

# CA

magazine

US LLC deemed  
treaty resident **42**

Pension plan standards:  
clearer promises **45**

Audit committees:  
can they deliver? **50**

September 2010

www.camagazine.com

OUR

# ANNUAL issue

Changes in regulations and compliance requirements  
often mean changes in technology. See how inside

**Look boss, no  
hardware** P. 28



**Outstanding soybean counter in his field** P. 6  
**Business challenges shift with recovery** P. 7  
**Ten practices for investing like the pros** P. 38

# Trust Ryan To Improve Your Total Tax Performance



## Tax Strategy and Recovery Experts

Ryan provides the most innovative approach to tax consulting available in the industry today. Since 1974, we've become the leading Canadian tax services firm in North America, with the largest transaction tax practice in the United States and Canada.

At Ryan, our value proposition is far greater than the industry-leading tax recovery services that we are internationally recognized for. We're also focused on your overall tax performance, providing innovative solutions to the dynamic challenges of an evolving Canadian tax market. From strategic planning to harmonization and risk mitigation, we create greater opportunities to measure and improve your efficiency, develop a more strategic approach to tax, and deliver outstanding value to your shareholders.

Please visit us at [www.ryanco.ca](http://www.ryanco.ca) or call 800.667.1600 to learn more about how our tax advisory services can benefit your business.

Download your free planning guide to harmonization in British Columbia and Ontario at [www.ryanco.ca/harmonization](http://www.ryanco.ca/harmonization)



September 2010 Volume 143, No. 7

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

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

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

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

On the Internet: <http://www.camagazine.com>

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

Annual subscription rates: \$28 for members; \$25 for CA students; \$28 for non-members. Single copy, \$4.75. Outside Canada: \$72 for a one-year subscription; \$6.50 for a single copy. GST of 5% applies to all domestic subscriptions. For subscription inquiries, call (416) 977-0748 or 1-800-268-3793 from 9 a.m. to 5 p.m., Monday through Friday; fax: (416) 204-3416. GST registration number R106861578. Publications Mail Agreement No. 40062437. PRINTED IN CANADA: Return undeliverable Canadian addresses to: CAmagazine, Canadian Institute of Chartered Accountants, 277 Wellington Street West, Toronto, Ontario, M5V 3H2. CAmagazine is a member of the Canadian Business Press and Magazines Canada. Submissions: CAmagazine receives from time to time unsolicited manuscripts, including letters to the Editor. All manuscripts, material and other submissions to CAmagazine become the property of CAmagazine and the Canadian Institute of Chartered Accountants, the publisher. In making submissions, contributors agree to grant and assign to the publisher all copyrights, including, but not limited to, reprints and electronic rights, and all of the contributor's rights, title and interest in and to the work. The publisher reserves the right to utilize the work or portions thereof in connection with the magazine and/or in any other manner it deems appropriate. No part of this publication can be reproduced, stored in retrieval systems or transmitted, in any form or by any means, without the prior written consent of CAmagazine.



# Yes, it's top 10 tech time

This is the issue you have been waiting for to learn about what's ticking in the tech world

It is that time of year when we devote an issue to documenting and examining how technology permeates and impacts nearly every aspect of business and the accounting profession. As always, we lead off with the CICA's Information Technology Advisory Committee survey of the 10 most important issues facing the profession. Over the years, businesses have been faced with changing standards, from tech requirements to financial reporting. It is not surprising then that the No. 1 issue is dealing with compliance requirements — changes in legislation, regulations or business practices often mean changes in IT applications. The No. 2 concern is also not a surprise — the impact of the recession. Information management, public trust and emerging technologies round out the top five. It's all explained in more detail in "The top 10 tech issues" by Robert Parker (p. 20). He points out that newer technologies were ranked lower by survey respondents, perhaps because of limited adoption or unfamiliarity with the risks and responsibilities associated with them.



There was a time when if you wanted to run several computer operating environments you needed to invest in multiple desktop hardware. Not any more. Today, virtualization makes it possible to use one hardware machine to run several virtual desktops at a fraction of the cost and space. Virtualization creates flexibility in configuration with different setups and can be tested in a matter of moments. In "Look boss, no hardware" (p. 28), Dwayne Bragonier discusses the numerous advantages that virtualization brings to IT solutions.

Where would our annual IT issue be without the enterprise software survey? As columnist Michael Burns reminds us (Work in process, p. 14), this is the 12th year we've been running this and "over the years, we have expanded our roundup to include more and more functionality." This year, you can fill out an online survey that helps you select the best ERP systems for your needs.

As always, there are Regulars — Personal financial planning (p. 38), Taxation (p. 42), Standards (p. 45) and Education (p. 50). Jim Carroll tells us how social networks are changing the ways people search for information, and how organizations think about advertising and branding (Netwatch, p. 12). In Outlook (p. 60), Marcel Côté says we have to curb speculation on capital markets because it is doing more harm than good.

I should introduce myself to readers who are not familiar with the magazine's masthead. I am the interim editor-in-chief. I have been with the magazine 12 years, first as senior editor, then as editor, English edition for the past decade. I look forward to continuing CAmagazine's tradition of providing readers with excellence.

Okey Chigbo, Editor-in-chief (interim)

## upfront

### 4 MAILBOX

### 6 PEOPLE

Jeff Sawyer is dedicated to making things grow. When the Ontario-based CA is not tending to his many farm-business clients, helping them with tax, accounting, assurance and succession, he is out in his fields harvesting soybeans or planting winter wheat

### 6 NEWS AND TRENDS

Income Tax Act now available in all formats • Business challenges shift with recovery • Who should you list as a reference on your CV? • Numbers game • Going concern

### 9 BITS & BITES

Perception of data security at odds with reality • Engaged by social media • IT buck stops here • Small biz goes green • Understaffing upshot

### 10 VALUE ADDED

Canadian companies plan to spend green • Workforce management key to success

## columns

### 1 FROM THE EDITOR

Yes, it's top 10 tech time

### 12 NETWATCH

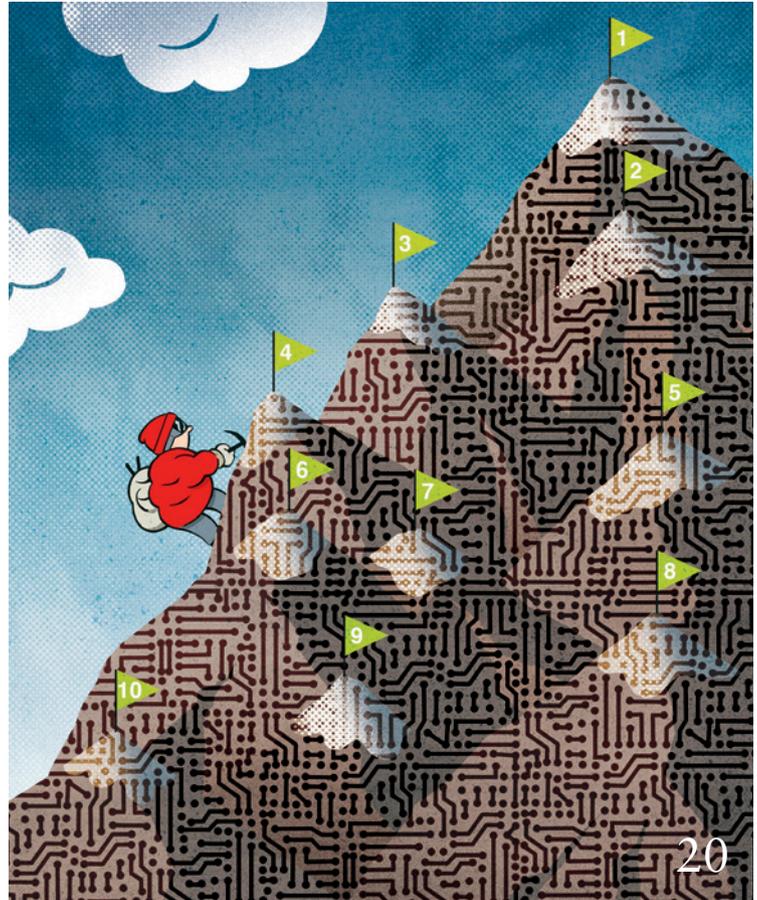
The medium is the message

### 14 WORK IN PROCESS

Enterprise software survey 2010

### 60 OUTLOOK

Game over



## features

### 20 The top 10 tech issues

Every year the CICA's Information Technology Advisory Committee consults with the profession to find out what it is most concerned about. We have the roundup on the priorities facing chartered accountants across the country this year

BY ROBERT PARKER

### 28 Look boss, no hardware!

With virtualization, the ghost is not in the machine, it is the machine. Solutions take up almost no physical space and costs are low. Today, thanks to virtualization, you can run several computer operating environments with only one hardware machine

BY DWAYNE BRAGONIER

## regulars

### 38 Personal financial planning

Invest like the pros: adopting 10 simple investment practices could mean a bump-up in long-term returns

By Warren MacKenzie

### 42 Taxation

US LLC deemed treaty resident: the tax court's granting of treaty benefits to LLCs falls in line with the US treaty, but it's likely to provoke great debate

By Nik Diksic

### 45 Standards

Promises made clearer: new accounting standards developed in Canada for pension plans include changes and improvements

By Nancy Estey

### 50 Education

Can audit committees deliver? In the quest to strengthen the financial reporting system, it's been questioned whether they meet expectations

By Jean Bédard + Yves Gendron

## news

16 NEWS FROM THE PROFESSION

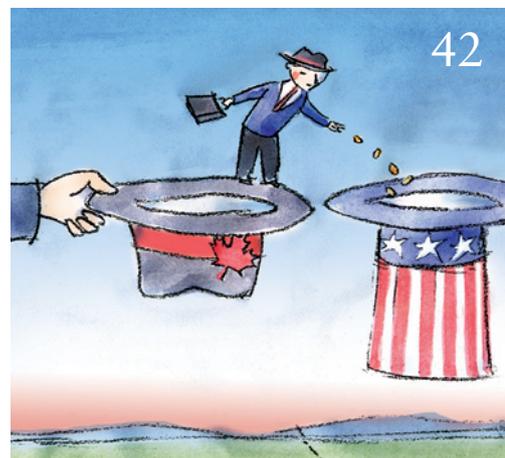
19 STANDARDS DIGEST

## professional directory

54 PROFESSIONAL DIRECTORY

56 CAREER OPPORTUNITIES

57 CLASSIFIED



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



# Mailbox

## THE DEBATE OF THE DECADE

Accountants should be able to count. They should also be able to analyze and reason. In "In with the old" (Mailbox, June/July) John R. Ellen criticized Christian Bellavance's ability to identify the end of the first decade of this century. He used the argument that there was no year zero when counting switched from BC to AD.

The following chart helps support Bellavance's position that the decade ended December 31, 2009. I am making the assumption a decade is 10 complete years.

Had Ellen applied his own argument to current times he would have realized that the discussion is not about the existence of a year zero (2000 is a year zero) between 1 BC and 1 AD. Had he counted and verified the years, as in the chart, he would have

Jan. 1, 2000 to Dec. 31, 2000	1	
Jan. 1, 2001 to Dec. 31, 2001	2	1
Jan. 1, 2002 to Dec. 31, 2002	3	2
Jan. 1, 2003 to Dec. 31, 2003	4	3
Jan. 1, 2004 to Dec. 31, 2004	5	4
Jan. 1, 2005 to Dec. 31, 2005	6	5
Jan. 1, 2006 to Dec. 31, 2006	7	6
Jan. 1, 2007 to Dec. 31, 2007	8	7
Jan. 1, 2008 to Dec. 31, 2008	9	8
Jan. 1, 2009 to Dec. 31, 2009	10	9
Jan. 1, 2010 to Dec. 31, 2010		10

realized that Bellavance simply assumed the decade past (2000 to 2009) began with the start of the current millennium on January 1, 2000, not on January 1, 2001.

Many people argue that the start of the new century did not actually happen until January 1, 2001 (Ellen's argument) because there was no year zero at the beginning. However, if we remember all the concern

about Y2K, it was commonly accepted that January 1, 2000 was the beginning of this century.

In this case I'll give my vote to the editor, not the CA. All this goes to prove the old accounting adage that figures don't lie, but liars can figure.

**Fred McCreath, CA**  
Nanaimo, BC

## A NOTE ON A GRAY AREA

I am a CA nearing retirement and one of the signs of retirement is aging eyes. Going concern in the June/July issue is very difficult to read because of the white letters on a gray background. I would ask you to consider this in the future.

**Allan Chandler, CA**  
Montreal

# Keeping Canada Paid

**National Payroll Week • September 13–17, 2010**

Canada's 1.5 million employers count on payroll professionals to annually pay:

- ✓ \$730 billion in wages and taxable benefits
- ✓ \$230 billion in statutory remittances
- ✓ \$80 billion in health and retirement benefits

While complying with more than 185 federal and provincial regulatory requirements.



[www.npw-snp.ca](http://www.npw-snp.ca)

Platinum Sponsors



Gold Sponsors



Silver Sponsors



Bronze Sponsors



*"We're a substantially different company than we were 12 years ago, but SYSPRO has accommodated both our growth, and our operational changes."*

*Gordon Rogers, Chief Financial Officer, BioVectra.*

## BioVectra Inc. & SYSPRO ERP

For the past 40 years, BioVectra Inc., located in Charlottetown, Prince Edward Island, has developed, manufactured and supplied chemical raw materials and active pharmaceutical ingredients to pharmaceutical, biopharmaceutical, and diagnostic industries worldwide. "We combine synthetic chemical manufacturing, fermentation and bioextraction technologies to manufacture quite a number of specialty chemicals products," says Gordon Rogers, BioVectra's Chief Financial Officer. "Those include cancer-fighting pharmaceuticals used in chemotherapy, and products for clients in the biopharmaceutical sectors, at both research and commercial scales."

One of the founding companies in Prince Edward Island's growing bioscience industry, privately-owned BioVectra is recognized as an important contributor to the local economy. The business employs some 115 people, working out of three manufacturing facilities in Charlottetown. In 2003, BioVectra completed and commissioned a state-of-the-art, 33,000-sq.ft. biopharmaceutical manufacturing facility — FDA-inspected, and compliant with cGMP (Current Good Manufacturing Practices). BioVectra also operates a chemical manufacturing plant, which houses its research and development teams, as well as a facility that specializes in bioextractions.

In 1997, BioVectra chose SYSPRO as its enterprise resource planning (ERP) software. "Before that," says Rogers, "we ran our operations on a basic financial accounting package. In time, we recognized that the company was expanding beyond the scalability of our software. In addition, the biopharmaceutical market was becoming increasingly regulated. There were Canadian regulations, US FDA regulations, and an emerging customer focus on quality management. It was time to place greater controls on production, inventory, quality control processes, and data."

According to Rogers, SYSPRO ERP stood out as the company's obvious choice. "We did research other software packages," says Rogers, "but SYSPRO was the only one that effectively combined the manufacturing controls we needed with the financial reporting that we felt was important. For us, the most crucial reason for implementing SYSPRO was to integrate our operational departments with the accounting world."

Implementing SYSPRO, says Rogers, went as smoothly as can be expected. "We established operational teams, and did most of the work in-house. We had two very different business units that we wanted to put on SYSPRO. For the most part, we were able to modify our business processes to provide consistency within SYSPRO, but there were some individual operational aspects that needed to be preserved. One good thing about SYSPRO is that it's flexible enough to do that."

According to MacGregor, EFT and Contact Manager were implemented within the last year. "EFT," says MacGregor, "allows us to make electronic payments to our suppliers, versus issuing paper cheques — that helps streamline our processes. Contact Manager (CMS) was originally requested by our Sales & Marketing group. They wanted a tool that would help them manage their business communications, provide a central repository for that information, and allow access to current customer information in SYSPRO. We're still working through the implementation stage in their group, but have found an unplanned benefit. CMS is now being used by our Collections department to manage those same business contacts."

"SYSPRO works well for us," says Rogers. "We're a substantially different company than we were 12 years ago, but SYSPRO has accommodated both our growth, and our operational changes. In terms of our business processes, it's given us a discipline and a consistency that may not have been there before we had SYSPRO's software modules to assist us. In addition, SYSPRO has greatly improved the information that's available to department managers across the board. We now have one central point of reference, as opposed to each department maintaining its own database. That allows us to make better decisions, based on more widely available information than we had in the past."

"We're pleased with the product," concludes MacGregor. "SYSPRO is continually adding to and upgrading the software, in ways that really help us run our business. They seem to be very committed to making the software better, and to increasing its adaptability to the individual organization. For us, it's an excellent business solution."

For more information on BioVectra please visit: [www.biovectra.com](http://www.biovectra.com)

**Delivering  
high-end  
solutions  
mid-size  
companies  
can afford.**



**SYSPRO™**  
Simplifying  
your Success

Contact SYSPRO today for  
your free copy of

*"When, How and Why  
of ERP support for LEAN"*

Toll-Free in Canada  
1-888-259-6666 x228  
[info@ca.syspro.com](mailto:info@ca.syspro.com)

[www.syspro.com](http://www.syspro.com)

# UP FRONT

News, people, briefs, trends + tips

## Outstanding in his field



**Jeff Sawyer gives new meaning to the term bean counter — the Strathroy, Ont., CA is also a soybean and wheat farmer**

**B**esides helping businesses grow, Jeff Sawyer, a partner with BDO Canada in Strathroy, Ont., helps other things grow too. The 36-year-old CA is a soybean and wheat farmer who lives on a 400-acre farm near Alvinston, Ont. “I was raised on this farm, which belonged to my father and grandfather and dates back to 1886.”

Growing up on the farm meant helping with chores such as feeding the horses and chickens, cleaning out the horse stalls, gathering eggs and, later, hoeing or pulling weeds. In his final year of university, Sawyer purchased the farm with his younger brother, who died suddenly later that year. When his dad died in May 1999, Sawyer took over operations of the farm. “After that I joked how farming never used to be a lot of work, until I was all on my own,” he says.

Right now, that work includes harvesting the soybeans and planting the winter wheat. Profits go toward paying down debt and investing in new equipment and possible future land purchases, making the farm “a break-even proposition.” So when Sawyer isn’t donning his work boots, he tends to his clients — farm businesses including producers, processors and grain trading companies — providing tax, accounting and assurance services.

From January to April, Sawyer spends six days in the office, but come May, he gets more field time. “I might spray a field and then hit a board meeting or vice versa, and I always have my BlackBerry with me on the tractor,” he says.

He also has one hired farm hand he calls on as needed. Says Sawyer, who likes farming for the pride of the ownership of the land, “You can see your mistakes, and the results are tangible.”

Success with the firm is less concrete but, he adds, “Farmers have specific needs — succession is a big issue, for example — and it feels rewarding to help them.”

Angela Pirisi

LOLA LEANDRAKLINIK

### Income Tax Act now available in all formats

Tax professionals on the go can now access the Income Tax Act on any mobile device, including the ubercool iPhone and iPad. *The Federal Income Tax Act — eBook edition*, published by Ernst & Young, is the first version of the tax act available in both Mobi and ePub formats, which allows the material to be viewed on a BlackBerry as well as Sony or Apple readers and phones.

“People are getting used to having all their information with them all the time — and there are situations where you’re on the road and do have to refer to the legislation,” says Margaret Hoffman, vice-president of operations and marketing for E&Y’s electronic publishing group. The ebook is designed for easy navigation, she adds, with a table-of-contents model that puts any section’s provision just three clicks away.

#### Résumé

- 1997** purchases family farm with brother
- 1999** takes over operations of farm
- 1999** obtains CA designation (Ont.)
- 1999** joins BDO, Strathroy, Ont.
- 2008** makes partner at BDO

## BUSINESS CHALLENGES SHIFT WITH RECOVERY

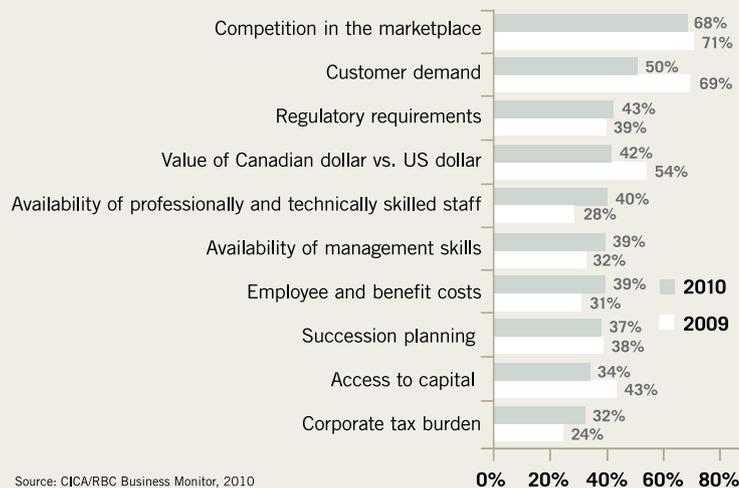
Competition in the marketplace remains the top challenge facing Canadian businesses, according to executive CAs responding to a recent CICA/RBC Business Monitor survey. The importance of many other issues facing business, however, has shifted as the economy recovers. Although customer demand remains second on the list of challenges, it has dropped significantly from 69% in 2009. This result is consistent with the general optimism levels, which were up from the previous year.

Also notable is that the value of the Canadian dollar compared with the US dollar is rated as a major or moderate issue by 42%, compared with 54% a year earlier, despite the Canadian dollar being stronger during the 2010 survey period. This suggests Canadian businesses are adapting to our stronger dollar.

Challenges ranked higher this year compared with 2009 include the availability of professional and technical staff (up 12%) and management skills (up 7%). This suggests a tightening of the employment market as we move forward with the recovery.

The results also suggest capital markets are recovering, with

### Top challenges to business, according to CA executives



only 34% citing access to capital as a challenge (down from 43% in 2009). As profitability improves, concerns about the corporate tax burden increased with 32% seeing it as a challenge (up from 24%). For full results go to [www.cicarbcbusinessmonitor.com](http://www.cicarbcbusinessmonitor.com).

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



### ASK AN EXPERT

#### WHO SHOULD I LIST AS A REFERENCE ON MY CV?

**Job seekers should assemble a list of contacts who can persuasively communicate their qualifications and professional attributes. Follow these tips to create a reference list that works in your favour:**

**Choose wisely.** Select individuals who can discuss your abilities and experience that directly relate to the position, not just those with the most impressive job titles. Offer a mix of contacts who can address different aspects of your background; for example, a former peer may describe your interpersonal skills, while a past direct report can talk about your management style.

