John Ruffolo, the kingmaker of Canada’s tech scene, can make or break your start-up. Could you win him over?
Does Payroll Report To You?

If so, having your team members become Payroll Compliance Practitioner (PCP) certified with the Canadian Payroll Association will give them the payroll compliance knowledge and skills needed to succeed.

- Like an accounting designation, employers respect and seek candidates with payroll certification.
- The PCP certification program is flexible, with online courses starting monthly and in-person courses available at colleges and universities across Canada.
- The knowledge gained through PCP certification will enable your organization to stay current and compliant with the over 200 regulatory requirements and avoid costly penalties.
- Having certified team members is the smart choice to reduce audit risk and prevent compliance risk before it happens.

For more information visit payroll.ca/certification

“I encourage my entire payroll team to complete the PCP Certification. It provides them with the confidence and knowledge needed to handle complex and ever-changing payroll legislation.”

Frank Lilley, CPA, CGA
Manager, Payroll & Assignee Tax Support
Nexen Energy ULC
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This fall, **CPA Canada** is embarking on one of its most ambitious multi-stakeholder consultation projects ever. CPA Canada Foresight: Reimagining the Profession combines in-person round tables and a digital conversation to discuss how the drivers of change—technology, geopolitical instability, changing societal perspectives, environmental and economic issues—will impact the accounting ecosystem.

Foresight is focused on the future, but it’s important as well to consider the historical context. The initiative builds on CPA Canada’s thought-leadership work, including the respected “Drivers of Change” report—a product of a multi-year process of round-table events, outreach and research on five disrupters that are creating challenges and opportunities for CPAs and their organizations. Foresight will resume the conversation and look at the profession’s most relevant issues.

For decades, Canada’s accounting bodies have paid close attention to the dynamic state of our profession, from reporting regulations and global standards to technological innovation. Simply as a matter of practice, we are predisposed to pay attention to drivers of change because our work is so closely tethered to institutions that touch every Canadian: public markets, regulators, governments.

Foresight is the latest chapter in this story, and not only builds on the “Drivers of Change” report but on other recent work we’ve carried out in parallel domains, such as our thought leadership in audit and technology, and our rigorous focus on sustainability reporting and business adaptation. Yet the process we’re starting now takes an ambitious new approach to engage a broad range of stakeholders. We’re casting the net as wide as possible because the implications, within such a state of disruption, are so great.

While still in their infancy, technologies like artificial intelligence-enabled finance systems and blockchain may very well change core assumptions about traditional accounting practices, including audits, transaction assurance and financial disclosure to market regulators. Increasingly, audits are analyzing 100 per cent of an organization’s transactions when the data can be extracted and cleansed for use in advanced analytical tools.

Some public companies, meanwhile, are looking at issuing shares via blockchain ledgers instead of through traditional intermediaries. We’re also seeing the emergence of AI-based algorithms that offer up the promise of automating certain tax processes.

These changes will have far-ranging implications, and no one should assume they can simply be unleashed in the system and switched onto autopilot. They

**NEW TECHNOLOGIES HAVE FAR-RANGING IMPLICATIONS. NO ONE SHOULD ASSUME THEY CAN SIMPLY BE UNLEASHED IN THE SYSTEM AND SWITCHED ONTO AUTOPILOT.**

The process of scoping out these various futures necessarily involves input from a wide range of CPAs and other experts and institutions, both domestically and internationally.

From there, we’ll set up numerous work streams, overseen by diverse advisory committees, to explore the implications of the scenarios—from newly identified competencies to changes in financial reporting frameworks to revisiting audit methodologies. In some cases, it’s worth noting, the explorations that begin with CPA Canada will give rise to separate

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**FROM THE CEO**

**HOW TO FIGURE OUT THE FUTURE**

**BY JOY THOMAS**
review processes that occur within other institutions invited to engage in the Foresight process. It is our intention to use Foresight to encourage other stakeholder institutions to engage in their own processes of assessment and forward planning.

Beyond all this, the journey we’re beginning will involve, for the first time, a digital conversation that leverages social media and AI and enables consultation to extend beyond round tables with expert stakeholders to the broader CPA membership (see cpacanada.ca/foresight).

The feedback from members will be incorporated into the work of the stakeholder round tables, thus setting up an iterative consultation that can only strengthen our collective assessment of the impact of these shifts in practice. What’s more, the design of the process emphasizes engagement, so the thinking and feedback will be freely available to anyone who wants to access it.

Foresight’s initial consultations will roll out through 2018, and we will begin the second phase in 2019-20, when we’ll use all these insights to develop new practices and standards. The process is transparent and deliberative—in short, a reflection of the professional values that accountants embrace.

But it’s also important to remember that what we are doing isn’t just about adapting the technical minutiae of the accounting profession to meet the changes wrought by these emerging trends and technologies.

Accounting systems and practices are at the very heart of our society’s economic life—they touch anyone who saves for their retirement, works for or owns a small business, or simply files taxes. We celebrate the arrival of new technologies that hold out the promise of greater efficiency, reduced cost, increased precision and new ways of solving problems. But as a profession dedicated to ensuring accuracy and accountability in our financial reporting, we also know that protecting the integrity of these interconnected systems through a period of disruptive change is a responsibility we owe to all Canadians.

