellent downtown main floor office space. Share expenses with view to LLP. Free parking, great location, reasonable cost, wonderful landlord/associate. Some clients also available. Available September 2009. Call 905–333–4000.

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POSITIONS WANTED
Still confused about how to do a risk-based audit? I’m a CA with 20 years experience, currently working in the Quality Assurance area. I provide in–house training on risk-based audits as well as assistance in QA which includes performing file quality reviews and monitor reports. Procrastinate no further. Please call Karen at 416.356.6637.
Emerging from the crisis

The global economy is struggling to emerge from the recession triggered by the 2008 financial crisis. Thanks to the forceful and concerted intervention of governments around the globe, we have managed to keep this crisis from developing into an economic decline comparable to the Great Depression of the 1930s.

Without precedent
On one hand, governments have stepped in to tackle the recovery of the financial system. In just a few short weeks in the fall of 2008, they injected hundreds of billions of dollars into the system in hopes of staving off a liquidity crisis. With the exception of the Lehman Brothers bankruptcy in the US — now viewed as a mistake — the restructuring of the financial system was smooth sailing. In six months, monetary authorities the world over showed that they had, in fact, learned a lesson from the collapse of the financial system in 1930-1932.

On the other hand, in parallel, governments stepped in for consumers who, having been hit by the crisis, were radically cutting back on their spending. The US injected the equivalent of 4% of its GDP into the economy, while in Canada, where the impact of the crisis is less significant, some 2% of the country’s GDP was injected.

These two sets of actions did their job and staved off the crisis.

The worst is over
However, economic growth will remain sluggish in the short term. Still in a state of shock, consumers remain uncertain about the future, and they have reason to be cautious since we are not out of the woods just yet. The central banks will have to withdraw billions in reserves that have been invested in financial institutions and that are increasingly becoming in excess. Governments are also going to have to scrap spending programs designed to serve as temporary substitutes for consumer demand. Without retrenchment on both fronts, inflation could very well spread around the globe.

Pulling out is not easy
In Canada, the federal government will need to eliminate a $50-billion budget deficit, a sizable challenge that will call for budget cuts of more than 10% of program spending. Politicians are far better at launching programs than curtailing them, and beneficiaries of government largesse will fight to retain their right to this assistance. Yet in the mid-1990s, Canada set an example to the world when it wiped out its structural deficit in just three years. It should learn from that experience.

The strategy was simple and worth remembering. Then finance minister Paul Martin introduced a belt-tightening plan that broke the recovery down into three major and equally important sets of measures. First he raised taxes, asking taxpayers to fund one-third of the deficit paydown. Another third came from cuts in federal programs, which entailed significant layoffs. And last but not least, cuts to transfers to provinces and persons made up the remaining third. Supported by a period of economic growth that contributed to boosting revenues, the government totally eliminated Canada’s structural deficit in three years, ushering in 10 years of budget surpluses. The federal debt, which represented 71% of the GDP in 1995-1996, was slashed to 30% in 10 years, enabling significant tax cuts as an added bonus.

All Canadians participated in slaying the country’s deficit in 1995-1996. If Ottawa wants to dig itself out of the current crisis once and for all, it should be prepared to apply the same strategy within the next 18 months.

Marcel Côté is founding partner at SECOR Consulting in Montreal.

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