**Check in beforehand.** Call potential references first to get their permission and evaluate their eagerness to serve as a contact. Be sure to give them a copy of your résumé, the job description and the name of the person who will likely call.

**Be prepared.** Provide clear contact information for your references, including their names, titles, daytime phone numbers and e-mail addresses. Also, offer a brief explanation of the nature of your relationship with each individual.

**Think outside the box.** It's not uncommon for employers to seek out additional contacts, either online or through their own networks. You should, therefore, not only remain on good terms with past supervisors and colleagues, if possible, but also be selective about who is in your online network.

**Thank your references,** even if they aren't contacted by employers. Keep them updated and offer to return the favour should they ever need a recommendation.

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

# #NUMBERS Game

**1** Rank of Internet access as a business information tool among senior executives, according to a 2009 Google/*Forbes* magazine report. The survey found 80% of executives under the age of 50 used the web daily to collect business intelligence.

**25** Average weight in kilograms of briefcase-sized portable satellite phone systems in 1992, priced at “as little as” US\$40,000 to US\$50,000. A decade earlier, phones cost twice that amount and could weigh 100 kg.

**40** Time in seconds to transmit a single-page electronic facsimile in 1984. Businesses could purchase a fax machine for \$8,500.

**91** Percentage of Canadian companies that list phone calls as the most essential business technology, according to a 2010 survey on

**From phone to Facebook** During the past three decades, the manner in which we use technology at work has transformed our businesses, our offices and our briefcases



technologies. More than 90% listed e-mailing as crucial, while 49% cited instant messaging.

**1,200** Number of delegates of the International Association of Business Communicators linked in different cities via Canada’s first international teleconference in 1982.

**1995** Year KPMG Canada launched its website. Among content at KPMG Online is the Canadian tax tip of the day. That year, 10% of North Americans 16 years and older used the Internet in the previous three months.

**6,000** Number of Canadian wireless phone subscribers in 1985. RIM’s BlackBerry was introduced 14 years later and today, Canadian businesses and individuals send 122 million text messages daily.

Steve Brearton

## Going Concern



**DAVE BODNARCHUK, CA**  
**PRESIDENT, EVENT IQ**

**COMPANY PROFILE:** Edmonton-based Event IQ offers a number of software products and website services to handle all aspects of planning and managing an event, and will even help with extras such as the printing of name tags and lanyards. “We offer services similar to Ticketmaster for events such as galas, Christmas parties and conferences,” says Bodnarchuk. The company is lean, employing less than a dozen people, with the majority of its customers based in Alberta and Western Canada, and it counts many repeat customers. It measures its success by the number of tickets sold or people who register — “responses,” to use the company’s vernacular — typically taking approximately 2% of overall sales. In the last quarter, ticket sales have spiked 500%, with next year’s responses projected to triple.

**HOT FACTOR:** Its products, which date back to the

early 2000s, are aimed at those who are neither full-time planners nor IT experts but want to run a professional, smooth event using automated and easy-to-use software. “The technology allows those planning an event to concentrate on the event itself rather than the tricky and time-consuming administrative aspects,” says Bodnarchuk.

**COOL PROJECTS:** This spring, the company worked with a number of Edmonton high schools to help manage ticket sales for their graduation galas, with total attendance in the thousands. It successfully processed \$1.2 million in ticket sales and hopes to boost that number to \$5 million next year.

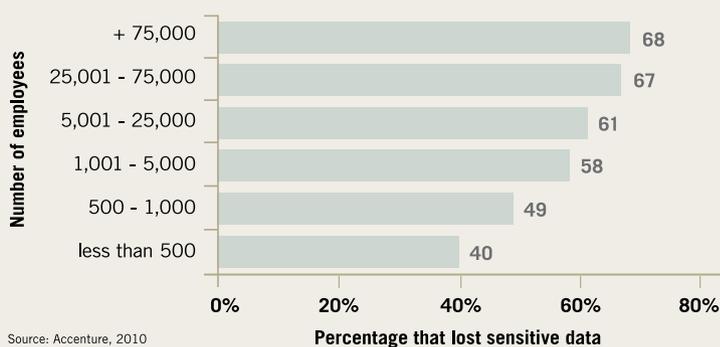
**IN HIS OWN WORDS:** “I think of us sometimes as the CAs of event planning in that we help with a lot of the grunt work. The cool factor for me is when I get a hug from someone who used our software and is thanking me for taking the administration work away. The event starts, people go, there’s a large group, they have fun, and we never hear anything from them in terms of problems.” John Shoesmith

**Perception of data security at odds with reality**

Nearly three-quarters of organizations believe they have adequate policies in place to protect sensitive personal information, but more than half have lost sensitive data within the past two years, according to a global study by consulting firm Accenture.

The study, which surveyed more than 5,500 business leaders in 19 countries including Canada, also found that larger companies are more likely to experience security breaches than smaller ones. Nearly 70% of organizations surveyed with more than 75,000 employees have experienced a loss of sensitive personal information — such as name, address, date of birth, race, national identification/social security number and medical history — compared with 40% with fewer than 500 staff. According to the study, this discrepancy is “likely because, with many more employees and more geographically dispersed operations, the opportunities for data to be lost or compromised are greater.”

**Security breaches, by size of company**



**Engaged by social media**

Companies that provide access to social networking sites may have an edge when it comes to employee engagement, according to a report by the Conference Board of Canada.

“For young employees and even more mature workers, these tools have become a way of life and increasingly a way for them to network professionally and perform their work,” cites the 2010 Human Resources Trends and Metrics report. “These extra resources and opportunities to affiliate clearly affect engagement.”

With a recovering economy and an aging population — nearly half the collective workforce of the organizations surveyed is over the age of 45 — employers cannot afford to be complacent about employee engagement, the study concludes.

**IT BUCK STOPS HERE**

The CFO is increasingly becoming the top technology investment decision maker in many organizations, according to an annual survey conducted by Gartner and Financial Executives Research Foundation. More IT organizations polled report to the CFO (42%) than the CEO (33%) or any other executive.

**SMALL BIZ GOES GREEN**

More than half of Canadian small-business owners currently have (46%) or are considering (6%) implementing a green plan or environmental policies for their business, finds an RBC survey. Existing policies concentrate on energy reduction (63%), while future plans focus on environmental standards (31%) and supply reduction (55%).

**UNDERSTAFFING UPSHOT**

If you're still waiting for a computer or software upgrade, a lack of manpower could be to blame. Nearly two-thirds (64%) of CIOs polled in a Robert Half Technology survey said understaffing in their IT department interferes at least somewhat with their ability to implement new technologies.

## Canadian companies plan to spend green

Climate change is now top of mind in the C-suite. According to a new report from Ernst & Young, 82% of executives believe a response to climate change is imperative today and plan immediate increases in spending in that area.

The report, *Action Amid Uncertainty: The Business Response to Climate Change*, says the willingness of corporations to invest in climate change initiatives despite the uncertain regulatory environment is extremely encouraging. In fact, 70% of the 300 global executive respondents expect their spending to increase over the next two years, with Canadian companies surpassing the global consensus by 12%. This is significant as nearly half of Canadian respondents plan to spend between 0.5% and 5% of their revenue on new initiatives. For a US\$1-billion company, this represents an anticipated expenditure of US\$5 million to US\$50 million annually.

More than 90% of executives surveyed globally indicate that climate change governance rests with C-suite executives or board members. This reflects the growing strategic importance of climate change for many organizations. They understand that climate change is not

just a risk area but also offers an opportunity to reduce costs, increase revenue and gain a competitive advantage.

Canadian companies are taking a comprehensive approach, expanding their climate change efforts beyond the enterprise through their entire supply chain. Forty-three percent of respondents said they are working directly with their suppliers to help them reduce their carbon footprint.

In Canada, BC is already seeing a substantial increase in climate change initiatives. The province's carbon-neutral government and Olympic Games, as well as the carbon tax and the recently announced Clean Energy Act, all emphasize the growing strategic importance of climate change.

Despite a progressive approach to climate change initiatives, 89% of Canadian businesses anticipate challenges in executing their goals. That's why the time to start strategizing is now.

Mike Mannella is partner, climate change and sustainability services, with Ernst & Young LLP. He can be reached at [mike.a.mannella@ca.ey.com](mailto:mike.a.mannella@ca.ey.com) or (604) 899-3540

---

## Workforce management key to success

As the global economy emerges from the downturn, businesses that have kept in mind the importance of their people will be among the first to rebound, says a new report from Ernst & Young. These forward-thinking organizations grasp the importance of aligning business and human resources strategies with programs to meet the diverse needs of their workforce.

The report, *Managing Today's Global Workforce*, is based on a survey of human resources, finance and risk management professionals and C-suite executives from global Fortune 1,000 companies. It finds that implementing programs to manage and nurture the development of employees is key to competitive differentiation and market success. And it is precisely those types of initiatives that employees are seeking in this time of economic recovery. Accordingly, organizations must incorporate an aggressive workforce management structure that encompasses diversity of thought to ensure the company's long-term success.

The report also reveals a common concern over future talent gaps among technical and middle management posi-

tions. In anticipation, companies are making changes and looking for new ways to retain and attract the best talent.

As more Canadian organizations take advantage of business expansion opportunities abroad (60% of responding companies have internationally mobile employees), integrating talent management programs into an organization's global framework is even more critical. If managed strategically, internationally mobile employees will help drive the organization's international success.

Here are the top three initiatives being taken:

- building an internal pipeline to fill future needs (64%);
- sharing global talent resources to fill key positions (33%);
- offering flexible work strategies such as job sharing, telecommuting, flex hours and phased-in retirement (31%).

For an expanded version of this article, please visit [www.camagazine.com/talentmanagement10](http://www.camagazine.com/talentmanagement10).

Ronny Aoun is executive director, human capital, with Ernst & Young LLP. He can be reached at [ronny.aoun@ca.ey.com](mailto:ronny.aoun@ca.ey.com) or (514) 879-8248



# Making sure the numbers add up starts with making sure the values are accurate.

You can't afford to guess when it comes to property portfolios. 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 work with you.

Make a real property expert - an AACI or CRA - part of your team today. Visit [www.aicanada.ca](http://www.aicanada.ca)



Appraisal Institute  
of Canada

**REAL VALUE EXPERTS**

Advisory Services | Consultation | Due Diligence | Feasibility Studies | Valuation



# Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

## The medium is the message

It's no secret that social networks are booming. But let's put into perspective how quickly they are growing. It took radio 38 years to hit 50 million users. Television took 13 years, the Internet four years and the iPhone three years. In that context, now consider that Facebook is adding 200 million users a month and Twitter reports more than 300,000 people are signing up every day. These statistics are mind-boggling, even to someone like me who has been online since 1981.

Much of this rapid growth is driven by the younger generation: 50% of the global population is less than 25 — and in North America, 96% of them use Facebook. That's a pretty astonishing percentage. Social networking is also increasing as people use their mobile devices to continually share their thoughts, access social media content and see what their friends are up to. Software such as Tweetdeck lets people access and filter the flood of information that flows through Twitter, whether it is related to the friends and people they follow or to track information posted about breaking news.

But social networks aren't just inane thoughts people post to their Facebook and Twitter accounts; it's the flood of video and pictures that people place online. YouTube reports that some 24 hours of video are uploaded to the service every minute — and when the iPhone was released, YouTube traffic rose by 1,700%.

What is perhaps most significant is that social networks are changing the very nature of how people search for information. At this point, Facebook is used for more searches than Google. And at 600 million queries a day, Twitter is now the largest search engine in the world.

What does it all mean? The key point here is that when people search for information on goods and services, they turn to other people on social networks for advice and guidance more often than they consult producers of the product or service itself. At this point, one out of four online searches for the top 20 global brands end up with user generated content, such as information on blogs, as well as what people post to Twitter and Facebook.

The result is that organizations are having to think

about advertising and branding in completely different ways. In the olden days a company could figure out an advertising and marketing strategy, build a campaign and put it out to the public. Today, lots of people are having lots of "conversations" about many topics, including the products and services that they use on a daily basis. They're placing online both positive and negative insight. And increasingly, when we search for information about a product or service, we're accessing that insight, in addition to — or sometimes in place of — a company's carefully crafted message.

That's why organizations are scrambling to change their approach to marketing and advertising. Just before summer vacation, I had the opportunity to speak at the annual Consumer Electronics Association CEO Summit in California. It was a pretty fascinating crowd, with senior executives from a variety of global entertainment and technology companies, as well as major global retailers that sell their products. The rapid pace of change in the online world, particularly with respect to social networks, is coming to influence these markets. It's been reported, for example, that IBM has combined some of its marketing and PR staff to deal with the impact of social networking. And Pepsi now devotes one-third of its advertising budget to interactive and social media.

The bottom line? Companies must think about how to reach their customers in new and different ways.

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

### STATISTICS ON SOCIAL MEDIA

**Facebook** [www.facebook.com/press/info.php?statistics](http://www.facebook.com/press/info.php?statistics)

**YouTube** [www.viralblog.com/research/youtube-statistics](http://www.viralblog.com/research/youtube-statistics)

**Twitter** <http://thenextweb.com/socialmedia/2010/02/22/twitter-statistics-full-picture>



**You see the opportunities,  
now capitalize on your vision.**

We've built a global leadership position with a singular focus on helping our clients achieve their objectives. We rely on a process of uncovering and analyzing market intelligence so that our clients can seize opportunities.

**We're There.**

Global intelligence.  
Innovative advice.  
Flawless execution.



**CUSHMAN &  
WAKEFIELD**®

Global Real Estate Solutions<sup>SM</sup>

[www.cushmanwakefield.com](http://www.cushmanwakefield.com)



# Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

## Enterprise software survey 2010

**W**ould you believe this is our 12th year for the annual *CAMagazine* ERP software survey?

Over the years we have expanded our roundup to include more and more functionality. This time,

we have done something new. You can now complete an online survey about your requirements, then view the 10 best ERP systems for your needs based on percentage fit calculations. You can also drill down for more details on each system. The percentage fit calculation is based on your weighting of each requirement (user-defined fields, security, etc.) and each category (industry, technology or financial requirements). For the link to the survey, visit the online version of this article. As always, we have segregated the ERP products into tiers based on customer revenue and employees and product cost.

Here are the top 10 trends shaping the ERP landscape.

**The economy:** investing in ERP is difficult in times of uncertainty. But vendors say business is picking up again. Perhaps ERP sales should be the bellwether for economic trends. In any event, vendors are still hungry and will be competitive at least in terms of licence costs.

**ERP for life:** not long ago, organizations selected a new ERP system every five to 10 years. They did this to stay competitive and because ERP systems were still relatively new. But now, many products offer the same basic functions. Today, most organizations don't acquire a new system unless they have very compelling reasons to do so.

**Integration:** this is still the biggest challenge for many organizations. When considering a new ERP system, companies often ask whether they should invest in ERP or best of breed. Ironically, many ERP systems are really best of breed under the covers. The ERP vendors have purchased software to expand their offering and their various systems have different user interfaces and databases. Ideally, there should be some integration between the databases and there should be only one security setup. Some ven-

dors will tout service-oriented architecture (SOA) as the panacea to integration. Think of SOA as the latest way to integrate applications. But you want to see it to believe it.

**Software on demand:** more companies are starting to outsource their software and data rather than maintain it themselves. That way, they don't need to invest as much in the computer infrastructure or IT resources. There are two outsourcing options: the hosted model and software as a service (SaaS). The hosted model offers a complete infrastructure of computing hardware and software. This

Criteria	Tier 1	Tier 2	Tier 3
Customer revenue	>\$200M	\$10M-\$200M	<\$10M
Customer employees	>500	50-500	<50
Licence fees	>\$300K	\$50K-\$300K	<\$50K
Implementation fees: licence fees	>2:1	1:1-2:1	<1:1

requires a separate installation for each customer. With SaaS, there is a single instance of the software, which can be accessed over the web by multiple customers at the same time. The technology that supports this is called multitenant architecture. The advantage of SaaS is that when the vendor updates its software, all customers are updated at the same time. For that reason, the hosted model would be preferable for customized software, which requires changes to source code. While Citrix or Terminal Services are sometimes used with the hosted model, they are not required for SaaS, which is typically web-based. SaaS is mainstream now for customer relationship management but has a way to go in ERP. Cloud computing is the hosted model except that it is done entirely over the Internet. It provides dynamically scalable hardware, software and networks as a service over the Internet and could be used for any computer application.

**Mobile ERP:** allows users to complete workflow tasks (such as approving purchase orders) from their mobile devices. The huge demand for mobile ERP helps explain SAP's recent investment of \$5.8 billion to acquire Sybase, known for its mobile technology.

**One throat to choke:** this means one vendor supplies an

entire software stack for your needs. Since it is responsible for all your software, it cannot point to another vendor when problems crop up. The stack approach offers the potential for better integration between the various layers as well as performance optimization. However, it can also lead to over-reliance on one vendor and a loss of negotiating leverage. One company that is promoting a stack is Oracle, which has ERP, database, middleware (for integration) and hardware (the company purchased Sun Microsystems in January).

*Mid-market focus:* all ERP vendors are still vying for the mid-market. An article on [itbusiness.ca](http://itbusiness.ca) entitled "SAP in 30 days; with the channel's help" (February 26, 2010) reads: "It seems unheard of or near impossible to implement SAP in 30 days, but SAP Canada president and channel chief believe they are heading in that direction with the help of channel partners." SAP is clearly targeting small to medium-sized companies now with its Business All-in-One system. You have to wonder whether it still needs SAP Business One, which was initially targeted to the same market.

*Vertical specialization:* some ERP vendors specialize in one vertical and offer not only industry-specific software but also advice on best practices. The major ERP vendors offer solutions that cross industries but do this in different ways. One way is to build multiple industry functionality right into the software, as is the case

with SAP Business All-in-One. Another is to extend the system to multiple industries through third-party developers who add extra functionality using the same tools as the ERP vendor. Yet another approach is just to acquire the vertical software as Oracle did in acquiring Retek, which is used by retail businesses.

*Consolidation:* it's definitely not over. An ERP vendor has to put in a lot of effort to win a new customer. But once it does, it can charge 18% to 22% a year for maintenance and support. ERP for life translates into a valuable annuity for ERP vendors and there is no quicker way to obtain clients than through acquisition.

*Third-party maintenance:* organizations resent paying the 18% to 22% annual maintenance and support fees to the ERP vendors. They are turning to third-party companies for support if they are content with current functionality or see no indication that the ERP vendor is investing in enhancements of value to them.

For an expanded version of this article, the survey charts and a link to the systems analysis tool, visit [camagazine.com/ERPsurvey10](http://camagazine.com/ERPsurvey10).

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

Thank You Canada  
for helping us achieve the #1 ranking  
in our industry again this year.

FORTUNE  
WORLD'S MOST  
ADMIRED  
COMPANIES  
2010

Meeting all of your specialized staffing and recruitment needs.

 Robert Half  
International

Accountemps ▪ Robert Half Finance & Accounting  
Robert Half Management Resources ▪ Robert Half Legal  
Robert Half Technology ▪ OfficeTeam ▪ The Creative Group

1.800.803.8367 [rhi.com](http://rhi.com)

Source: FORTUNE March, 22, 2010 © 2010 Robert Half International Inc. RHI-0510. All referenced trademarks are the property of their respective owners.

## CA profession “in a very good place”

**D**oug Baker almost didn't get to carry out his two-year term as CICA chair. In 2008 he collapsed at Calgary's Petroleum Club a few days before a CICA board meeting and was rushed to hospital with a grim prognosis: a tumor in the lining of his brain caused a seizure and required surgery. That successful operation was followed by four others to deal with a stubborn infection and he was on a mobile intravenous unit for much of 2009.

“It has been an interesting time,” says Baker, 57, who expects to have a final surgery to replace part of his skull with an artificial plate after his term as CICA chair expires on September 22. (Bill MacKinnon, CICA vice-chair, takes over as chair.)

The FCA, whose career in the energy sector spans more than 25 years, had a prior wake-up call in 2004, when he was admitted to hospital with chest pains and high blood pressure due to stress and excess weight. The next year, Baker signed up for a 15-day hike to Nepal's Mt. Everest base camp, itself an impressive 18,000 feet above sea level. “It was a highlight of my life,” he says. “I lost a good 25 pounds before I went, and then I lost another 10 pounds.”

For more than two decades, Baker has played a key role in educating new generations of CAs, first serving as Alberta's representative to the Board of Examiners for the UFE, then as its chair and, since 2000, as Alberta's representative to the International Qualifications Appraisal Board. “It was rare for somebody who had a full-time job in industry to be that involved in the profession,” says Steve Glover, FCA, former executive director of the Institute of Chartered Accountants of Alberta, who worked with Baker at the institute and in industry.

Today, Baker serves on seven corporate boards as well as several not-for-profit boards.

### What is your outlook for the CA profession?

I think we are in a very good place. The core of the CA profession is our members and it will continue to be strong as long as we continue to hire top-notch students, give them excellent training and provide a strong evaluation system that has very high standards.

### In your term as CICA chair, you've put in place a program to get more CAs trained outside of accounting firms. Why?

Historically, entrance to the profession had the potential for an hourglass effect. The narrowing in the hourglass has been the



**Outgoing CICA chair Doug Baker has played a key role in educating new generations of CAs**

number of training positions public practice firms provide. The number of students we can allow into our system to potentially write the UFE and become CAs was not really controlled by the profession but by the public practice firms. We want to see more companies sign on to train students.

### So training students in industry widens the waist of the hourglass or student bottleneck?

Yes. I think it's important to widen it and the profession has recognized that. While the experience you got as an auditor at KPMG or Deloitte or E&Y, for example, is very good, CA firms are not the only places that can teach the needed skills. A company such as BCE, for example, has 150 CAs across the country. Its finance group has a sufficient number of CAs to provide that same mentoring, leadership and training necessary to deliver those skills within a CA training program.

### What are the numbers like right now for CAs coming in and available training positions?

Last year about 3,100 students passed the UFE. Outside of the traditional audit function, we probably currently have 200 to 300 training positions. We should ultimately have 1,000 to 1,200 of our UFE graduates from nontraditional sources. Maybe

a third (of the total). I hope we can get there within five years. I wouldn't be upset if we do better. To me this is kind of a minimum.

### Where are Canadian corporations getting their finance staff from currently?

In many cases large firms hire people directly out of university. They want a training program for their students, so they turn to the CMA or CGA programs. Our job is to make sure we have a program that meets their needs so corporate employers will want and prefer to train CAs.

### When you look outside the profession, do CAs comprise enough of the market compared to CMAs and CGAs?

I don't think CAs should have every accounting job in the market. A big issue now is the market for audit and review services, which is opening in Ontario and Quebec for the other bodies. In other provinces, non-CAs have been able to do audits for years and CAs have not lost any market share. I don't see an immediate threat or concern there. I'm less worried about CMAs and CGAs for nonpublic practice positions. In this space, we also compete with MBAs, CFAs and international designations. CAs have a solid presence among the senior financial positions in the ROB 1000 companies that are significant influencers of our economy and financial markets. While our position is strong, I would like to see even more presence in these companies and throughout the economy. I think it's good for capital markets that we have a known, consistent product with expertise and ability in key positions. One thing I know is if we don't supply enough CAs, those positions will get filled by somebody.

### Somebody else?

Yes. That is my worry. If you look at the numbers of those other organizations, they are all growing. CFAs are growing tremen-

dously. Even CMAs and CGAs in many areas have more students than we do. That whole population of these other brands will fill positions if we don't take the bull by the horns.

### The CA profession is not growing as fast as they are?

We are not. At this point we are still dominating the senior positions in finance and accounting with a strong presence in the executive suite and that is where we want to be. We want to make sure that we don't become a small and very elite senior group that starts to lose some relevance.

### What other challenges and opportunities do you see for the profession?

Internally, we are just setting up the training model for CA students in industry outside of the normal audit stream. As a profession, it is incredibly important to get that right and to move forcefully. We must constantly monitor and evaluate what we are doing to ensure it is attractive to business and nonbusiness students, mid-career changers and immigrants as well as being attractive, competitive and efficient for employers that train new CAs. If we can provide greater and varied opportunities for CAs to get the training they need, it will help with some of those issues.

Second, the world is going global. Over time there will be more harmonization of accounting rules and audit and business practices. You see this with IFRS and new independent audit standards. What this says to me is there will be less of a need for separate professional accounting designations country to country. Given our relative small size, Canadian CAs are incredibly well-respected around the world. We are often told that Canadian CAs punch above our weight class on the international stage. We really need to focus on where we are going to fit in a world that is converging to a greater degree than in the past.

Paul Brent

## CA qualification

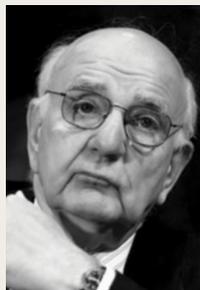
### Updated practical experience requirements increase flexibility for employers, students

Two modifications have been made to the profession's practical experience requirements for 2010. These modifications respond to input from CA firms and other business and government organizations approved to train CA students.

**Depth and breadth requirements** have been modified to allow employers more flexibility in creating CA training positions. Employers can now seek approval for positions offering depth in any of the six CA competency areas: assurance; performance measurement and reporting; taxation; governance, strategy and risk management; management decision-making; and finance.

**Descriptions of specific competencies** have been clarified to better reflect the competencies expected of the entry-level CA. These clarifications have required corresponding updates to the Record of CA Qualifying Experience, which all CA students are required to maintain.

Details of these modifications can be found at [www.catoadvantage.ca](http://www.catoadvantage.ca), or speak with your regional CATO liaison officer to understand the impact on existing and prospective CA training programs.



## CAs sponsor Paul Volker presentation

On October 6, the CA profession will be a proud sponsor of The Canadian Economic Forum — A Conversation with Paul Volker at the Metro Toronto Convention Centre in Toronto. Volker was the chairman of the US Federal Reserve under presidents Jimmy Carter and Ronald Reagan from August 1979 to August 1987. Since February 2009, he has been chairman of the Economic Recovery Advisory Board under President Barack Obama. “Sponsoring significant events such as this helps foster international dialogue on global economic issues,” says Kevin Dancey, CICA president and CEO.

*Details about this important upcoming event can be found on CICA's website [www.cica.ca](http://www.cica.ca).*

## CICA publication highlights importance of diversity

A new publication by the Canadian Institute of Chartered Accountants (CICA) is helping boards of directors address the importance of diversity within their organizations.

The CICA's Risk Oversight and Governance Board commissioned the special publication titled “Diversity Briefing: Questions for Directors to Ask.” The document uses real-world statistics and examples to clearly draw the link between diversity and business success.

Boards set the tone from the top and should monitor the impact of diversity initiatives on business goals such as recruiting and retaining top talent, improving performance and capturing market share.

The CICA publication was written by three authors from Ernst & Young: Fiona Macfarlane, managing partner, people; Diane Sinhuber, partner and Canadian leader, banking and capital markets; and Tanya Khan, partner, advisory services.

“The concept of diversity goes beyond race and gender to encompass age, culture, personality, skill, training, educational background and life experience,” notes Macfarlane. “The influence of a variety of perspectives can contribute to flexibility and creativity within organizations. Companies that embrace diversity may find it enhances profitability and performance.”

The publication can be found online at [www.rogb.ca](http://www.rogb.ca).

## Learning the new Canadian auditing standards

The CICA has developed an introductory course to help auditors of financial statements and others understand the new Canadian auditing standards (CAS). “Everyone who audits financial statements and students of auditing will require an understanding of the new standards,” says Gord Beal, CA, who leads the CICA's Canadian Standards in Transition project. The new online course, called Introduction to New Auditing Standards in Canada, is an effective first step in the learning process.”

Participants are guided through a sample audit, learning practical information about the various phases of the audit process. A panel of experts, including Cindy Kottoor of Neverest Inc.; Katherine Schamerhorn, principal with Grant Thornton LLP; and Eric Turner, principal, CICA Assurance, provides insights into how the standards are used.

The course is delivered in modules, making it convenient for participants to incorporate it into their schedules. The course, including exercises and final quiz, requires approximately two hours to complete. It qualifies for verifiable CPD credits for CAs.

The course integrates with a resource called the CAS Support

Tool, which the CICA launched in the spring. It is an interactive resource that provides a single point of entry to information auditors will need during the four phases of the audit process: pre-audit considerations, audit planning, performing the audit and audit conclusions and reporting.

The course and the support tool are online and offered free of charge. CAS applies to audits of financial statements for all types of organizations — large and small, public and private companies across all industries, not-for-profit organizations and governments.

The suite of 36 CASs fundamentally mirrors the requirements of the International Standards on Auditing. They are effective in Canada for periods ending on or after December 14, 2010.

CAS is principles-based and many of the new standards are consistent with current Canadian auditing practice. However, Beal says, “Some represent significant change and auditors must prepare accordingly.”

Introduction to New Auditing Standards in Canada, the CAS Support Tool and other useful resources and information can be found on the CICA's CAS website at [www.cica.ca/CAS](http://www.cica.ca/CAS).



ITAC annually consults with the profession to learn what its greatest concerns are. Here's a roundup of priorities facing CAs this year

by Robert Parker

# The top ten tech issues

This year's Top 10 Technologies Survey provides a contrast between old and new technologies and their impact on business. Of the 21 questions posed to respondents, 10 dealt with old technologies or issues — those well within everyone's comfort zone. The other 11 dealt with newer, more technologically complex issues. While ultimately these newer technologies may be equally challenging to business, their lower ranking could be the result of respondents' limited adoption

Illustration by RYAN SNOOK





or unfamiliarity with the risks, requirements and responsibilities associated with them. In performing an analysis of the top 10 technology issues, newer technologies and their impact on business were considered and were addressed within the context of the more established issues. Where percentages are provided, they refer to the responses within a particular category. This year, the top ranked issue was compliance requirements.

### 1. Dealing with compliance requirements

During the past 10 years, businesses have been confronted with increasing legislative and regulatory controls and reporting requirements. Added to these are the ever-changing standards — from technology requirements and business standards to financial reporting. One only has to consider the new payment card industry requirements, privacy and health privacy legislation, Basel II requirements for financial institutions and the coming international financial reporting standards to understand the scope and impact of these changes.

Changes in legislation, regulations or business practices usually mean changes in application software and related databases. These standards require new policies and procedures, new ways of doing business and training for employees. They also require changes to processes and technologies to ensure effective compliance. Such changes must be analyzed, planned, staffed, scheduled, completed, tested and implemented within strict time frames. IT departments, stretched with operational issues and frequently with shrinking budgets, must deal with the plethora of changes.

As a result, organizations might come up with solutions that trade off the long-term efficiency and effectiveness of structure, formality and control with simplified or ad hoc processes that are quicker and cheaper to implement. For example, some Canadian companies that had to become Sarbanes-Oxley compliant resorted to spreadsheets and other ad hoc solutions to document controls and compliance because modifying existing systems or developing new ones to monitor such compliance was too onerous and too time-consuming to meet the reporting deadlines. However, it is generally agreed that spreadsheets lack the rigour and discipline of professionally developed applications; lack quality processes for maintenance; and lack adequate controls for use and security. Their sustainability and control over time become increasingly difficult. Therefore, reliance on spreadsheets and ad hoc processes may not consistently meet the requirements of certain regulatory bodies. Further, their use may increase the risk of reporting inaccurate or misleading compliance information.

Businesses operating in multiple jurisdictions have been extremely hard hit as they must comply with multiple, sometimes conflicting, legislative and regulatory requirements. One example is privacy legislation where one jurisdiction may adopt legislation that establishes a “high watermark” that may create public expectations that similar practices are enforced in all jurisdictions. For example, the transparency requirements for privacy breach notification initially adopted by California in

2003 are now seen as a privacy best practice. Such practices may result in additional costs for business.

To meet the terms of the changes within the established deadlines, businesses must address legislative and regulatory compliance in an efficient and effective manner. Techniques such as treating compliance as a portfolio and establishing baselines based on common security, control or reporting requirements and then addressing the unique aspects of specific legislation and regulations separately are gaining acceptance. So too are practices to monitor changes in legislation, regulations and

## Changes in legislation or business practices can mean changes in application and software and related databases, which require new policies and ways of doing business

court cases to ensure the organizations’ practices reflect current requirements or public expectations.

### 2. Impact of the recession

The recession, which the global economy is starting to emerge from, meant that many businesses had to restructure and resize to reduce costs in the face of declining revenues. This resulted in reorganization and combining roles and responsibilities, making it challenging to ensure effective separation of duties and responsibilities. (The ability to maintain effective controls was reported as an issue by 60.9% of respondents in this category.)

Clearly, businesses are suffering due to the recession. However, cutting corners and reducing expenditures on security and control may increase an organization’s risk to both internal and cyber threats.

Businesses have been looking at new technologies, such as virtualization, service-oriented architectures and cloud computing in its many forms — storage, processing and infrastructure — to achieve efficiencies and control costs.

The recession also led to employee buy-outs and early retirements. While such moves reduced staffing costs they also reduced or eliminated corporate history, particularly in IT departments where knowledge of the business, related business processes and the systems, applications, data and technologies to support them are essential to ensuring effective use and continued availability of information technology.

The recession has had other unpleasant side effects — an increased risk of fraud, external and internal, and increased malicious activity. A 2009 survey by Ernst & Young LLP indicated that 75% of companies surveyed were afraid of reprisals from disgruntled ex-employees and were focusing on data loss prevention, in some cases even ranking it more important than regulatory compliance.

According to a Panda Security survey published in *USA Today*, many US businesses lacked basic cyber security with 52% lacking web filtering, 39% lacking threat training, 29% lacking anti-spam, 22% lacking anti-spyware and 16% lacking a firewall.



The recession has had far-ranging impacts on businesses, particularly in the downsizing and cost-cutting initiatives that impacted IT departments. While needed to survive, businesses must ensure their actions do not weaken the IT control structure and expose the organization to further risk.

### 3. Information management

Information management involves the collection and management of information from one or more sources and the distribution of that information to one or more audiences. It is about the information lifecycle and involves collection, processing, use, storage, retention, retrieval, sharing and destruction. Information management impacts those who have a stake in, or a right to, that information. It includes the organization of and control over the structure, processing and delivery of information.

Many organizations are struggling with the basic fundamentals of information management, including identifying ownership, responsibility, accountability and uses of information, all necessary components in ensuring the quality and integrity of information.

Reorganizations and downsizing resulted in many businesses struggling to rationalize business processes and systems, including integrating disparate systems while ensuring continued adequacy of security and control. In this category, 60.9% of respondents expressed concerns over ensuring adequate controls when integrating systems and 56.5% expressed concerns over data loss prevention initiatives. These were followed by concerns

over maintaining data integrity, dealing with data overload and the need for increased protection such as encryption of data.

One aspect of information management gaining prominence is data quality, which includes completeness, accuracy, timeliness, relevance, appropriateness, availability, maintainability and security. Increased use of data for business intelligence, increased information sharing and accuracy requirements has upped the importance of data quality.

Increasingly the value of information is driving the need to protect information. Business intelligence, the harvesting of information, is considered an essential element of understanding the business and its customers. Accordingly, businesses must ensure that information is effectively managed, protected and maintained and available when required. The introduction of an information management program is the first step that businesses should consider in managing the organization's intellectual capital.

### 4. Public trust

There is a growing unease of the systems and applications of organizations. Customers and stakeholders are concerned that the use of technology lacks robust security and controls and may expose them to such risks as data theft, identity theft, credit card fraud, privacy breaches and other compromises.

Identity theft — which involves impersonating any person,



## Hire. Faster. Stronger.

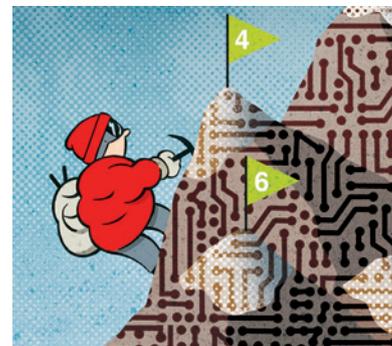
That's the end result of working with some of the most tenured, professional, and knowledgeable consultants in the GTA. The Mason Group specializes in the recruitment and placement of finance and accounting professionals. From Financial Analysts to CFOs, for permanent or contract positions, our experienced team can help you find the talented performers you need to succeed.

Toronto 416-733-9393 Mississauga 905-804-1100  
www.masongroup.ca

t 5 f g h n a 7 i  
q p r v 2 u % t l  
n w t h e a s v h  
l e f x m a s o n  
c t b g r o u p m  
+ o q z 1 f e 3 u  
a o e 8 c n d o t

( strategic search partners )

**Identity theft** is on the increase. People expect their personal information will be protected while entrusted to a business and will not be compromised. This requires that a business take measures to meet such expectations



living or dead, with the intent to gain an advantage, to obtain property or an interest in property, or cause disadvantage to the impersonated individual or another individual — is increasing annually. People expect their personal information will be protected while entrusted to a business and will not be compromised. This trust requires that businesses take measures to meet the public's expectations. Privacy legislation is designed to protect personal information and requires that organizations take steps to ensure an appropriate level of protection.

Increasingly, businesses that share information with partners are required to have protocols in place to ensure the security and integrity of shared information, particularly personal information, and ensure the rights of organizations to share that information.

Thanks to US transparency requirements, the public is aware of security breaches involving personal information, some of it on Canadian residents. While Canada has no such sweeping transparency requirements, there is public concern. Such concerns are exacerbated by fears of viruses, Trojan horses, key loggers, phishing and pharming attacks all designed to compromise systems, their users and the information they process.

In a study by McAfee Avert Labs, 135,000 new pieces of malware were identified in 2007; by the end of 2008, 1.5 million pieces of malware were identified, or 3,500 pieces of malware each day. This trend continued in 2009, resulting in business paying increased attention and incurring costs to protect computer systems and networks.

Technology affords businesses many advantages but also creates risks and obligations. Businesses must address the public's concern by ensuring the integrity and protection of information, the quality of the processes and controls surrounding that information and they must effectively manage their information resources.

### 5. Emerging technologies

New technologies create opportunities and risks. An enterprise risk management program that monitors each initiative, including the technology required to support the initiatives, should be in place to ensure that, prior to implementation, the risks of introducing technologies is well understood and accepted.

One technology identified as a concern was cloud computing. It is the use of the Internet and virtualization concepts to create an environment in which the infrastructure, applications, data and security are provided by resources residing on the Internet.

Depending on the nature of the cloud, users can't identify and/or predefine the transmission paths, processing sites and storage locations. Data placed in the cloud may or may not be encrypted, depending on the user.

The concerns include data availability, data recovery, legislative concerns over offshoring of personal information, particularly personal health, and ownership to name a few. Cloud users are worried about where data is located, the robustness of controls over data in that location and the availability of that data, particularly when needed for continuity of operations.

Social networks such as Facebook, Twitter and LinkedIn as well as the more focused Classmates.com and MyLife are increasingly used in business environments; to a limited extent by the business and to a greater extent by employees for personal reasons. Staff time and posting business information are key concerns.

A 2010 UK study revealed that 61% of IT decision-makers see the security threat of social media use by staff as their biggest concern. Further, 55% of employees surveyed admitted to downloading software from the Internet to a corporate computer. Almost half, 48%, of those downloads were not work related. And 58% of staff admitted to posting company information on social media. While these are UK statistics, there's no reason to doubt that similar situations exist in Canadian businesses.

Many organizations lack effective policies, procedures and tools to deal with the use of these technologies or to effectively monitor their use. In the survey, 73% of respondents said they have strict policies around the use of social media and 89% have policies over Internet downloads, however the study showed that one in three were unsure these were being adhered to.

Another area of concern is bring your own technology (BYOT). Employees are using personal technology such as home computers, BlackBerrys, iPhones, etc., for business activities such as checking and sending e-mail, scheduling meetings, responding to questions, conducting business-related searches or accessing proprietary business information. Current environments may lack security and controls software to prevent the use of BYOT and provide a conduit for protecting against unauthorized access to and use of business information and resources.

Also, 45.5% of respondents expressed concern over the use of computer on a stick systems and USB memory.

Organizations should establish procedures to monitor new technologies and assess the opportunities and risks. An IT risk management program, integrated with the entity level enterprise risk management program, would provide an ongoing

assessment of such impacts and provide management with valuable information for use in an IT governance program.

#### 6. Collaborative — extended enterprises

Businesses are increasingly providing other organizations with portals and gateways to information to increase interoperability and enhance efficiency. In some cases, end users may not know that by accessing a business website they can be directed to a different business or offshore site where information may be stored or transactions processed.

Such interoperability requires changes in the systems development, particularly where diverse environments are involved. It also involves issues of the management of intellectual property as well as creating and maintaining a legally compliant environment; particularly where personal information is involved.

There is also concern over the lack of hands-on knowledge of the complete environment and the need to rely on third-party reports on the design and operational effectiveness of security and control in environments operated by business partners.

The issues with collaborative and extended enterprises illustrate the need for organizations to articulate their IT strategy and define their security, control, service level, reporting and business continuity expectations to suppliers, vendors and business partners. There is also a need for effective monitoring and escalation procedures in order to avoid delays in addressing problems.

#### 7. Infrastructure

This is not just computers, networks, application and system software, utility programs and devices that reside in an organization's data centre. It includes devices that can be attached physically or electronically to an organization's technology infrastructure.

Portability of data was identified as a concern by 70% of the respondents. More sophisticated devices are coming on the market almost daily. They can store gigabytes of data in seconds and fit into a pocket. These devices are a concern because of version control, location of data and information integrity and management as well as legal and regulatory issues, particularly where personal information is concerned.

While some newer USB memory devices offer increased protection through the use of encryption and passwords, many

organizations have yet to adopt them. Other USB connected devices offer increased storage, up to a terabyte, thereby having the ability to store considerable business information. Additional risks are posed when the devices are attached to PCs that are on an organization's network and employees have access to business resources and information.

MP3 players, digital cameras and phones can be attached to networks through PCs and provide another source of memory to download and record information from business networks.

The CICA's Information Technology Advisory Committee (ITAC) issued a white paper on data centric security that addresses



## Looking for something less permanent?

The Mason Group offers Contract Services

The Mason Group's Contract Division specializes in the recruitment and placement of finance and accounting professionals on a project or interim basis. From Financial Analyst to CFO, short-term leaves to long-term projects, our tenured Contract Division can help you find the talent you need to meet your deadlines and complete your strategic assignments.

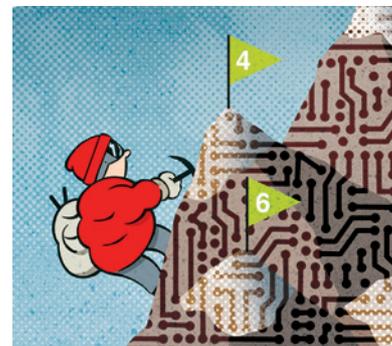
If you're looking for flexibility, give The Mason Group a call.

Toronto 416-733-9393 Mississauga 905-804-1100  
www.masongroup.ca

t 5 f g h n a 7 i  
q p r v 2 u % t l  
n w t h e a s v h  
l e f x m a s o n  
c t b g r o u p m  
+ o q z 1 f e 3 u  
a 0 e 8 c n d o t

( strategic search partners )

**As the economy improves** and IT projects are restarted, businesses will likely continue to see the skills and staff shortage trends that were so prevalent prior to the recession rise in importance



the issues around forming a security policy that focuses on the data itself, whether at rest or in motion, and emphasizes the use of data encryption to provide additional security.

In this category, 55% of the respondents identified wireless communications as a concern, because of the possibility of adding devices and users through a single authorized user without the knowledge and consent of the organization.

A similar percentage identified software currency as an infrastructure concern. Organizations are exposed to new software and new versions of existing software. While early adoption may not be the best strategy, those who use existing software long after new products have been introduced run the risk of diminished or no vendor support, leaving the organization to seek a source other than the vendor. This may not always be possible.

#### 8. IT governance

Governance is about alignment and value — alignment of the IT department's goals and activities with those of the enterprise; and value investing in the right projects, using the right technology and having the appropriate skills. Value is about achieving the most by using appropriate but not excessive resources.

IT governance consists of the leadership and organizational structures and processes that ensure the organization's IT sustains and extends its strategy and objectives. As such, it involves boards of directors and audit committees, supported by senior and line management.

In addition to the lack of effective IT governance activities, the lack of awareness of IT governance issues at the board and audit

committee level was an issue (47.1% cited poor alignment of IT initiatives with the organization's strategy).

IT governance activities can improve the entity's use of IT in support of the organization's goals and objectives. It can change the use of IT from a supporting role to that of an enabler of new strategies and services, such as online auctions, travel services or merchandise sale.

#### 9. IT resources and skills

In 2008, availability of IT skills ranked No. 1. In 2009, it had dropped to No. 10. This may be because of the recession and the effect on cancelled or delayed IT projects and the downsizing undertaken by many organizations. Its slightly improved ranking this year could be attributed to the improving economy. As the economy improves and IT projects are restarted, businesses will likely continue to see the skills and staff shortage trends so prevalent prior to the recession rise in importance.

This concern illustrates a number of interrelated issues. First, the availability of qualified resources. The recession, preceded by the rush to outsourcing in the late 1990s and early years of this decade, left many believing there were few jobs in IT. Those who pursued an IT education focused on Internet-based service, LAN support and help-desk services, leaving few to undertake the more rigorous tasks of business analysis, large system development and support and maintaining large, complex systems.

While many organizations migrated processing to smaller platforms, there still is a need for skilled IT staff to address business issues, offer business solutions, design and support user-defined requirements and design and develop required software.

Many organizations have implemented packaged software, some very sophisticated such as enterprise resource planning systems. However, these usually require significant customization through software options and/or user exits to effectively support the business processes.

The need exists for IT professionals who understand technology and business issues and can communicate technology issues with the business to ensure that needs are adequately supported. Perhaps businesses, similar to the approach used by public accounting firms, will have to create in-house training programs to teach graduates the requirements of their industry and the technology and software used.



### Reach your audience

Canada's top business decision-makers spend far more time reading *CAmagazine* than any other business publication – there's no better way to reach this influential and affluent audience.

For more information contact: Bruce Feaver at 416.204.3254 or: [bruce.feaver@cica.ca](mailto:bruce.feaver@cica.ca)

## 10. Knowledge management

Closely related to No. 9 is the area of knowledge management. Respondents indicated that as workers retire, organizations need a program to capture the corporate history and that of the key systems, applications and business process to enable continuity of operations and support. Also, 64.7% expressed concern that the loss of skilled workers will require hiring and training programs to transfer the knowledge and skill the organization loses when employees retire. Further, 58.8% expressed concern over the concentration of knowledge, whether in key employees or supplier organizations, that must be managed in order not to expose the organization to loss of the ability to maintain operations and support systems and applications that enable business processes. Organizations must be careful that when they outsource business processes that they not outsource business knowledge and experience.

Respondents also recognized the value of such business information as budgets, forecasts, product procurements, technology advances and adaptations, which could alert a competitor to future plans. Copyright, patent and ownership of intellectual property were also of concern, especially when outsourcing operations or information processing.

## Methodology and conclusions

ITAC established a framework for conducting the survey. It identified areas of IT interest and asked respondents to select and rank their top 10. Within the selected items, respondents were asked to rank a number of issues they thought significant.

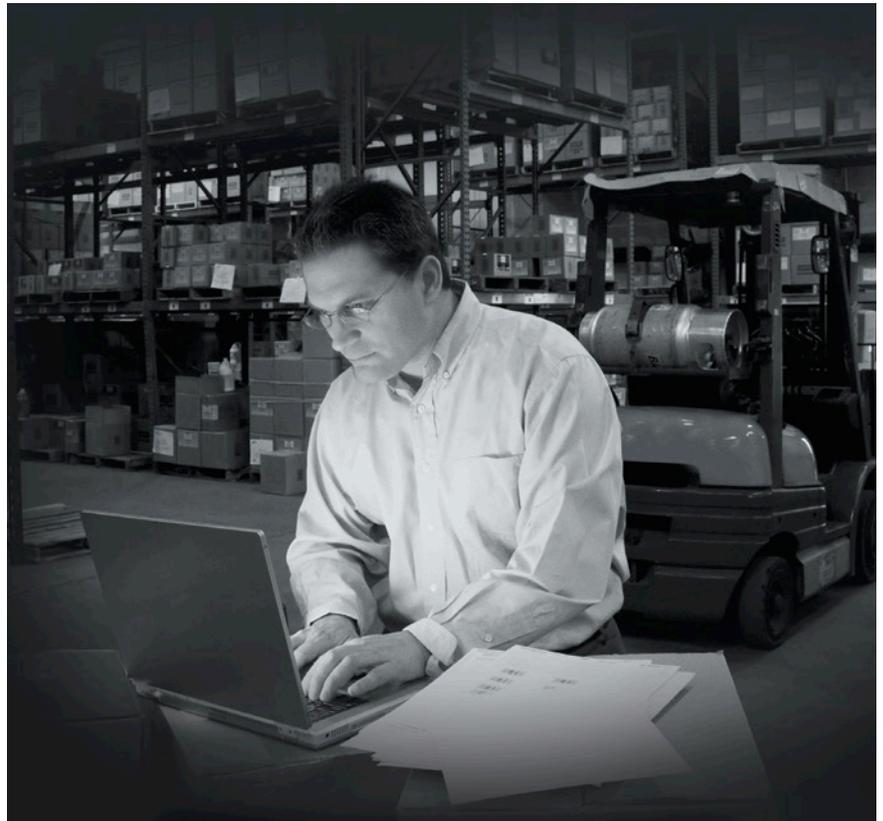
A wide variety of responses were received, reflecting the diversity of organizations, IT environments and their level of maturity in addressing emerging technologies. ITAC would like to thank its members, the CICA IT alliance and members of the Toronto chapter of the ISACA for their support.

The top 10 technologies indicate the interrelation of the categories and their impact on businesses in Canada. Where organizations do not have a technology solution they will have to increase reliance on individual staff performance. Accordingly, attention will have to be paid to training and increased monitoring of employees' actions, which require policies and procedures to address the 21st-century environment.

In creating an open and ever-expanding technology environment, we have

inadvertently opened the door and increased risks to business. Enterprise risk management, proactive risk assessment and effective risk management solutions are needed to ensure the benefits of new technologies are not lost through compromises to technology and information.

Robert Parker, MBA, FCA, CA-CISA, CMC, is a retired Deloitte & Touche partner, past international president of ISACA, currently on its frameworks committee, and is the primary architect of its IT assurance framework. He also serves on CICA ITAC



**PORTRAIT**  
Manages a growing business.

**FINANCIAL PORTRAIT**  
Seeking a tool to help plan his team's growth and HR activities.

**Desjardins & Co.**  
It's all of Desjardins supporting your business.

EmployerD: tailored flexible solutions for leading-edge human resources and payroll management.  
Visit [desjardins.com/payroll](http://desjardins.com/payroll)  
1 888 311-1616 or 514 356-5050



With virtualization, the ghost *is* the machine.

Solutions take up almost no physical space and costs are low By Dwayne Bragonier

# Look boss, no hardware!

IT IS APRIL 26, FINAL CRUNCH TIME FOR THE T1 PROCESSING SEASON.

Julian Emmanuel, a partner at Kanish & Partners, a 22-member CA firm, is on the phone with Mike Turczyniak, owner of Mico Systems Inc., an IT outsourcing company that provides solutions for the firm. Emmanuel is reporting a software glitch that is causing minor document filing problems in Kanish's document management system. Turczyniak tells Emmanuel the problem is a minor hiccup and that shutting down and restarting the file server will correct it.

Illustration by RYAN SNOOK





In another office or in another time, this suggestion could have created uncertainty about what to do: does Kanish just live with the inconvenience of the software hiccup for four more days, until April 30, or does it restart the server and risk the well-known fact that whenever you power down equipment, it may not power up seamlessly? To complicate matters further, it would take Turczyniak about an hour to drive to Kanish's offices to personally oversee such a critical operation.

Fortunately, in today's IT world, this is an easy decision for Emmanuel to make and within minutes Turczyniak had personally shut down Kanish's server and restarted it. He had complete control of the environment and would have been able to take care of any difficulties that arose. There was no powering down of any hardware devices at all, and the whole process caused less interruption to Kanish's team's processing than the time it takes to enjoy an afternoon cup of tea. How was this possible?

Kanish had gone virtual. In February, Kanish had wisely upgraded its Windows 2003 server to a Windows 2008 R2 virtual server and thus its problem was extremely easy to solve — virtually.

### A huge step up technology's evolutionary ladder

Virtualization is the second-most significant step in the evolution of desktop computing, yet most of us have no idea what it is all about. It is important to understand this technology so that some of its wealth generating power can be harnessed. (The single most significant evolutionary step is the Internet, although some would suggest that the Internet falls into the wide explanation of virtualization.)

What needs does virtualization address? Howard Brown, the chief technology officer and president of Doc.It Inc., a document management software suite for accounting firms, says, "About 10 years ago, a technology was required to meet the need of developers and quality assurance departments to develop and test in multiple environments. Maintaining multiple hardware desktops was cost prohibitive, space restrictive and labour intensive. Virtualization allowed them to use one hardware machine to run many separate operating environments, different operating

systems, different application versions, infrequently used driver combinations and so on."

What this means is that one desktop machine could maintain several virtual machines running at one time and all using one hardware investment: one keyboard, one monitor, one disk drive, one processor and one RAM configuration. These virtual machines could be started and stopped as needed. They could easily be cloned (copied and pasted) so a specific configuration could be tested, then, in a matter of moments, the virtual desktop could be restored and the next variation tested. At a time when configuration of a complete desktop would take hours, maybe even days, this had a huge impact on the

## Virtualization is the second-most significant step in the evolutionary ladder of desktop computing, yet most of us have no idea what it is all about

development and testing departments.

This advancement at the desktop level soon gave rise to data-central virtualized servers and finally to what is commonly called cloud computing. But we are getting ahead of ourselves. First let's get to know what this significant leap forward is about and take a look at some significant changes it is presenting today, and will present in the near future.

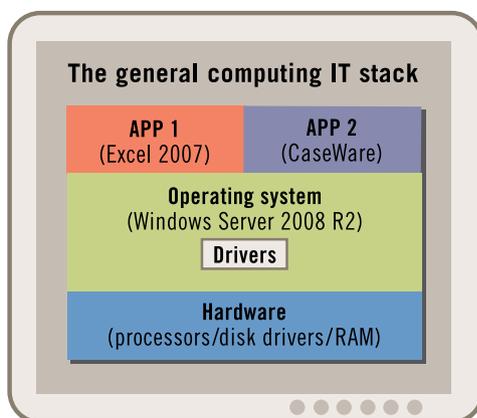
### Hardware optional

Virtualization is the separation of the physical hardware layer from the operating system layer. It involves running a machine that doesn't physically exist. That's why the virtual machine is on the top of the list of breakthrough evolutionary ideas concerning software. Of course, there is some hardware necessary, but it is not dedicated to any one virtual machine.

Virtualization involves a general computing stack. A stack is a hierarchical layering of elements that rely upon one another. Each layer is built on top of the previous layer. Strictly speaking the stack is usually communicated as a push-down list of requests. In "The general computing IT stack" (below left), you can see the simplified layers of a server or desktop prior to virtualization technology. In "The hypervisor virtual IT stack" (p. 31), you can see the layers of a server or desktop incorporating the virtual layer.

For example, Excel will make a request to Server 2008 R2 for disk space to save a file. Server 2008 R2 will then pass the request to the physical disk drive. In the virtual model the request from Server 2008 R2 is routed or queued through Virtual Machine Monitor. So Server 2008 R2 routes the disk space request via Hyper-V to the physical disk drive. That is, application to operating system, operating system via hypervisor to physical hardware.

The huge evolutionary leap of decoupling the one-to-one relation of the hardware to operating layer is what virtualization is about. Computing in the past required compartmentalized computing, i.e., for applications and the operating system to run on one physically distinct hardware machine. This one physical hardware platform to one operating system layer is now





forever behind us. Prior to virtualization, technologists generally accepted that the overall utilization of hardware resources averaged less than 10% to 15%. Yet hardware resources were there 24/7 whether they were immediately required or not. They were configured to meet either peak demand or future expansion demand. The business value model of virtualization revolves around the decoupling of the layers, which is explained below.

### Server consolidation

Server consolidation allows you to run several servers on a single physical machine. When you bundle virtualized operating servers onto one physical server you receive immediate tangible busi-

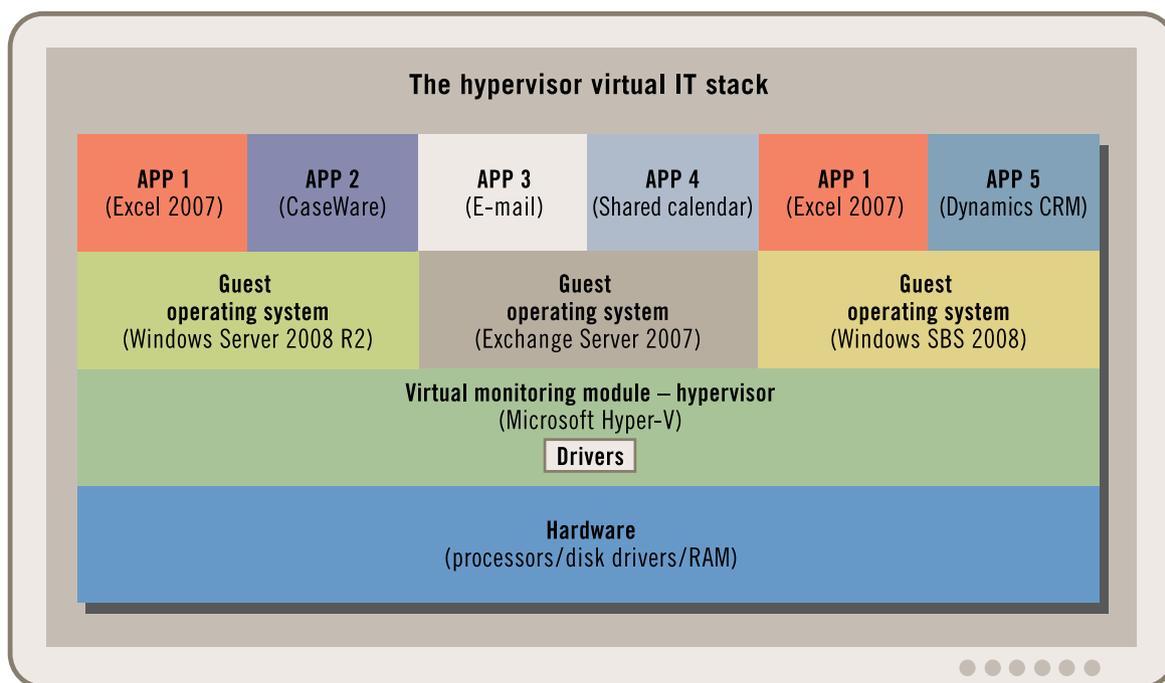
ness value. Server consolidation has two distinct values: it saves money on hardware purchases and saves money on ongoing maintenance and support.

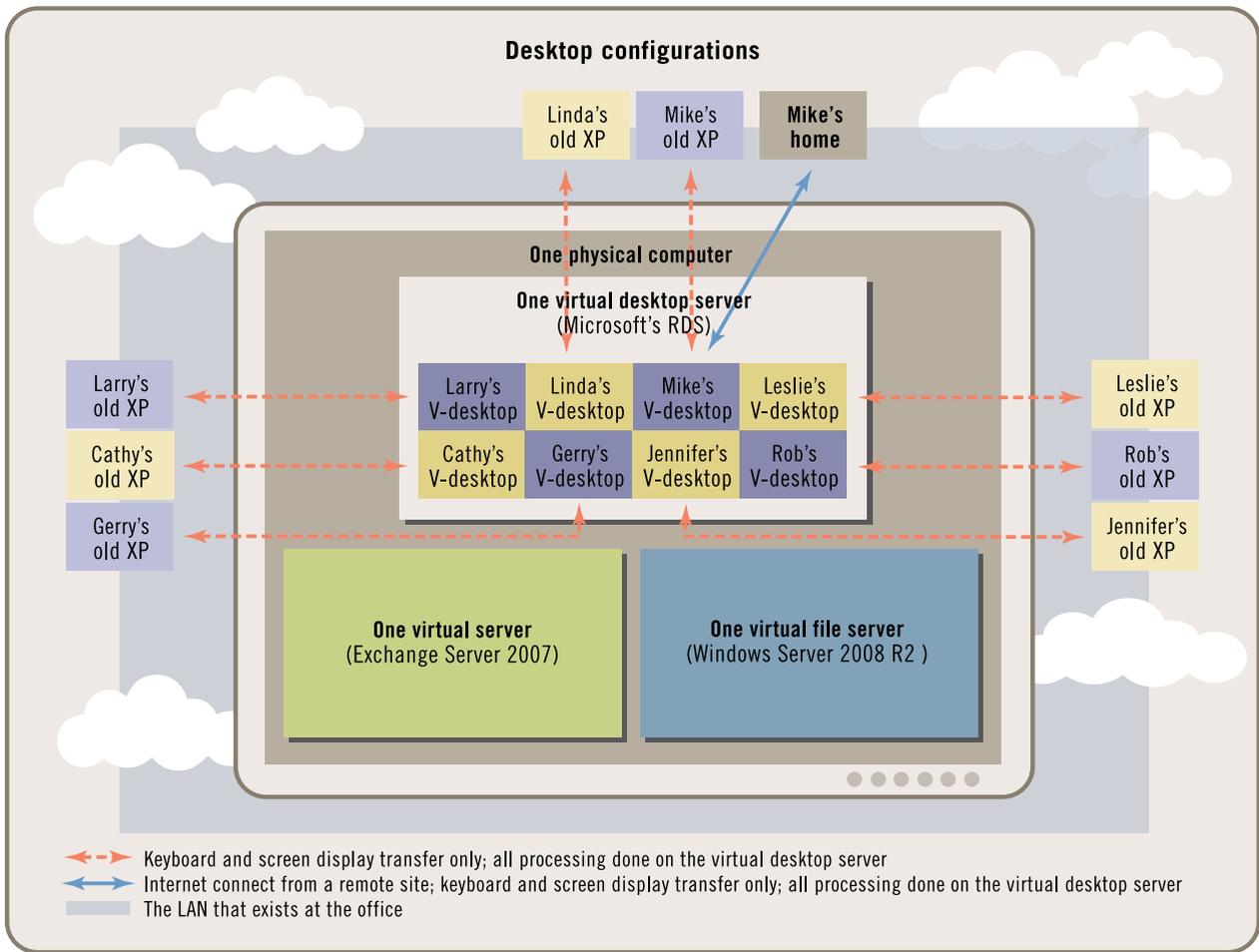
When Kanish upgraded its servers in February, it purchased one machine with multiple processors, a large volume of RAM and a large disk array. It then installed virtual servers: Server 2008 R2, Exchange Server 2007 and Remote Desktop Services (RDS) server. Contained in one physical box, this virtualized server configuration saved Kanish thousands of dollars in hardware purchases. It also saves into the future with consistent configuration and patching of the operating systems. It now becomes easy for the external remote technology expert to remotely maintain the hardware drivers and operating system update patches.

This savings extends to other shared resources such as on-site and off-site backup and redundant power conditioning. They also extend to reduced capital costs by increasing energy efficiency. There is a large aggregate effect that underutilized computers have on the energy grid. VMware, a

California-based company that provides virtualization and cloud computing products, has stated that “most servers and desktops today are in use only 5% to 15% of the time they are powered on, yet most x86 hardware consumes 60% to 90% of the normal workload power when idle.”

For larger installations, the reduction in power consumption is an easy return on investment measurable savings. Gartner Inc., a Connecticut-based IT and advisory firm, estimates that every virtualized server saves 7000 kW-h of electricity annually. This translates to about \$700 a year direct savings. It also reduces four tonnes of CO<sub>2</sub> from the atmosphere, the equivalent of taking 1.5 cars off the highway. Kanish virtualized three servers into one,





## Virtual conversations

### DaaS — desktop as a service

This is sometimes referred to as hosted desktop services. It is the delivery of a virtual desktop infrastructure over the Internet. This can be delivered via a third-party vendor. **Windows Remote Desktop Services (previously known as Terminal Services) and Citrix XenDesktop are examples of this technology.** The main advantages to this desktop service is the provider services all your backend operations for data storage, backup, security, application and hardware upgrades and disaster planning. You can run a desktop in one location (your provider) and have it controlled in another.

### IaaS — infrastructure as a service

This is sometimes referred to as enterprise-level hosting. It is the delivery of all computer infrastructure requirements, from a third-party vendor, over the Internet. Its most popular application is in the data center where complete server resources are delivered as a service. This service addresses the actual hardware resource component requirements such

as disk space usage, processing power, RAM requirements and network bandwidth. This service is usually billed based upon usage. It is the base layer of the three layers of cloud computing. **Examples: Amazon web services, Microsoft's Cloud Infrastructure Services, Rackspace Cloud**

### PaaS — platform as a service

This is sometimes referred to as cloudware. It is the delivery of operating systems and all associated services over the Internet. This moves the resources from privately owned computers to Internet cloud IaaS providers. It is the second layer of the three layers of cloud computing. **Examples: Google App Engine, Microsoft Azure Platform**

### SaaS — software as a service

This is closely related to the application service provider (ASP) and to the application virtualization (App-V) models that some describe as a subset of SaaS. It is the delivery of software applications over the Internet to a computer and is the third of the three layers of cloud computing. In this capacity it delivers the application on demand as needed. **Examples: Salesforce, GoogleApps, Banking — DB**

a possible direct yearly savings of \$1,400, and the equivalent of taking three cars off the highway. Now that's impressive.

#### Desktop consolidation

Desktop consolidation allows you to deploy multiple virtual desktops on one physical hardware platform. Kanish also took advantage of this huge consolidation savings by deploying Microsoft's RDS server (previously known as Terminal Server). Within its office LAN environment, the firm needed to upgrade much of its workstation hardware to handle the emerging resources required by the newest operating system, Windows 7, along with the aggressive, efficient and productive way its team members were proactively utilizing the interoperation of multiple applications opened at the same time. The team members, like most of us today, work with multiple monitors and therefore open and work with multiple documents at any given moment. Kanish's existing XP- and Vista-based workstations needed to be upgraded. It just couldn't handle the resource requests made in this environment and was experiencing a slowing down of its technology tools. However, to upgrade three servers and all the workstations would have been an onerous endeavour.

Once again virtualization came to its aid. Kanish simply ensured that one new hardware platform could host its virtual server and virtual desktop requirements. The firm now uses its previously owned workstations to access its RDS desktop session. It experienced tangible hardware and service savings in not requiring the configuration time needed to deal with each workstation one at a time. Kanish was also able to push huge processing improvements out to its team members within an acceptable budget and within a very short deployment time frame.

There are many advantages to virtual desktops, whether you use Microsoft's RDS server, Citrix's XENdesktop, VMware's Workstation or a host of other solution providers. They allow for quick deployment of the complete desktop and of the applications utilized at the desktop level. They also enable work scenarios never available before: work from home; work from the client's location; and hot-desking (the ability to work from any vacant workspace in the office). These providers also assist in keeping critical information secure by removing the application and the desktop from the workstation being used to access the virtual desktop. This securing of data has a substantial effect on minimizing the risk associated with the newly revised Personal Information and Electronic Documents Act.

Data security is an often undervalued benefit to virtualization. A public

accounting firm employee who has to carry client data on a laptop or USB key because he or she cannot access a virtual desktop is exposing the firm to substantial fines and public embarrassment should the laptop or USB key be lost or stolen. Have you considered the impact on your firm's reputation if you were required by law to notify all clients whose data may have been on the stolen device? With virtual desktops, this exposure does not exist, as all data stays on the data server.

In "Desktop configurations" (see p. 32), you can visualize the impact of virtualized hardware and virtualized desktops — one physical box with multiple processors, GBs of RAM, a huge disk array.

Current XP workstations are only used to provide login access to the virtual desktop server. The old workstations simply provide keyboard, display adapter, monitor and network interface card usage so the individual can remotely control these functions on their virtual desktop. All the actual processing power and resources are supplied by the virtual desktop's hardware. Even processing from home or a remote location using a simple home network connection of possibly just a 3G USB modem can produce wonderfully fast processing speeds via virtualized hardware platforms.

#### Application consolidation

Application consolidation allows you to deploy an application once for the benefit of all clients. Most virtual desktops provide

## *CA*magazine wins seven medals at the 2010 KRW AWARDS



*CA*magazine received the most awards at the 56th Kenneth R. Wilson Awards for the business press, winning five Gold medals, including the "Best Issue" award, and two Silver. The awards ceremony was held Tuesday, June 1<sup>st</sup> in Toronto, where *CA*magazine also received nine Honorable Mentions for works published during the 2009 calendar year. A total of 68 different publications submitted more than 600 entries in the 21 written, visual, online and special categories.



Reach your audience with an advertisement in *CA*magazine

For more information contact: Bruce Feaver at 416.204.3254  
email: [bruce.feaver@cica.ca](mailto:bruce.feaver@cica.ca)

management tools that allow you to install and upgrade applications once for all desktop occurrences. It is now more efficient to load the next version of the application once and know your team is utilizing the most recently approved version.

Application consolidation also allows you to virtualize the application only and deliver it to any desktop. Applications can be provided as needed instead of installing just in case. This will substantially decrease application deployment costs and reduce the inherent risk associated with mismatched application usage.

### Agility

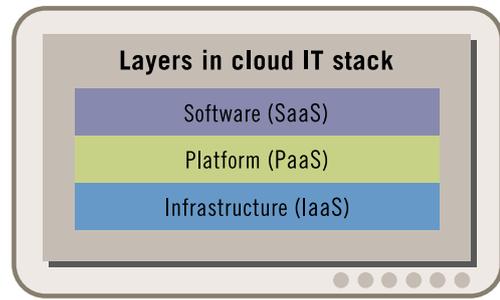
Agility in an organization is the ability to respond quickly and easily and be flexible and adaptive to change. Most of the big management gurus categorically state there is a competitive advantage to more agility. Agility, in virtualized technology, is exemplified in many situations such as scalability or workload resource balancing and downtime reduction.

Scalability or workload resource balancing becomes extremely easy. Once operating systems and applications are virtualized, the firm can easily allocate, add or change the usage of the hardware components based on demand.

These services are no longer purchased with a maximum usage or future usage mentality. Servers and desktops can be migrated easily to new platforms or resources easily modified (RAM, processors, disk space), as the operating systems are no longer tightly aligned with the underlining hardware. If a virtual server needs more processors dedicated for its usage, it can be done with a click of the mouse.

The concepts of scalability are exemplified via a clone or replicate of a standardized workstation configuration. This virtual desktop can be easily sent to the client. Need a new workstation? Request the service and it is delivered to you. It's almost magical.

Downtime reduction is just what the name implies: your server or your desktop is not available. This is usually because



of hardware repairs or scheduled hardware upgrades as well as disaster recovery. Prior to virtualization, this was a time-consuming process due to the direct connection of the operating system layer to the hardware layer. You could not just remove a hard drive, place it in another machine and expect the operating system to start up.

Again, in a virtual environment the operating systems and applications exist in a file bubble. This self-contained individual file bubble can be easily and efficiently moved from one hardware platform to another for repairs or scheduled hardware upgrades. Your complete server can be copied onto a new hardware platform and your team can be up and running within minutes.

### A hosted environment

So far, the discussed concepts of virtualization apply directly to a self-hosted environment. Your firm has purchased what is required and maintains the investment.

This can be illustrated in the simple analogy of a resident-owned house. If one person purchases a house and lives in it, he or she would have resources such as phone, heat, water, stove, etc., available for his or her use. Should the person marry and bring another into the environment, these shared resources would become more cost effective. If the couple were to have

## Which is the virtual way to go — Microsoft's Hyper-V or VMware vSphere?

Given that Hyper-V comes lock, stock and barrel with Windows Server 2008, it's simply more bang for the buck than VMware. For a single-office accounting firm, this operation system bundling provides a more cost-effective solution.

There is no question that VMware was the de facto standard for many years. However, over the past year or so, Microsoft has deployed the same strategy that it has used for other late start applications and staged big market share comebacks, such as web browsers or e-mail. The release of Windows Server 2008 R2 last year has placed Microsoft on a level playing field with VMware.

Another advantage to the Microsoft Hyper-V solution is the holistic approach Microsoft has developed with both its client base and its partnership base. The software

giant has a long-standing history of providing a software solution that runs from the desktop to the server, from the smallest business to the biggest business. This therefore provides Microsoft with a substantially larger partner-based marketing force that they have been proactively grooming for virtualization sales.

However, don't count VMware out of the race. In VMware's defense, it does provide a substantially more robust management and support layer. For the mid-size business to the high-end business, the cost benefit of a bundled solution becomes clouded by the technology department's overall cost of application configuration and deployment, monitoring of resource allocation, and policy and audit administration.

— DB

children, the resources of the house would be even better utilized. This way everyone benefits.

However, sometimes the capital outlay and maintenance costs make it prohibitive to own a house. The same holds true for many small and medium-sized enterprises. They are not in the technology business. They neither enjoy it nor understand it and are not interested in it. They also experience major restrictions on large capital outlays.

To address these needs, independent technology companies offer space on their hosted environments. Think of these as rooming houses. Continuing the house analogy, it is an alternative to raising the capital and other resources to purchase, maintain and upgrade a house. In a rooming house (hosted environment), you receive most of the benefits of ownership but you cannot truly enjoy isolation from others.

For many SMEs, the benefits of purchasing the services of an external hosted environment by far outweigh any disadvantages due to lack of isolation. You could release much of the IT skills to the host owner. You definitely leave all the hardware, backup, redundancy and disaster planning to the host. The problem is there is not enough individual segregation available for some high-end tasks. You cannot isolate your operations completely from the other occupants of the rooming house and every once in a while software applications cannot coexist in this environment.

Several SMEs avail themselves of this solution. They release themselves from the large initial capital investment and from much of the cost associated with IT maintenance and support. These and other advantages outweigh the disadvantages of the lack of true isolation within this hosted scenario.

Now let's get out of the house and visit a hotel solution, or as most call it, the cloud.

### The cloud concept

The five-star hotel analogy fits the cloud concepts well. The cloud takes the described concepts of virtualization to an on-demand model. In a hotel, if you need more rooms for a night or longer, you request it. Need maid service or a cot? Call the front desk. Water won't turn off in the sink? Let hotel maintenance know. You need access to an event tonight? Talk to the concierge and it will be taken care of. New rugs in the hall required, new batteries in the smoke detector required, snow

removal needs to be arranged — don't give it a second thought, hotel management has that all bundled into your fee.

It is only in the past several years the isolation of a five-star hotel has been available to us, although the cost is not affordable for all yet.

Cloud computing has the ability to compartmentalize and isolate all your operations from everyone else in the cloud. So now you can have the best of all worlds: server consolidation, desktop consolidation, applications consolidation, and agility, all as a pay-on-demand model.

In "Layers in cloud IT stack" (see p. 34) you can see that this



## This tax season choose the most powerful collection of income tax compliance products ever developed.

The DT Max suite of personal, corporate and trust tax products and DT FormMax, the next generation forms product, is stronger than ever with enhanced calculations from the optimization leader — Dr Tax Software.

**Increase your productivity and profits** with products exclusive to Dr Tax Software. Scan with DT ScanDoc or receive your clients' data directly through the web with DT NetLink.

**Just like a box of chocolates, life is full of choices.** The DT Max Suite offers you the best options for your business.

**Then call us at 1-800-663-7829 Option 4 for Sweet...** that is Suite pricing, you will find hard to resist!



DT Max is a professional product of Dr Tax Software. | [www.dtmax.ca](http://www.dtmax.ca)



## With cloud computing offerings, you have access to computing power instantly. Server farms, site replication, incremental continuous backup — you name it, you can have it

stack has the same basic layers we saw in the general computing IT stack — you see new words that provide greater breadth but the same concepts. The infrastructure layer comprises all hardware required for your virtual servers and virtual desktops. The platform layer comprises all operating systems and associated services required to meet your processing needs. The software layer comprises all the application software you require.

With cloud computing offerings, you have access to computing power instantly. You can expand or contract requirements so you are only paying for the services required. If you need infrastructure replicated and delivered to several locations in the world, it is done in a moment. Server farms, site replication, complete redundancy, incremental continuous backup forever — you name it, you can have it. It is a wonderful world.

There is no question that cloud computing is where we are heading. International companies and some large enterprises are already there.

For most SMEs in Canada, self-hosted or externally hosted virtualization is the next logical step. Cloud services are still five or more years away from being affordable.

The wealth proposition of virtualization is already here and the low-lying fruit is easy to grab. Consolidate your servers and save thousands on hardware costs. Consolidate your desktops and save thousands in hardware, thousands in deployment and upgrade costs, deliver faster, more efficient tools to your team members and minimize your privacy exposure. Consolidate your applications so you can save thousands on upgrade costs and realize all the efficiencies provided with standardized application usage.

Finally, become as agile as possible so when the clouds appear you are ready to take advantage.

Dwayne Bragonier, CA, CA-IT, is president of BAI Bragonier & Associates Inc., in Mississauga, Ont.



### The Society of Trust and Estate Practitioners

**STEP Canada** is the leading international organization for trust and estate practitioners, with about **2,000** members across Canada and **14,000** worldwide holding the Trust and Estate Practitioner designation (**TEP**).

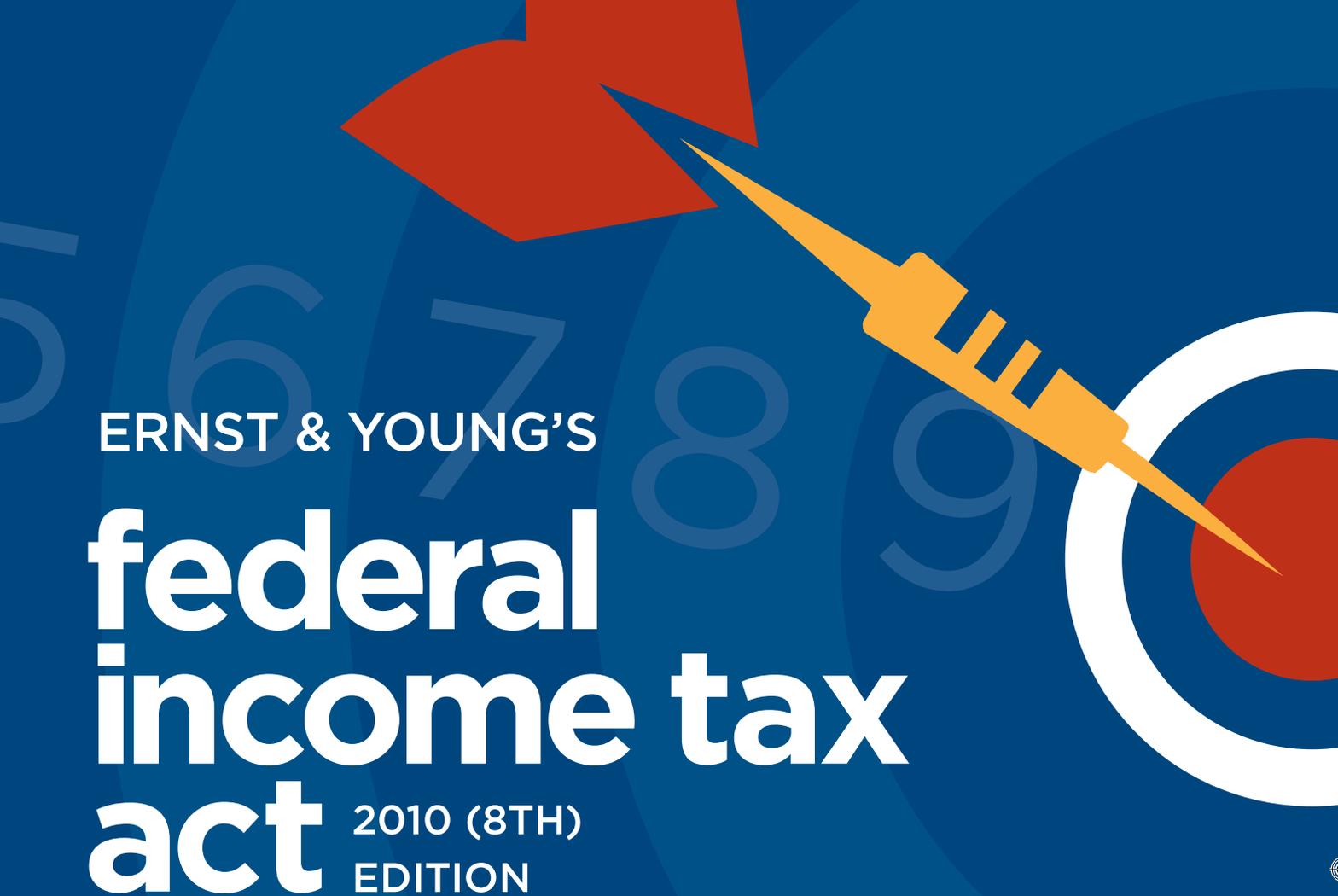
If you are an **accountant or trust professional** working principally in **Trust and Estate Practice**, STEP Canada provides a forum for discussion and advancement of practitioner knowledge through regular branch seminars, webinars, symposia, a quarterly publication, and an annual national conference.

For an **Experienced Practitioner** with 10 years work experience in this field, STEP membership will enhance your practice and the TEP designation will reflect your specialized knowledge and expertise.

If you are a **Young Practitioner**, the **STEP Diploma Program** route to membership provides you with the opportunity to cover all significant aspects of trust and estate planning, and prepares you to deal with complex client situations.

**To join STEP, contact us:**  
**Tel: 416.491.4949**  
**Toll free: 1.877.991.4949**  
**memberservices@step.ca**

**STEP Canada**  
**1 Richmond Street West**  
**Toronto, Ontario M5H 3W4**  
**www.step.ca**



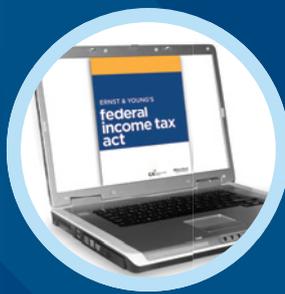
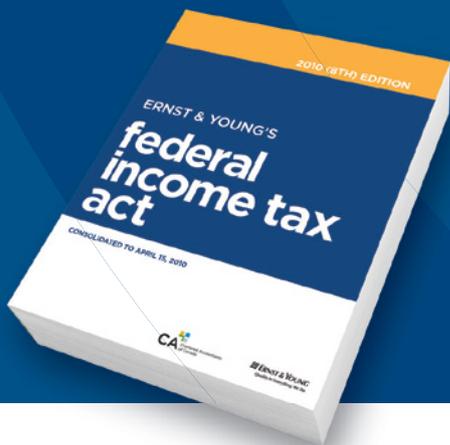
ERNST & YOUNG'S

# federal income tax act

2010 (8TH)  
EDITION

Complete coverage of Canada's Income Tax Act and regulations,  
edited by tax professionals for tax professionals

Available in print and **NEW** eBook format!



[CAstore.ca/FITA10-CA](http://CAstore.ca/FITA10-CA)

 Chartered Accountants  
of Canada

 ERNST & YOUNG  
Quality In Everything We Do

# Invest like the pros

Adopting 10 simple investment practices could mean a healthy bump-up in long-term returns

**H**ow do you think you would do playing a little one-on-one with LeBron James? Care to go mano-a-mano with an institutional money manager? The results could be equally one-sided — particularly if you invest in mutual funds.

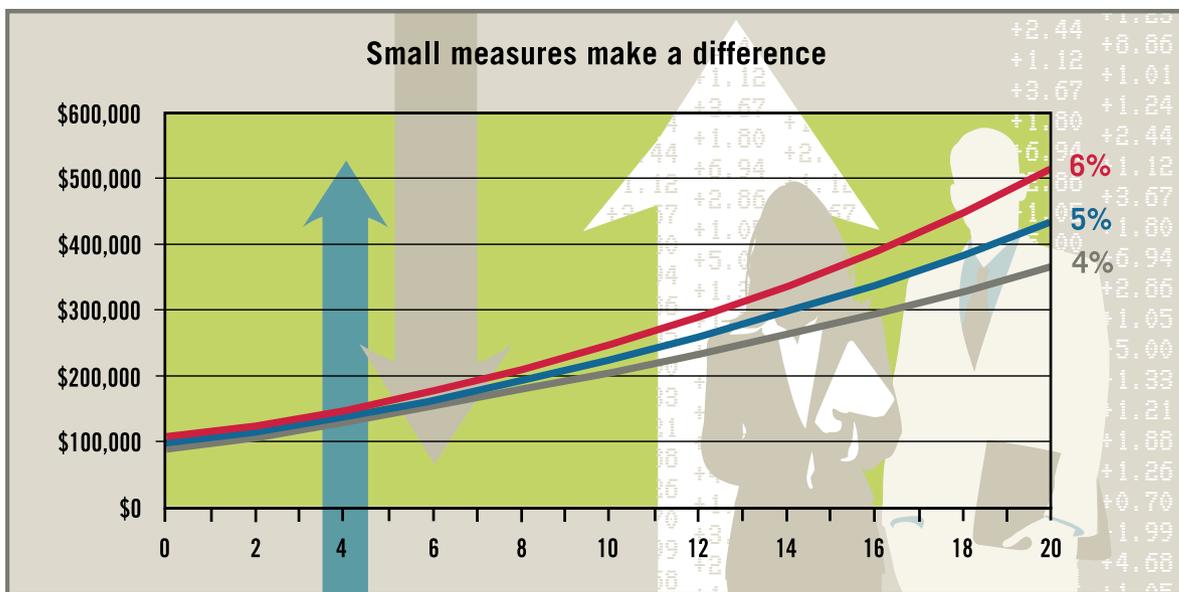
There is strong evidence to suggest that average retail investors don't fare well when stacked against professionals — those managing portfolios for foundations, pension funds, endowments and other institutions. Average returns for the retail class lag those earned by institutional investors. A 2007 study (*Losing ground — do mutual funds produce fair value for their customers?* *Canadian Investment Review*) by Keith Ambachtsheer and Rob Bauer concluded that mutual funds — a staple for Canadian retail investors — returned 3.8% less than pension funds with similar asset allocations.

A US study, initiated by mutual fund pioneer John C. Bogle and included in his book *Enough: True Measures of Money, Business and Life*, served up similar results. Bogle determined that the average return on mutual funds

from 1980 to 2005 was 10%, versus 12.3% for the S&P 500 market index over the same period. Couch potato investors, who simply bought the market, did better than those who paid for the active management services touted by mutual fund vendors. Unfortunately, there is more bad news for mutual fund customers. The analysis further determined that mutual fund investors performed worse than the funds themselves, falling below the average return (10%) by an additional 2.7%. This additional shortfall was attributed to poorly timed buy and sell decisions on the part of fund holders.

These studies suggest the average equity mutual fund investor will underperform the market by up to 5% annually. With many analysts forecasting lower market returns in the coming years, systemic underperformance becomes particularly troublesome. It's one thing to make 7.3% when the market is returning 12.3%. It's quite another to be earning 1% or 2% when market gains are 6%.

There are two main reasons for this systemic underperformance. First, mutual funds charge high fees that reduce net returns. Second, retail investors tend to make poor choices, chasing the latest hot fund or investment





trend, basing decisions on temporal market vagaries or yielding to their emotions. Certainly buying and selling based on sentiment can be expensive.

Institutional investors tend to be more disciplined. They design, implement and follow an investment process, rooted in best practices. Ten investment practices preferred by these professionals are outlined. Retail investors may be surprised at the simplicity of these principles. Those who choose to adopt them could see a healthy bump in their long-term returns.

#### Commit to an investment process

Institutional investors develop a comprehensive investment process that outlines the key actions for successful investing:

- setting investment goals and objectives;
- following a disciplined investment strategy;
- understanding, measuring and managing risk;
- measuring and evaluating investment performance;
- utilizing timely, relevant information for making investment decisions;
- recruiting and retaining capable investment managers; and,
- minimizing investment costs.

In the uncertain world of capital markets, a disciplined process enables investors to exercise control over those variables that can be controlled.

Absent the experience or time to do it themselves, retail inves-

tors should consider engaging an investment professional to help them develop, document and implement a process tailored to their needs. A simple process that defines the target asset mix, and a method for rebalancing the portfolio when it drifts off the target mix, is a good first step in the right direction.

#### Document investment strategy

An investment strategy is a set of policies and procedures that establish how investment decisions are made. An investment strategy complements the investment process in that it addresses specific issues related to how a portfolio is to be managed. An investment policy statement (IPS) documents the key aspects of the investment process and strategy. Drafting an IPS helps ensure that the strategy has been thought through and all necessary guidelines are in place.

The IPS clearly states the responsibilities of the individuals managing the portfolio. It articulates the goals and objectives, stipulates the allocation between different asset classes, establishes the expected long-term rate of return (and expected range of returns), sets out rules for security selection, identifies investment restrictions, defines the rebalancing process, and lays out the schedule for account reviews.

Like the investment process, the investment strategy provides focus and discipline. It serves to minimize the fear and greed that cloud rational decision making.

### Understand and manage risk

The prime directive for institutional investors is to generate the target rate of return with minimal risk. Diversification is the principal technique for reducing risk. It is achieved by selecting asset classes that have low correlation with each other. (Correlation is a measure of the degree to which investment returns typically move together). A portfolio made up of asset classes with low correlation is diversified and will demonstrate lower volatility over the long term. As a general rule, diversification increases with the addition of asset classes demonstrating less than perfect correlation.

Retail investors typically buy securities without knowing if the new positions increase or decrease the diversification of their portfolios. Too often, they end up overweighed in one or more sectors and fail to reduce volatility as a result.

At the other end of the spectrum, retail investors looking to beat the market often shoot themselves in the foot through overdiversification. That is, choosing so many mutual funds that their portfolios begin to look like the market at large — but with a cost drag. It is a truism that you cannot beat the market if you are the market.

In summary, retail investors should manage risk through careful consideration of asset allocation and how they maintain that mix over time.

### Monitor performance consistently

Institutional investors constantly monitor the performance of their portfolios. Performance measurements provide the feedback necessary to assess what's working, what's not working and what adjustments may be required.

Most retail investors open their statements and merely check the balance. They don't compare returns with what they should have earned for their asset mix and risk exposure. Retail investors should insist their financial adviser compare their returns to the agreed-to benchmarks and explain any variances.

### Minimize investment expenses

Institutional investors know the more they pay in fees the less they make in returns. They refuse to pay high management fees for market performance. They know market returns can be achieved easily with passive investment options, such as low-cost exchange traded funds and index funds. Institutional investors agree to pay higher management fees only in anticipation of better than market returns.

Retail investors should demand full disclosure of fees and resolve to pay no more than the minimum for market performance. They should consider a core-and-explore approach, with minimal fees for their core investments and higher fees for a selection of managers who add real value through greater than market returns. Low-cost investment alternatives should be exploited wherever practical.

### Hire an investment counselor

Institutional investors use internal and/or external portfolio

managers. In Canada, external or third-party managers are typically investment counselors.

Most retail investors do not appreciate the difference between investment counselors and financial advisers. Financial advisers are typically licensed sales representatives. While many are bound by other professional standards (e.g. CA, CFP, CFA), their investment advice standard is one of investment suitability to clients' circumstances, requirements and knowledge.

Investment counselors are held to the much higher fiduciary standard. This standard stipulates that investment counselors put clients' best interests before all others at all times. For example, a fiduciary must recommend the lowest cost investment option when all other factors are equal, while a financial adviser or broker is not required to do so.

Generally, investors with \$500,000 or more in investable assets have the option of hiring an investment counselor bound by

## **Institutional investors tend to be more disciplined than retail investors. They design, implement and follow an investment process rooted in best practices**

the fiduciary standard of care. The due diligence process can be challenging however, and individual and institutional investors often hire consultants to recruit investment counselors, establish mandates and help negotiate fees.

All investors should clearly understand their adviser's licensing, professional affiliations, compensation structure and the value he or she will deliver.

### Understand the long-term cost of underperformance

Wise investors understand that small changes in performance will, over time, make huge differences in the size of a portfolio. Most retail investors fail to fully appreciate the full effect of compounding; how small measures of performance each year can have an enormous impact on net worth at retirement.

Consider an investor with a \$100,000 portfolio and annual contributions of \$5,000 (see chart on p. 38). With an annual return of 6%, the portfolio is worth \$516,000 after 20 years. (It was assumed annual contributions were made at the beginning of each year. For simplicity, taxes were ignored.) A 4% annual return yields only \$374,000. The difference — \$142,000 — would make a meaningful difference in just about anyone's lifestyle.

Retail investors should understand how consistent underperformance of even 1% or 2% will impact their retirement savings. A full financial plan is the best way to illustrate the impact of lower returns over time, but investors can also do a quick calculation at [www.weighhouse.com/resources/under-performance\\_cost.aspx](http://www.weighhouse.com/resources/under-performance_cost.aspx). Most investors are astounded at how the cost of underperformance is made worse by compounding.

### Keep it simple

Institutional investors understand that effective portfolio management requires timely management information that makes

it easy to uncover issues and determine corrective actions. Large institutional investors have elaborate information systems that enable them to manage complex portfolios. Retail investors should just keep it simple.

Unfortunately, many retail portfolios are too complicated to manage effectively. Retail investors should prune small and stale positions regularly, so they are readily able to assess their asset allocation at any time. When a portfolio is kept tidy, necessary adjustments can be identified quickly and implemented with confidence.

#### Manage investments like a business

Institutional investors understand that successful investing is like running a business. Many of the same disciplines apply. Establishing goals, defining strategy, hiring the right people and managing risks are fundamental to both business and investment success. When presented side by side (see table on p. 39), the analogies become clearly apparent.

Regardless of their background, retail investors would do well by adopting a disciplined, businesslike approach to investment management.

#### Don't worry about everything — just a few things

Institutional investors know that such factors as interest rates,

inflation and currency fluctuation are unpredictable and uncontrollable. Other variables such as exposure to currency risk, individual security risk and interest rate risk are all manageable.

Many retail investors focus their attention on the wrong things — the variables for which they have no control. By default, investors accept market risk — it is impossible to be invested and avoid it. However, investors can limit individual security risk with diversification and by allocating a portion of their portfolios to passive indexing strategies. These strategies can be implemented easily and cost effectively.

One could spend hours every day working on his or her game and never come close to besting LeBron James — or any professional player — at hoops. It's just not in most of us. Fortunately, closing the gap between the average retail investor and a professional money manager is quite possible. A disciplined approach, built around proven investment principles, is as close to a slam dunk as you can get.

Warren MacKenzie, CA, is president and CEO of Weigh House Investor Services Inc. in Toronto

Technical editor: Garnet Anderson, CA, CFA, vice-president and portfolio manager, Tacita Capital Inc. in Toronto

YOU WORKED HARD TO EARN YOUR WEALTH.  
WE'LL DO THE SAME TO HELP YOU PROTECT IT.



At Howson Tattersall we develop long-term relationships with our clients based on shared values and proven results. We believe that patience, discipline and consistency are not only the cornerstones of successful investing, but are also solid business principles. We provide a service-oriented, independent-minded alternative. Combined with a value investing strategy that has shown excellent performance over 25 years, it's clear why Howson Tattersall is the ultimate private asset management firm for high net worth investors.

Brian M. Smith, CFA  
V.P. Private Clients  
Website: [www.htpam.com](http://www.htpam.com)

Email: [contactus@htpam.com](mailto:contactus@htpam.com)  
Phone: 416-355-2534  
1-888-933-0335 ext. 0335

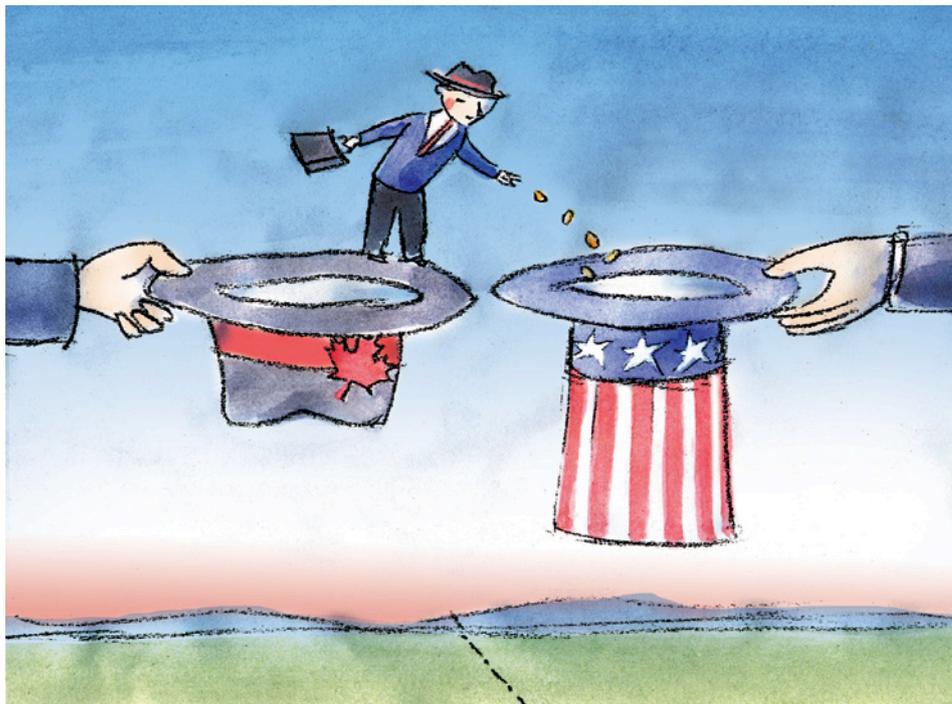


HOWSON TATTERSALL  
PRIVATE ASSET MANAGEMENT

Howson Tattersall Private Asset Management is a division of Howson Tattersall Investment Counsel Limited.

## US LLC deemed treaty resident

Tax court's granting of treaty benefits to LLCs falls in line with the US treaty, but it's likely to provoke great debate



In *TD Securities (USA) LLC v. The Queen* (April 8, 2010), the Tax Court of Canada held that a US limited liability company (LLC) that is fiscally transparent for US tax purposes is a resident of the US for the purposes of the Canada-United States Income Tax Convention (US treaty). This decision will undoubtedly stimulate considerable debate as observers digest the court's reasoning and its implications in this and other contexts.

### Background

TD Securities (USA) LLC (TDLLC) was a single-member LLC owned by a regular US corporation that was part of a US consolidated group ultimately owned by TD Bank Financial Group. TDLLC operated as a registered broker-dealer, and in that capacity carried on its business through permanent establishments in the US and Canada. As a

nonresident taxpayer carrying on business in Canada, TDLLC was taxable under Part I of the Income Tax Act (Canada) and was also subject to branch tax under Part XIV of the act. The issue in this case was whether TDLLC was entitled to the 5% treaty-reduced branch tax rate.

The Canada Revenue Agency (CRA) denied the treaty benefit on the basis that TDLLC was not a resident of the US for the purposes of the US treaty. This is not surprising given CRA's long-standing position that an LLC that is fiscally transparent for US tax purposes is not liable to tax under the laws of the US by reason of a criterion enumerated in paragraph 1 of Article IV (Residence) of the US treaty or a similar criterion. The taxpayer's position was that TDLLC was indeed a resident of the US for the purposes of the US treaty based on a broader interpretation of the expression "liable to tax" — and, in the alternative, that it was entitled to the treaty benefit on the basis that its sole member was taxable in the US on the underlying Canadian branch profits.

## Decision

As noted above, the court allowed the taxpayer's appeal, concluding (para. 101) that "TDLLC is a resident of the United States and liable to tax therein by reason of one of the enumerated or similar grounds." The broader implications of this decision will depend on how the court's reasons are interpreted.

There seem to be at least two distinct (albeit intertwined) threads of reasoning in this decision. The first reflects the approach of the Organization for Economic Co-operation and Development (OECD) to the interpretation and application of tax treaties based on the OECD Model Tax Convention on Income and on Capital. More specifically, the court focused on the approach articulated in the 1999 OECD report entitled "The Application of the OECD Model Tax Convention to Partnerships," which was incorporated into the official commentary to the OECD model in 2003. This approach supports the view that treaty benefits should be enjoyed, or not, in respect of the income of a partnership (and, by extension, other fiscally transparent entities, such as LLCs) as a function of whether or not the partnership income flows through to the members under the laws of a relevant treaty country.

While Canada did not register any observations to the 2003 revisions to the OECD model's official commentary in this regard, to date the CRA has not applied this interpretive approach. However, the court held (para. 77) that "the reasoning in the OECD Model and commentaries reflect the intention of the OECD member countries, including Canada and the US, with respect to treaties based on the OECD Model Treaty, such as the US Treaty" and that "given the absence of reservations or observations thereon by Canada and the US, the Court accepts that these reflect the intentions of Canada and the US with respect to the US Treaty specifically and how its objects and purposes are to be achieved."

Interestingly, the OECD model commentaries do not state that a fiscally transparent partnership should be regarded as a treaty resident. Rather, they proceed from the opposite premise, that the partnership should not be regarded as a resident, but nevertheless conclude that treaty benefits should be provided to the extent that the partnership's income flows through to partners who are liable to tax on that income, and are thus the appropriate persons to claim treaty benefits. This takes us to the second line of the court's reasoning. The court concluded that TDLLC was a resident of the US and described the OECD's approach to the treaty residence issue as a diplomatic ambiguity.

In reaching its conclusion, the court also held that it was necessary for TDLLC to be a treaty resident in order for it to enjoy any treaty benefits, thereby seemingly rejecting the type of vicarious benefits doctrine that is described in the Technical Explanation to the Fifth Protocol to the US treaty, which introduced the new provisions on fiscally transparent entities in paragraphs IV(6) and (7). Moreover, the court held that TDLLC was liable to tax under US law on the basis that its sole member (a US incorporated

company) was taxable on the underlying branch profits, and that this type of causal link to taxation satisfied the enumerated or similar criterion under para. IV(x) of the US treaty.

## Implications and observations

The broader implications of the court's reasoning remain to be seen and they will likely be debated for some time. There are also aspects of the court's reasoning that are not entirely clear. The more salient items of interest in this regard may be summarized as follows.

- The court does not appear to have concluded that a fiscally transparent LLC should be regarded as a US treaty resident for all purposes or in respect of all its income and in all circumstances. Rather, the court concluded that TDLLC was a resident only because its income was subject to full US taxation in the hands of its sole member. In addition, the court noted (para. 105) that "the outcome may have been different" if "the use of a US LLC ... contributes to inappropriate or abusive tax avoidance."
- The court did not comment on the aspects of the OECD model's commentaries that support a denial of treaty benefits in respect of partnership income if the relevant treaty country views the

## Broader implications of the court's reasoning remain to

be seen and they will likely be debated for some time.

## There are aspects of its reasoning that aren't entirely clear

partnership as fiscally opaque, along the lines of new para. IV(7) (a) of the US treaty. Prior to the introduction of para. IV(7)(a), the CRA had issued a number of tax rulings confirming that foreign partners were entitled to treaty benefits in respect of their share of partnership income regardless of whether the partnership was fiscally opaque under the laws of the relevant treaty country.

• The court does not appear to have been troubled by the fact that the 2003 revisions to the OECD model's commentaries were introduced after the US treaty was concluded. This suggests that the court considered these commentaries to represent a fair interpretation of the words of the model convention and do not conflict with commentaries in existence at the time the US treaty was entered. Either that or the court felt that subsequent commentaries can (or should) be relied on even when they may be inconsistent with contemporaneous commentaries.

• The court did not directly comment on the proper approach to be taken where an LLC has both members that are US treaty residents and other members that are not US residents, whether or not they are resident in another treaty country. Thus, it is not clear whether such an LLC would be granted treaty benefits on all its income, on none of its income or on some portion of its income (and if partial benefits would be applicable, whether this would also cover the part of the LLC's income that is attributable to residents of other treaty countries, which takes us to the next point).

• The court's reasons are not clear on whether its approach should be applied in respect of all Canada's tax treaties or only in respect of the US treaty. The court grounded its conclusions on the inten-

tions of the parties to the US treaty, although the court's comments in para. 77 may suggest a broader relevance.

- In concluding that tax liability in respect of the income of an entity such as an LLC as a function of the residence of its members constitutes tax liability by reason of an enumerated or similar criterion in para. IV(t), the court's reasons may support the view, for example, that an otherwise nonresident trust that is deemed to be resident in Canada under section 94 of the act by reason of the residence of its beneficiaries (at least in part) should be considered to be resident in Canada for treaty purposes. This issue is relevant in the context of the Garron and Antle cases, which are currently working their way through the courts.
- The court also suggested (para. 99) that the direct enjoyment of treaty benefits by the particular taxpayer may not be required under the branch tax rate-reduction rule in section 219.2 of the act.

Technically, this rule was not engaged in this case because para. X(6) of the US treaty provides its own branch tax rate-reduction rule. In addition, it is unclear whether the court's comments in this regard are correct, as the post-amble to section 219.2 requires the relevant tax treaty or convention to apply to the taxpayer at the end of the year.

While it seems difficult to disagree with the court's conclusion that granting treaty benefits to LLCs such as TDLLC is consistent with the object and purposes of the US treaty, it is likely that its reasoning will provoke considerable debate.

Nik Diksic, BCL, LLB, is partner with Ernst & Young LLP in New York. He can be reached at [nik.diksic@ey.com](mailto:nik.diksic@ey.com)

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



## SEARCH RESULTS THAT DEFY EXPECTATION

**Enhance your research with relevant results and unparalleled content – Taxnet Pro®**

With complete primary collections and extensive analytical materials, Taxnet Pro® offers exclusive access to the current and authoritative content that will give you clarity and insight into any tax issue.

Visit [www.gettaxnetpro.com](http://www.gettaxnetpro.com) to download an excerpt of **Schedule A – Computation of Taxable Income** from the full Corporate Tax Return and Provision Guide which is available in the Corporate Tax Centre on Taxnet Pro. For more information call 1-800-342-6288 ext. 5811.

CARSWELL®



## Promises made clearer

New accounting standards developed in Canada for pension plans include some changes and improvements

**W**hen the Canadian Accounting Standards Board (AcSB) proceeded down its path to adopt international financial reporting standards (IFRS) for publicly accountable enterprises, it paused to consider the standard within IFRS applicable to pension plans — IAS 26 Accounting and Reporting by Retirement Benefit Plans. The AcSB thought that IAS 26 would not represent an improvement to former Section 4100, Pension Plans, in the *CICA Handbook — Accounting*, and international convergence would not provide significant benefits to pension plans or the users of their financial statements. Many countries that have adopted IFRS have not included IAS 26 — should Canada join them?

MIKE CONSTABLE

In addressing this question, the AcSB considered the importance of pension plans to Canada's capital markets

both as significant sources of investment capital and prominent suppliers of capital for infrastructure and similar long-term projects. The AcSB also recognized that people now live longer, so there is increasing concern about the ability of pension plans to continue to meet their promises to pay benefits to their members and beneficiaries. Furthermore, as the accounting standard-setting body in Canada, the AcSB has a responsibility to develop and establish high-quality accounting standards to meet the needs of financial statement users in this sector, including plan members and beneficiaries, employers, credit-rating agencies and investment partners.

The AcSB exposure drafts on adopting IFRS in Canada proposed that pension plans would continue to prepare their financial statements in accordance with former Section 4100 rather than IAS 26. Some stakeholders agreed for some of the same reasons as noted above. Others thought pension plans should apply IAS 26 in Canada to enable the AcSB to adopt IFRS in its entirety, as they emphasized the need for pension plans and other similar investment vehicles to apply the same set of accounting standards for comparability reasons.

In the end, the AcSB decided not to adopt IAS 26 in Canada, but instead develop a modified version of former Section 4100, with some short-term improvements, including requiring the presentation of pension obligations on the face of the statement of financial position and other changes necessary to make the new standards stand alone as Part IV of the *Handbook*. The AcSB decided on this approach because former Section 4100 was generally meeting the needs of users of pension plan financial statements.

In April 2010, after a process of consultation and debate, including redeliberations based on feedback received from the July 2009 Exposure Draft, "Pension Plans," the AcSB issued Section 4600, Pension Plans, in Part IV of the *Handbook*. Section 4600 is effective for annual financial state-



ments relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted. This effective date coincides with the changeover date to IFRS for other publicly accountable enterprises.

### Who must apply these new standards?

Stakeholders suggested that the scope include not only retirement benefit plans (as proposed in the exposure draft), but also non-retirement benefit plans. As a result of this suggestion, the scope of the standards includes benefit plans that have characteristics similar to pension plans and provide benefits other than pensions (for example, long-term disability plans, retiree healthcare and life insurance benefits) with necessary adaptations. Furthermore, the AcSB clarified that the standards apply to all pension plans, not only plans that meet the definitions of a defined benefit or a defined contribution plan. The scope now clearly includes plans such as an amalgamation or accumulation of pension plans and hybrid plans with a defined benefit and defined contribution component.

The AcSB considered whether an entity that is separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have a pension obligation, should be required to adopt Section 4600 because the main users of that entity's financial statements are pension plans. A master trust (as defined in Section 4600) is an example of such an entity. The AcSB issued an exposure draft, "Pension Plans (Proposed amendment to the Scope of Section 4600)," proposing this scope expansion at the same time it issued Section 4600. At its June meeting, the AcSB discussed the comments received on this exposure draft and noted entities that would be included in the proposed scope expansion would qualify for a proposed one-year deferral of the IFRS changeover date for investment companies applying Accounting Guideline AcG-18, Investment Companies (see the AcSB's consolidation project at [www.acsbcanada.org/projects](http://www.acsbcanada.org/projects)). Accordingly, the AcSB decided not to proceed with an amendment to the scope of Section 4600 at this time and to reconsider the need for such an amendment once the IASB finalizes its consolidation project. The AcSB continues to believe that entities described in the exposure draft should measure their investments at fair value, consistent with the accounting standards for pension plans.

### Basis of accounting

As a result of the decision that the new standards will stand alone in Part IV of the *Handbook*, the AcSB considered how a pension plan should select (or change) accounting policies that do not relate to its investments or pension obligations, for example, accounting for employee future benefits when a pension plan may itself be a plan sponsor, or receivables and payables related to plan sponsors, plan members and investment brokers. Section 4600 requires a pension plan to comply (on a consistent basis) with either IFRS in Part I of the *Handbook*, or accounting standards for private enterprises in Part II of the *Handbook*, to the extent that

those standards do not conflict with the requirements of Section 4600. Each of these references (to IFRS and accounting standards for private enterprises) is a complete source of generally accepted accounting principles that includes a hierarchy of guidance to which management refers and a conceptual framework. Section 4600 also requires a pension plan to follow the requirements for general financial statement presentation with respect to fair presentation, comparative information and materiality in Part I or Part II of the *Handbook* (consistent with the above choice for accounting policies).

Consequently, a pension plan and the plan sponsor may apply the same parts of the *Handbook* (i.e. Part I or Part II) in selecting accounting policies other than policies of the plan that relate to its investments or pension obligations. This ability to apply the same parts of the *Handbook* will benefit plan sponsors and auditors.

What else is new?

## The scope of the standards includes benefit plans that have characteristics similar to pension plans and provide benefits other than pensions with necessary adaptations

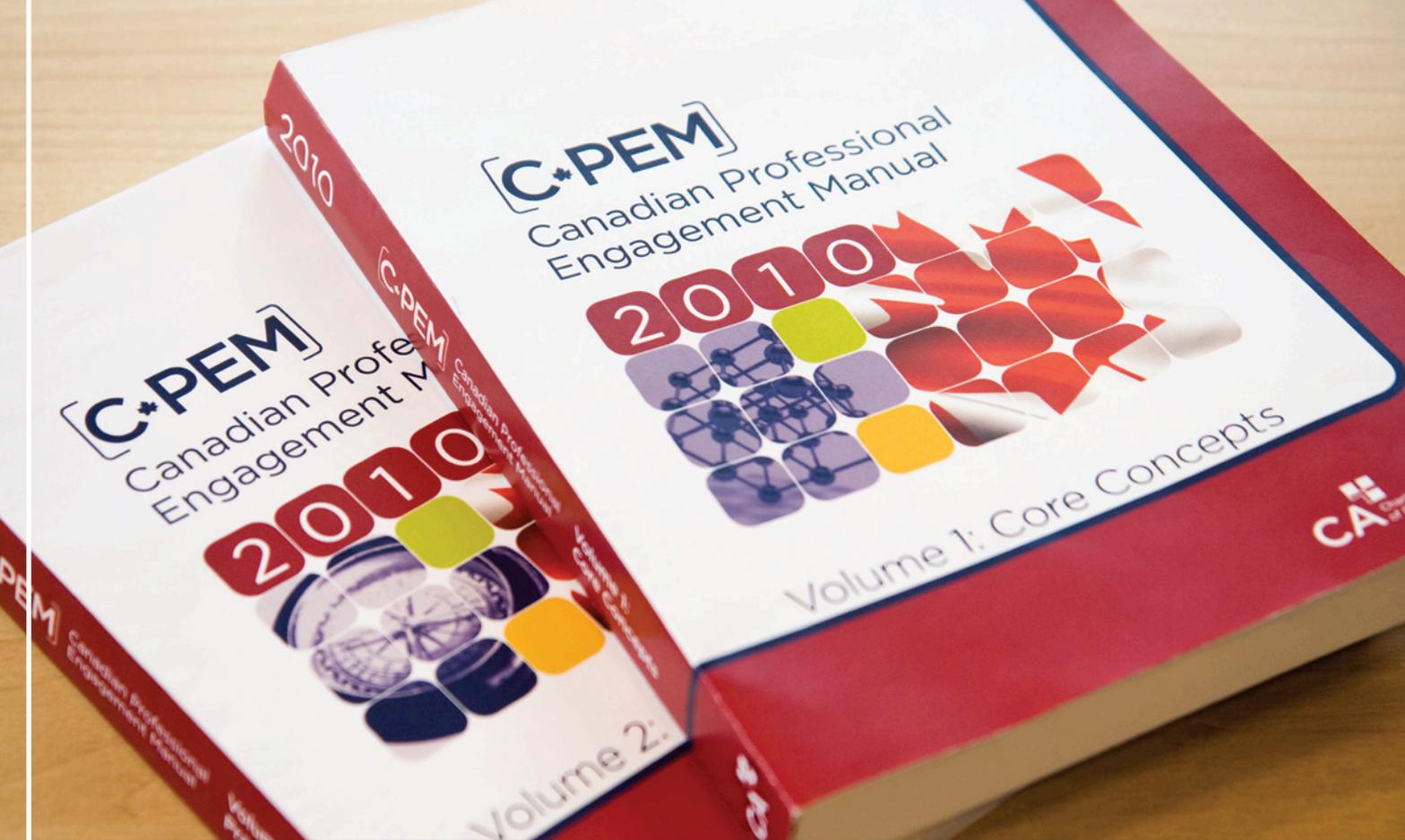
### Other changes in Canadian practice

Pension plans may also need to make other changes to their current accounting and reporting practices, including:

*Measurement of investment assets/liabilities*— The standards require measurement of all investment assets/liabilities at fair value. In determining fair value, a pension plan refers to the guidance on fair value measurement in IAS 39 Financial Instruments: Recognition and Measurement in Part I of the *Handbook*. Given that IAS 39 is converged with prechangeover Section 3855, Financial Instruments — Recognition and Measurement, differences in the determination of fair value are not expected in practice. (Prechangeover standards refer to Canadian standards in effect prior to the issuance of the standards in Part I to Part IV of the *Handbook*.)

*Recognition of an actuarial asset value adjustment*— The standards do not permit measurement of investment assets on an actuarial value basis and the difference between fair value and actuarial asset value (commonly referred to as an actuarial asset value adjustment) does not represent an asset or a liability that can be included in a pension plan's financial statements. Some pension plans have recognized an actuarial asset value adjustment as an asset or liability in their prechangeover financial statements and this practice will no longer be permitted.

*Accounting for an interest in a master trust*— The standards require that accounting for an interest in a master trust be consistent with the accounting for an interest in other pooled or mutual funds and other investment assets, i.e., at fair value. Proportionate consolidation and the equity method of accounting will no longer be permitted.



# Canadian Professional Engagement Manual (C•PEM)

Completely updated to include the new Canadian Auditing Standards, C•PEM is your guide to conducting audit, review and other assurance and compilation engagements for small- and medium-sized entities.

Internet/DVD/Download/Print — 2 Volumes, includes CD

[CAstore.ca/cpem](http://CAstore.ca/cpem)

## PLUS

Add the C•PEM Electronic Templates to your C•PEM subscription and customize your engagements.



# the CA Member Savings Program



## Starwood Hotels & Resorts

Lowest rates on Westin, Sheraton and other Starwood Hotels.



## Dell

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



## Tempo

Preferred pricing on high-quality custom frames for members.



## Hertz

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



## Loudring Wireless

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



## Genesys

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



## Wiley

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



## Chase Paymentech

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



## TrackItBack

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



## Bose

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

Take advantage of these offers and more including CA Research Plus, Pitney Bowes and VIA Rail by visiting [www.camembersavings.ca](http://www.camembersavings.ca).



*Presentation of investment assets* — The standards clarify that investment assets are presented on a nonconsolidated basis even when the investment is in an entity over which the pension plan has control or can exercise significant influence. Some pension plans have controlling interests in investments in infrastructure and real estate entities and may act as a private-equity investor in a variety of businesses. These investees may have significant debt. Some pension plans have included the fair value of the investee's debt on the liability side of the plan's statement of net assets. On the asset side, these plans showed an asset measured as sum of the fair value of these investments plus the fair value of that debt. In effect, the fair value of these investments was split into two amounts representing assets (net of trade payables, etc.) and debt. Other variations existed. These practices will no longer be permitted under Section 4600.

*Presentation of investment assets/liabilities by type* — The standards now permit a choice to present investment assets/liabilities by type on the face of the statement of financial position or within the notes to that statement. Classification by type may differ from prechangeover practice as the standards now provide guidance on this classification based on an understanding of the risks associated with a plan's investments.

*Presentation of pension obligations* — The standards require presentation of pension obligations on the face of the statement of

financial position. Under former Section 4100, this treatment was optional.

*Disclosure* — The standards require more extensive disclosure to help users of a pension plan's financial statements understand the adequacy of the plan assets to satisfy benefit obligations, the nature and extent of risks arising from financial instruments, and the objectives, policies and processes for managing the plan's capital. Disclosures previously described as desirable are now required. Pension plans should pay close attention to the new disclosure requirements to evaluate the changes required to their financial statement notes.

So even though the new standards for pension plans do not represent a fundamental overhaul from the prechangeover standards, they nonetheless provide a number of changes and improvements compared with former Section 4100. Familiarize yourself with these new standards and determine what changes you may need to make to your current accounting and reporting practices by the changeover date of January 1, 2011. Also look for any developments on the scope of the standards.

Nancy A. Estey, CA, is a principal with the AcSB, responsible for the pension plans project. Views expressed are her own and do not represent official positions of the AcSB

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



**YOUR CLIENTS  
HAVE BUSINESS  
PROJECTS.**

The Business Development Bank of Canada is passionate about one thing: entrepreneurs. We provide them solutions so their businesses can grow at the pace of their aspirations – come rain or shine.



FINANCING | VENTURE CAPITAL | CONSULTING | [www.bdc.ca](http://www.bdc.ca)

Canada

# Can audit committees deliver?

In the quest to strengthen the financial reporting system, it's been questioned whether they meet expectations

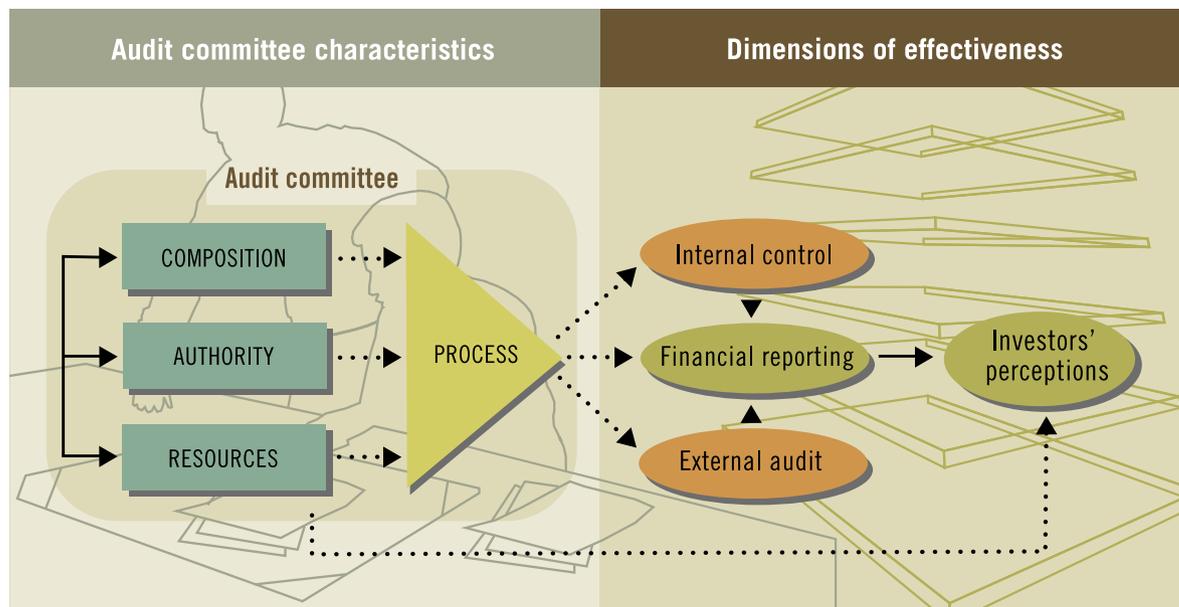
The accounting scandals of the past decade have put the audit committee at the forefront of the battle against fraudulent financial reporting. Regulations regarding audit committee composition and responsibility have been enacted to improve the quality of financial information and strengthen investor confidence in the quality of financial reporting and financial markets.<sup>1</sup>

Audit committees have been around for more than 40 years, with Canada a forerunner with the Ontario Business Corporation Act requiring them in 1970. In response to corporate scandals, various stakeholder groups have made recommendations and proposed regulations to extend their role and responsibilities and strengthen their effectiveness. However, questions have been raised regarding the extent to which audit committees actually meet expectations surrounding their role as a key corporate governance mechanism. A recent article in the *International Journal of Auditing*, which reviews research on audit committee effectiveness published in academic journals from 1994 to 2008, sheds light on the matter.<sup>2</sup>

As indicated in the chart below, audit committee char-

acteristics related to composition, authority, resources and processes may improve the quality of information directly by overseeing the financial reporting process and indirectly through the oversight of internal control and external auditing. In the end, better information quality as well as strengthened controls may result in investors being more confident about the quality of financial reporting and the functioning of financial markets. Researchers have used various indicators to measure audit committee effectiveness, including financial reporting quality measures (e.g., fraudulent financial reporting and restatements of financial statements); external audit quality measures (e.g., industry specialization of the auditor and auditor independence); internal control involvement and investor perceptions.

We examine three subcharacteristics of audit committees subject to regulation by the Canadian Securities Administrators: independence, competencies and number of members. Independence and competencies are part of the composition category (see chart below) while the number of members is part of the committee's resources. For each, best practices proposed by regulators and quasiregulators are described and evidence regarding effectiveness is provided.



BAIBA BLACK

## Audit committee independence

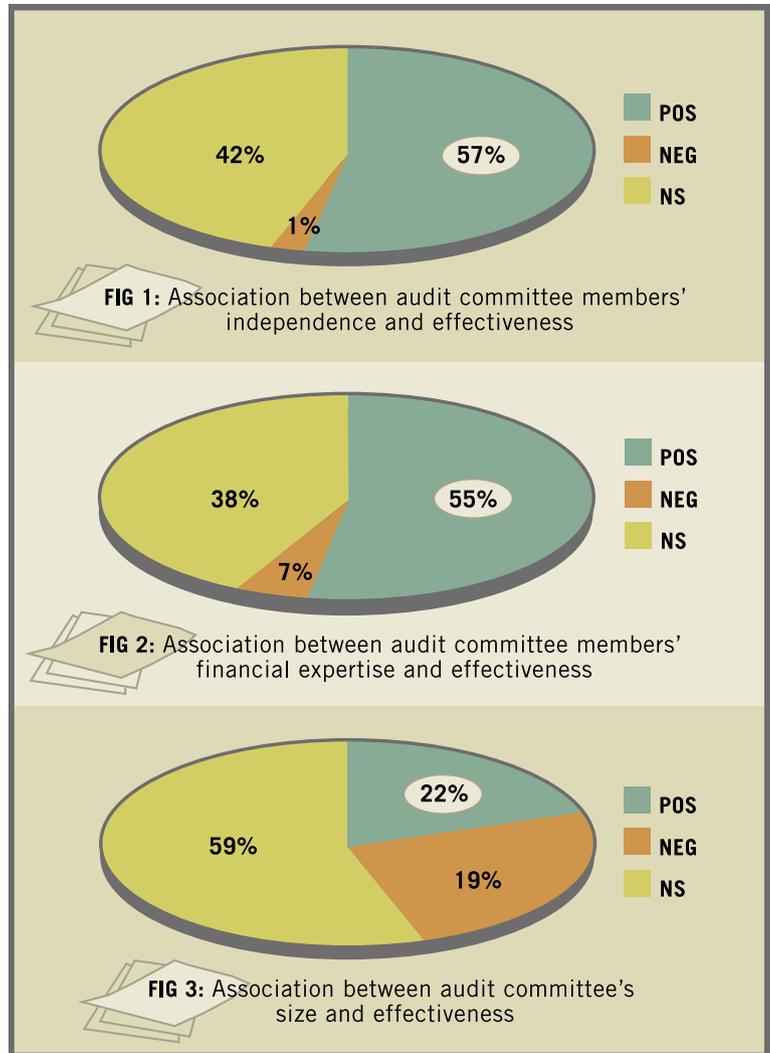
*Every audit committee member must be independent (MI – 52-110)*

Because of audit committees' oversight role, independence is considered an essential quality. As indicated in Figure 1 (right), research generally supports the regulative trend toward greater audit committees' independence. Specifically, 83 studies have investigated the relationship between independence and audit committee effectiveness. Of these, 57% found a positive association and only 1% a negative association. Research results also provide evidence regarding the nature of the relationship that may affect independence as well as the proportion of members who should be independent.

Members' independence is defined as the absence of relationships that may interfere with the exercise of their independence from management and the company.<sup>3</sup> Such relationships are labeled material relationships by regulators.<sup>4</sup> Three main categories of relationships are identified in regulatory literature: employment, family and business relationships. In the past recommendations and regulations defined independence in terms of the absence of employment relationships;<sup>5</sup> today regulatory emphasis is on all three types of relationships.<sup>6</sup> While 64% of 25 studies defining independence in terms of the absence of relationships (i.e., nonexecutive directors) find a positive association with effectiveness, only 51% of 51 studies defining independence in a more constrained way (nonrelated directors) find such a relationship. Therefore, the research does not provide clear support for the tighter restrictions currently recommended.

As for the nature of the relationships, the required proportion of independent members has evolved over time. Initially, regulators required a majority of independent directors (e.g., the Canada Business Corporation Act of 1970). Today, the tendency is to require all members of the audit committees to be independent. In Canada, MI – 52-110 has such a requirement except for smaller issuers. (TSX Venture firms are only required to have a majority of independent directors.) Overall, with 56% of 41 studies finding a positive association between the proportion of independent members and audit committee effectiveness, research results suggest that a greater proportion of independent members can improve effectiveness. In the same vein, results from studies examining a threshold (majority or 100%) suggest that audit committees composed only of independent directors are more effective than those composed of a majority of independent directors.

Overall, research results support regulators' expectation that independence can enhance audit committee effectiveness. They also point to issues of regulation and best practices. First, given the benefits that audit committees composed only of independent directors can engender, Canadian regulators need to re-evaluate the appropriateness of their decision to exempt smaller issuers from the independence requirement. Second, two studies find



that granting stock options to audit committee members is negatively associated with financial reporting quality, suggesting that stock options may create incentives that conflict with committee members' responsibilities regarding the quality of information.<sup>7</sup> Of course, independence is more than the absence of apparent conflicts; independence is also about attitude and human behaviour, which are challenging to regulate.

## Members' competencies

*Every audit committee member must be financially literate (MI – 52-110)*  
Contemporary best practices and regulations recommend or require that audit committee members should possess a certain level of financial competencies. Two levels generally emphasized include literacy and expertise.

Financial literacy is the "ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements."<sup>8</sup> Directors' ability to ask and evaluate answers to probing questions on financial risks and accounting requires financial literacy.<sup>9</sup>

An audit committee member has financial expertise if he or

she has the following attributes:<sup>10</sup>

- an understanding of generally accepted accounting principles and financial statements;
- experience applying such generally accepted accounting principles in connection with the accounting for estimates, accruals and reserves that are generally comparable to the estimates, accruals and reserves, if any, used in the registrant's financial statements;
- experience preparing or auditing financial statements that present accounting issues that are generally comparable to those raised by the registrant's financial statements;
- experience with internal controls and procedures for financial reporting; and
- an understanding of audit committee functions.

While there is regulatory consensus concerning the need for financial literacy, regulatory requirements regarding financial expertise vary from one jurisdiction to another. The NYSE and Nasdaq have listing requirements demanding that each audit committee have at least one member with experience in accounting or finance, while the requirement for all publicly listed companies in the US is to disclose whether at least one of their audit committee members is an audit committee financial expert.<sup>11</sup> In contrast, in Canada MI-52-110 only requires public companies to disclose for each audit committee member any education or experience that meets attributes one to four in the previous paragraph.

Defining what constitutes an audit committee financial expert caused considerable controversy in developing SOX regulations. In its original proposal, the SEC defined an audit committee financial expert as a person with strong accounting credentials. In response to intense criticism, the SEC broadened the definition to include financial analysts, regulators and CEOs.

A total of 55 studies have examined the impact of financial expertise on audit committee effectiveness. Of these, 55% found a positive association and 7% a negative association (Figure 2, p. 51). Similar to the independence characteristic, audit committee members' financial expertise is frequently positively associated with effectiveness, thereby supporting the regulatory requirement for financial experts on audit committees. However, some studies show a negative association between financial expertise and audit committee effectiveness. For example, DeZoort et al.<sup>12</sup> find that committee members who are CPAs are less likely to support the auditor's position for a proposed audit adjustment.

The research studies also provide results relevant to the controversy regarding the definition of financial expertise. Of the 39 studies that adopt a more restrictive view of financial expertise, 57% find a positive association with effectiveness — while 50% of the 16 studies adopting a broader view (in which CEO expertise is taken into account) find a positive relationship. Although these results suggest that not considering CEOs as financial experts is slightly better, they do not provide strong evidence that having CEOs on audit committees is likely to be

detrimental in terms of effectiveness.

While the presence of a financial expert is not mandated by Canadian regulation, research suggests that having members with financial expertise can enhance audit committee effectiveness. Given these results, our recommendation would be that companies nominate such members on their audit committee and that regulators reassess their decision not to mandate the presence of at least one financial expert on audit committees.

#### **Number of audit committee members**

*An audit committee must be composed of a minimum of three members (MI-52-110)*

The number of directors appointed on the audit committee is often perceived as an important factor that influences its effectiveness. For example, MI-52-110 stipulates that audit committees should be comprised of at least three members to ensure appropriate monitoring through diversity of expertise.

Out of the 27 studies that examine the effect of size (number of members, minimum of three members) on effectiveness, only 22% find a positive association with effectiveness (Figure 3, p. 51). And 19% find a negative association, suggesting that the benefits

## **While there is a regulatory consensus on the need for financial literacy, regulatory requirements regarding financial expertise vary from one jurisdiction to another**

of additional members need to be weighed against the incremental costs of poorer communication, coordination, involvement and decision-making associated with larger groups. Four studies examine the minimum requirement of three members and none of them shows a significant association with effectiveness.

Thus, contrary to the assumption upon which audit committee regulation is predicated in Canada and many countries, size does not seem to be an important determinant of effectiveness.

#### **Conclusions**

Our review shows that the various characteristics of audit committees do not have the same effectiveness. While members' independence and competencies are generally positively associated with effectiveness, the relationship with effectiveness is less obvious for the size of the audit committee. Regulators can use these results in re-evaluating their regulation regarding which of these characteristics should be mandatory and which should be waived for smaller issuers.

Nonetheless, it is worth stressing that regulators and practitioners should be careful when interpreting the results of our analyses for Canada. Of the studies reviewed, 59% focus on US public companies while only 6% investigate Canadian firms. Audit committee effectiveness may vary with concentration of ownership, enforcement level and exposure to lawsuits.

As suggested in the chart on p. 50, an implicit assumption behind the composition and resource requirements is that through some processes, members will be collectively able to

accomplish their monitoring task. It is therefore important that researchers also examine the process dynamics surrounding audit committees. However, very few studies have examined the dynamics taking place inside and outside audit committee meetings. Such research requires access to audit committee members and other participants. Importantly, practitioners need to be collaborative with academia if this type of socially relevant research is to become more common than it is today.

Jean Bédard, PhD, FCA, and Yves Gendron, PhD, CA, are professors at Université Laval in Quebec City

Technical editor: Christine Wiedman, associate professor, School of Accountancy, University of Waterloo

References:

1 Blue Ribbon Committee (1999). Report and recommendations of the Blue Ribbon Committee on improving the effectiveness of corporate audit committees. New York: NYSE and NASD. CSA (2004) Multilateral Instrument MI 52-110 Audit Committees.

2 Bédard, J., and Y. Gendron (2010). "Strengthening the Financial Reporting System: Can Audit Committees Deliver?" *International Journal of Auditing*, 14 (2): 174-210.

3 Blue Ribbon Committee (1999). Report and recommendations of the Blue Ribbon Committee on improving the effectiveness of corporate audit committees. New York: NYSE and NASD.

4 CSA (2004) Multilateral Instrument MI 52-110 Audit Committees.

5 e.g. Public Oversight Board (1993). "In the Public Interest: A Special Report by the Public Oversight." Stamford, CT: Public Oversight Board.

6 CSA (2004) Multilateral Instrument MI 52-110 Audit Committees. SEC (2003) Final Rule: Standards Relating to Listed Company Audit Committees (Rel. No. 33-8220). 18/06/2010

7 Bédard, J., S. M. Chtourou, and L. Courteau (2004). "The effect of audit committee expertise, independence, and activity on aggressive earnings management," *Auditing: A Journal of Practice & Theory* 23 (2): 13-35. Archambeault, D. S., F. T. DeZoort, and D. R. Hermanson (2008). "Audit Committee Incentive Compensation and Accounting Restatements," *Contemporary Accounting Research* 25 (4): 965-992.

8 CSA (2004) Multilateral Instrument MI 52-110 Audit Committees.

9 Blue Ribbon Committee (1999). Report and recommendations of the Blue Ribbon Committee on improving the effectiveness of corporate audit committees. New York: NYSE and NASD.

10 SEC (2003) Final Rule: Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002 ( Rel. No. 33-8177).

11 *Ibid.*

12 DeZoort, F. T., D. R. Hermanson, and R. W. Houston (2003). "Audit committee member support for proposed audit adjustments: A source credibility perspective," *Auditing: A Journal of Practice & Theory* 22 (2): 189-205.



## Instant online access to the information you need

**Exclusively for CAs, CA Research Plus offers:**

- The full text of leading business journals, magazines and research
- The option to email relevant articles to clients or colleagues
- Summaries of more than 700 best selling business books

**Go to [www.caresearchplus.com](http://www.caresearchplus.com) today to sign up for a free webinar to learn more.**



CA Research Plus  
Your online business library



CA Chartered Accountants of Canada

AMBIT

# ART + SCIENCE

Ambit is an executive search firm specializing in finance and accounting professionals. We have a proven track record of providing highly personalized service to Canada's leading companies.

At Ambit, we've perfected the subtle art and science of matching the right person with the right position.

Learn more about us  
+ 416.703.5050

AMBIT SEARCH  
36 Toronto Street, Suite 1160  
Toronto ON M5C 2C5  
www.ambitsearch.com



CATHY LOGUE, JOANNE ELEK & SHERIZA PERABTANI



LANNICK  
GROUP of COMPANIES

*The Right Fit. The First Time.™*

**25 years helping quality people and quality companies find *the right fit*.**

register with us or consult with one of our Client Associates at:  
416-340-1500 or info@lannick.com

search      contract      staffing

Let us introduce you  
to your next career move

www.inteqna.com

RECRUITMENT SPECIALISTS IN  
TORONTO, CALGARY, VANCOUVER  
& EDMONTON

**INTEQNA**

For the people we know

*"Forging a new vision of recruitment excellence across Canada."*



Yacoub & Associates  
Recruitment Professionals Inc.  
www.yarecruitment.com  
Tel: 416-861-0882

Y&A Recruitment Professionals Inc. is a boutique consulting & recruitment firm that aims to change the face of recruitment by continually raising the industry standards.

For a decade, Jocelyn Yacoub and her team have specialized in placing CA's: whether it is your first industry position or you need to explore new senior opportunities, we have built the relationships that can help your career.

Toronto, Montreal, Calgary, Vancouver



**The Larkin Group**

Executive search

Susan Larkin, CA, MBA

2275 Upper Middle Rd. E., Suite 101 Oakville ON L6H 0C3  
T: 905.491.6806 E: susan@larkingroup.ca  
www.larkingroup.ca

## 1% TRAINING OBLIGATION (QUEBEC)

- Tired of paying all or part of the 1% ?
- Will your back-up survive an audit ?
- Prior years internal verifications
- Pay Equity Compliance



Tel: (514) 484-5160  
 Fax: (514) 484-5453  
 E-mail: info@liwconsultants.ca  
 www.liwconsultants.ca



NORTH AMERICA'S LEADER IN PRACTICE SALES

LOOKING FOR  
 A CHANGE OF  
 SCENERY?

We have qualified buyers waiting! We simplify the process and help you get more for your practice... along with the BEST terms. To learn more, call Brannon Poe, CPA at 1.888.246.0974 or visit us at [www.accountingpracticesales.com](http://www.accountingpracticesales.com)



### THE SIMPLE SOFTWARE SOLUTION TO DOCUMENTING SR&ED TAX CREDIT CLAIMS

- Reduce documentation efforts by as much as 75%!
- Create concise project descriptions with cost correlations
- License fees as low as \$1,000 / year
- Full training and support available

RDBASE.NET

*SR&ED eligibility overview & demo at [www.rdbase.net](http://www.rdbase.net)*



verriez

EXECUTIVE SEARCH CONSULTANTS

Member of the Waterhouse Executive Search Partners and the Association of Executive Search Consultants (AESC)

Acquiring exceptional talent for over 25 years

252 Pall Mall St, Suite 203  
 London, Ontario N6A 5P6  
 Ph: 519-673-3463  
 Fax: 519-673-4748

36 Toronto St., Suite 850  
 Toronto, Ontario M5C 2C5  
 Ph: 416-847-0036



## The key to a successful search

**Unlocking a wealth of qualified candidates has never been easier.**

- Advertise your position to over 70,000 CAs
- Access our resume database (free with every job posted)
- Include your posting in our *CareerVision* newsletter
- Limit applicants to CAs to ensure high quality candidates

Visit CA Source today

CA|SOURCE

[www.casource.com](http://www.casource.com)



Rod K. Tanaka, C.A.

## TANAKA ASSOCIATES

*Executive Search Inc.*

120 Adelaide Street West, Suite 2500  
 Toronto, Canada M5H 1T1  
 Tel: (416) 410-8262  
 Confidential fax: (416) 777-6720  
 E-mail: [tanaka@sympatico.ca](mailto:tanaka@sympatico.ca)

FRANÇOYS BRUNET, CA — CONSULTING FIRM

## U.S. and International Tax

- Services:
- U.S. and international tax consulting
  - U.S. tax returns (individuals and corporations)
  - International transaction consulting

- Resources:
- Our team is composed of experienced tax advisors
  - Our network is established in over 100 countries

630 RENÉ-LÉVESQUE BLVD. W., SUITE 2895 • MONTREAL • QUEBEC • H3B 1S6  
 TELEPHONE: (514) 938-0663 • FAX: (514) 938-1695

“**GREAT ACCOUNTANTS  
AREN'T BORN, THEY'RE...  
Hired!**”



**ptc**

accounting  
& finance inc.  
people that count



PTC is in the business of providing our Clients with Accounting Professionals for **Contracts and Projects**. Send us your RESUME by visiting our website.

Bruce Singer, Chartered Accountant  
CEO & Visionary

Typical projects include IFRS, Controllers, Assistant Controllers, CFOs, Auditors, Taxation, Treasury, SOX Specialists, Junior to Senior Accountants.

For today's **CONTRACT OPPORTUNITIES**, visit our website at: [ptcaccounting.com](http://ptcaccounting.com)

TEL 905-660-9550  
TOLL FREE 1-877-303-9550

**Is this your path?**

**Partner at 30**

2003      2004      2010

UFE      Stern Cohen

Contact us  
hr@sterncohen.com

**SC** | Stern Cohen  
guidance  
[www.sterncohen.com](http://www.sterncohen.com)

**Robin Peaker, CA Partner**

**SEEKING TOP PROFESSIONALS  
DAMAGES QUANTIFICATION AND  
BUSINESS VALUATION**

FTI Consulting Canada requires entry and mid level professionals for its growing domestic and international business valuation and damage quantification practices. Our Toronto based group works on some of the largest and most complex cases in Canada and around the world. There are also positions available for our London UK office.

We are looking for independent thinking professionals with a background in accounting and/or economics who are interested in furthering their education through the Canadian Institute of Chartered Business Valuators (leading to a CBV designation).

A Masters in Accounting, Finance, Economics; or a professional accounting designation is required. Candidates must have problem solving skills, the ability to communicate clearly, and be able to work effectively in teams within a creative environment.

If you are interested in pursuing this opportunity, please reply in confidence with your CV to:  
Anna McGrath  
[anna.mcgrath@fticonsulting.com](mailto:anna.mcgrath@fticonsulting.com)



**MEUK CORPORATION**

**MAXIMUM EFFICIENT USE OF KNOWLEDGE**

Visit us at [www.meuk.net](http://www.meuk.net) or contact David Sabina, C.A. 905-631-5600 [dsabina@meuk.net](mailto:dsabina@meuk.net)

**COMPLETE SR&ED CLAIM PREPARATION SERVICES**

*Recover up to 65% of experimental development costs*

Free Assessments < 15 minutes  
Claims often completed < 1 week  
Fees typically < 20% of \$ recovered

**ATTEND AN UPCOMING SR&ED WORKSHOP!**  
*Details @ [www.meuk.net](http://www.meuk.net)*

**ME + U = Knowledge**

**PROFESSIONAL OPPORTUNITIES**

**ARE YOU OVERWHELMED BY THE EVER-CHANGING PROFESSIONAL STANDARDS?**

Do you have just a few Audits & Reviews?  
Wouldn't life be so much simpler (and more profitable) if you just did Notice to Readers and Tax?

As a Toronto-based CA firm with a 27 year proven track record we are looking to purchase audit & review accounts. If interested please reply in confidence to

[tom@copland-CA.com](mailto:tom@copland-CA.com)  
or 905-477-1300 ext 25

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

**Accounting Practice Sales -** Please see our website at [www.accountingpracticesales.com](http://www.accountingpracticesales.com). Are you ready to sell your practice now? Sell your practice through Accounting Practice Sales for a fixed price without an earn-out deal that will carry on for years. After all, if you wanted to stay in practice, why sell out? **BUYERS -** registration with us is simple and free via our website. North

America's leader in Accounting Practice Sales. Contact Brannon Poe for a confidential discussion at: 1-888-246-0974 or via email [poe@knology.net](mailto:poe@knology.net)

**Accounting Practice Sales Current Listings:**

- Calgary, AB - \$398,500
- Calgary, AB - \$300,000
- Southwest of Lloydminster, AB - \$725,000
- Central Northern, AB - \$145,000
- Terrace, BC - \$400,000
- Central Interior, BC - \$980,000 (Gross)
- Southern Interior, BC - \$717,000 (Gross)

To view the most up to date listing information, please visit [www.accountingpracticesales.com](http://www.accountingpracticesales.com)

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

**Mississauga CA** interested in purchasing clients in west end. Looking for a block of \$50,000-\$200,000. Audit/Reviews/NTRs and tax work are all welcome. We are also looking for other young CAs with an established business in the west end to be partners with. Please reply to [jon@herliheynewsome.ca](mailto:jon@herliheynewsome.ca)

**Markham (GTA) CA** looking to add to existing accounting practice by acquiring block of accounts or assist-

ing with your succession plan. Very flexible with retirement options/association. Please reply in confidence to: [ca.ad@hotmail.ca](mailto:ca.ad@hotmail.ca)

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

**Midtown Toronto CA** seeks to acquire block of accounts for up to \$50,000 with mix of T1, T2 and NTR only. Please email [midtownca@gmail.com](mailto:midtownca@gmail.com) to discuss.

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

**Opportunity for experienced,** technically sound CA to perform challenging and rewarding audit work at boutique firm in Mississauga special-

ized in auditing cooperative and not-for-profit organizations. Be a leader in transitioning the practice and clients to international standards. Interesting work with the balance of a small firm environment. Path to partnership for the right person. Please reply with resume to Box 692, CAmagazine.

**2 Partner Toronto CA Firm -** Interested in merging with another CA or CA firm. Engagements include NPO audits, reviews, compilations and T1s. Please reply to Box 693, CAmagazine.

**ACCOUNTING SERVICES**

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

**Replying to a CAmagazine Box Number?**

Box #  
277 Wellington Street W  
Toronto ON M5V 3H2

Fax us at  
416 204.3409

Send e-mail to  
[advertising.camagazine@cica.ca](mailto:advertising.camagazine@cica.ca)

Please ensure that the **Box Number** is clearly indicated on your envelope, fax or e-mail.

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

**Mississauga Accountant** available anywhere in the Greater Toronto Area for per diem or contract assignments including accounting, taxation and working-paper preparation. Experience includes a wide variety of small, medium and large-sized clients. Call 905-625-2837.

**TORONTO CA** with 10 years of public accounting experience (private and public filers) in Big 4 and other, available for per diem and contract work. Accounting, working-paper preparation, financial statement preparation. Experience in various industries, in-

cluding oil & gas, mining, financial institutions, consumer products, other. Please call 647-376-7610.

## CAREER OPPORTUNITIES

**Progressive two partner well established North Toronto CA firm** requires recent CA graduate/equivalent to work on variety of client deliverables. Great opportunity for hard worker with relevant skills and ability to work efficiently and effectively with minimal supervision. Competitive compensation, a pleasant office environment and career growth potential. Please reply to Box 694, CAmagazine.

## OFFICE SPACE

**Toronto, King & Yonge** – Office share arrangement. Executive and assistant's offices in suite shared

with small professional services business. Internet & phones. On the subway. Terms flexible. See [www.cambridgeforums.com/officeespace.php](http://www.cambridgeforums.com/officeespace.php) or contact [officespace@cambridgeforums.com](mailto:officespace@cambridgeforums.com)

**BROWN'S LINE & EVANS AVE.** Close to Sherway Gardens. 1200 sq ft main floor office space in a plaza. Great exposure. Signage. Reception, 4 private offices, remainder of space is an open, work area. Plaza parking. \$2,500.00 per month, net. Call 416-456-8680.

**Highways 401/404/Sheppard** – CA firm, with in-house tax specialist, has prestigious, first-class office space available at a building with premium gym facilities. Offers a flexible mix of 3 (2 window partner-size) offices, 2/3 work stations, boardroom with panoramic view, shared reception and kitchen, and filing/storage area. Ideal space for accounting firms, law

firms, and firms with expertise in valuation, insolvency, or investigative and forensic accounting looking to share costs, enjoy inherent synergy and cross-referrals. Please contact Peter at 416-499-3112 ext.318, or Sonja at ext.309.

## WEB DESIGN

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

## TAX ACCOUNTANT

**Seasoned Toronto tax accountant** provides services to accounting firms to shore up client service offering on mutually rewarding basis. Call 905-626-4448.



Visit our website @ [camagazine.com](http://camagazine.com)

**WEB FEATURES** News and **exclusive items** of interest to all accountants

**WEB EXTRA** **Web-only** articles, also summarized in the print edition

**CURRENT PRINT EDITION** The entire magazine in **digital form**

**HOT TOPICS** Articles on **popular subjects**

**ARCHIVES** **Hundreds of articles** published in the magazine since 1994

The essential companion to our print edition



## CA magazine's annual Personal Financial Planning issue November 2010

This issue is one of *CA magazine's* highly read issues.

In this year's edition of *CA magazine's* popular Personal Financial Planning issue we will look at how the recent financial crisis exposed the fragility of many pension plans and jeopardized the retirement plans of thousands of Canadians. We explore what is really happening out there, and look at potential solutions. Also in this issue; Annuities are a often forgotten option in building a pension plan. How do they work and, most importantly, how can they deliver higher yields and guaranteed returns?

### Some interesting facts you should know about *CA magazine*

- *CA magazine* recently received the most awards at the 56th Kenneth R. Wilson Awards, winning five Gold and two Silver medals, including the "Best Issue." In fact *CA magazine* has won the "Best Issue" award nine out of the past 11 years!!!
- In a world where media fragmentation is increasing, ratings are declining and advertising is easier to zip and zap, magazines are proving their worth.
- Two key measures of magazine ad effectiveness are on the rise, "Ad recall" is up 6% and "actions taken" has increased by 10% over the past four years.
- Magazines are:
  - #1 in engagement
  - #1 in driving consumers to websites
  - #1 in driving word-of-mouth
  - #1 in driving purchase intent

Source: Affinity's VISTA Print Effectiveness Rating Service.

### *CA magazine* reaches your target audience

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

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

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



For advertising opportunities, please contact  
**Darcey Romeo, Advertising Representative**  
at [darcey.romeo@cica.ca](mailto:darcey.romeo@cica.ca) or 416.204.3257



# Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

## Game over

In 1992, George Soros made more than \$1 billion in a single week by speculating against the British pound, forcing its devaluation, and became an overnight hero in the investment world. Not only is it every trader's dream to equal this exploit, but Soros also legitimized huge speculative gambles by large investors. Unfortunately, such gambles were in fact a major cause of the 2008 financial crash.

Financial speculation based on whether or not an event will happen does not create wealth: some investors' profits are other investors' losses. Nonetheless, economists generally hold positive opinions toward speculators who, in their view, provide liquidity to financial markets and are willing to assume risks that more risk-averse investors and lenders shy away from. Nevertheless, the contribution of speculators to the efficiency of capital markets remains secondary to the primary role of markets, which is to channel capital toward users. Speculators are only B players in this picture.

Yet the focus on financial markets has shifted from channeling capital to users to speculating. For example in 2008, more than \$50 trillion worth of credit derivative titles were outstanding, essentially comprised of bets on interest rates and the economy. Such speculation creates little value. Betting at casinos and race tracks does the same thing: a zero-sum transfer of wealth between winners and losers.

There are of course many model investors on the markets, the Warren Buffett type of investors who invest for the long term. However, for every Warren Buffett there are dozens of speculators, most of them institutions, who buy and sell at the slightest market hiccup. "We have to beat the index," they insist. But for every speculator who buys, another one sells: who is right? And even more disturbing, this speculation is now mostly computerized, with speculative programmed trading, which largely explains the global explosion in the volume of shares traded.

Last spring, speculators attacked the debt of various European countries and indirectly the euro. Many specu-

tors believed that Germany and France wouldn't be able to support the euro zone stability. Others took the opposing position. While this tug of war went on, the global economy experienced serious instability. Millions of people suffered from this uncertainty. In the end, the euro pulled through. And except for those who had bet on the euro's survival (a few large institutions), everyone was hurt.

We have to harness speculation on capital markets as it now does far more harm than good. The institutional investment framework needs to be changed. Here are three reforms that should be introduced:

- a small tax on every market transaction. A rate as low as 0.05% wouldn't affect long-term investors, but it would rein in day traders and program trading that are free-riding

### We have to harness speculation on capital markets, as it now does far more harm than good

and only exploiting the system;

- prohibiting naked short selling. Those that engaged in short selling should have to borrow the share that he or she intends to short. That is the way it used to be done. Now speculators bet that they will be able to repurchase the shortened shares later and go naked. That should be prohibited. Similarly, credit default swaps should also be prohibited when the seller doesn't hold the underlying debt. Germany has recently banned naked short selling and the US government is considering such a ban for banks;
- regulating traders' incentive pay so it would apply to losses as well as gains. Traders currently pocket generous bonuses when they make gains, but they aren't subject to any penalties if they incur losses — an asymmetry that drives them to take bigger risks.

The financial community may argue that such measures are unfair. But speculators masquerading as investors are spoiled brats who have cost society enough. It's time to send the message that the party is over.

Marcel Côté is founding partner at SECOR Consulting in Montreal



# Make Succession Planning Your Business

So many years of hard work go into building a successful business. And yet, many business owners lack a proper succession plan and vision for the future.

As their trusted advisor, you can help your clients protect the value of their hard-earned business investment and choose an exit strategy that's right for them.

#### A VALUABLE MARKETING TOOL

The CICA's Succession Planning Toolkit for Business Owners can help your clients understand the typical aspects business owners face when exiting their business and be better prepared to discuss their plans with you. The 10 chapters of straightforward discussion provide:

- A step-by-step process for analyzing options for transferring management and ownership interests and developing an effective succession plan
- Guidelines for creating and sharing plans with family and other key individuals
- Checklists on an accompanying CD which can be customized to fit each unique business situation
- Real life succession planning stories from Canadian business owners.

Special volume discounts.

Also available in French.

Our new name is no longer just a name.

You already know us. You know our expert level of service and our reputation as an industry leader. You know our commitment to success. You know our results. And although we've made a name for ourselves as Brendan Moore & Associates, we feel it's time to shed the past and move forward. Not only that, we're also adding to our repertoire of services to better meet the growing needs of our clients. You've known us as the best. Now you'll know us as Definitive.

Visit [www.definitiveconsultingservices.com](http://www.definitiveconsultingservices.com) or call us at **905.829.8877** or **1.877.568.0488** for more information.



**BRENDAN MOORE**  
*Enterprise Sales Tax Solutions*

**Definitive!**  
Tax • Corporate Finance • Consulting