That’s why we’re incredibly excited about the CPA Canada Foresight initiative.
EDITOR’S NOTE
Thanks to everyone who wrote in. We’ve had a lot of positive feedback on our redesign, and some criticism as well. It’s all welcome. We remade the magazine in May, meaning to serve CPAs by profiling the people, companies and strategies that are “pivoting” business to the future. For those who feel it’s been short on content directly relevant to CPAs, check out page 8 in this issue, where you’ll find a story on the future of the profession. Or page 22, for an in-depth profile of a CPA who’s also the kingmaker of the Canadian tech scene. Or page 36, for an exclusive interview with the head of the Institute of Chartered Accountants in England and Wales. And there’s still more. We’ll keep working to get the balance of content right. Please, keep writing in to pivot.letters@cpacanada.ca to tell us what you think.

I was intrigued by the pale pink magazine sitting in my inbox and was surprised to see that it was the old CPA Magazine, now renamed Pivot. It’s been a while since I flipped through the magazine (despite the joke that it’s my $1,100-a-year magazine subscription). All of the articles under “Last Out” look interesting, and I’m probably going to scan the one about #vanlife to send to friends of mine, whose daughter is spending this summer living in a van. Thanks for changing things up, and good luck with the new magazine.

—Paula M. Foster, Toronto

Regarding Francis Fong’s July/August column, “A lost decade,” all young people who seek jobs should have the opportunity to earn income and gain work experience. This would not only help youth but also nurture a trained workforce essential to our future economy, which will have to support a higher number of seniors. A Youth Job Guarantee program funded by the federal government, but administered by local municipalities and community groups, would provide job openings for all who apply in areas of public arts, recreational opportunities, tourism enhancement, helping the aged and protecting the environment.

—Larry Kazdan, Vancouver

As a proud CPA, CA, I am puzzled by the contents of the July/August 2018 issue of Pivot magazine. The articles on a myriad of topics offer very little on the CPA profession’s core expertise: the tax overhaul column is overshadowed by features on entertainment, cryptocurrency and entrepreneurship. Nor are CPAs themselves very well represented: the article about the CPA weightlifter is interesting, but the feature articles are about a doctor, a STEM graduate and robots. I would have welcomed something about CPAs pursuing careers in diverse areas such as audit, accounting, financial management, governance and performance reporting. In “Pivot”-ing, I wonder if this magazine has missed an opportunity for thought leadership—to, for and about our CPA profession.

—Hilary Rose, Edmonton

I am so impressed with the new CPA Magazine. I had to write to congratulate you. It’s classy, professional, well written and full of interesting, relevant content. I am reading Pivot from cover to cover and thoroughly enjoying every part of it.

—John Robshaw, Toronto

WHAT’S ON THE WEB
Visit cpacanada.ca/news for daily news, web exclusives and more

Halifax Dispatch Five ways to get the most out of The One National Conference
Take Notes How CPA Canada volunteers are boosting students’ financial literacy
Funny Money A video showcasing some of the world’s most beautiful bank notes
Predatory Lending Why Canadians are taking on high-interest loans
20 years of growth
IN THE MASTER OF PROFESSIONAL ACCOUNTING PROGRAM

Innovative CPA curriculum
Supportive classroom environment
Award winning faculty
Professional network
Work-study balance
Master degree

Edwards School of Business
UNIVERSITY OF SASKATCHEWAN

www.edwardsmpacc.ca
Over the past few years, Deloitte Canada has been using a new software system, based on artificial intelligence (AI), that could change some of the most long-standing practices in the world of auditing. Rather than merely sampling commercial contracts, the system, known as “Argus,” can convert documents into readable formats, automatically compare contracts to look for anomalies, and scan large tranches of files using advanced analytics algorithms.

The adoption is “still in its infancy,” says Richard Olfert, FCPA, Deloitte’s managing partner for regulatory, quality and risk. The firm’s audit teams are actively using the technology, both with the vendors and internally with clients. Consequently, the rollout has been gradual, with Deloitte CPAs introducing the new AI-based system into increasingly complex audit assignments. As befits a so-called machine-learning system, Argus has become more adept over time at taking on aspects of the audit process. “With each audit cycle,” says Olfert, “we both discover and explore new, expanded ways to use its capabilities.”

Technologies like this, that use AI, machine learning, blockchain and big data analytics, are evolving quickly. They’re performing astounding tasks, from voice-activated searches to automated online customer service. Financial firms are building applications using blockchain, for example, to handle know-your-customer processes and reconciliations.

But Deloitte’s project is just one example of how emerging technologies are also dramatically redrawing the parameters of the accounting profession—not just in Canada, but around the world.

In the face of rapid change, CPA Canada is now embarking on an ambitious national and global consultation process, dubbed CPA Canada Foresight: Reimagining the Profession. It zeroes in on the economic, social, geopolitical and environmental drivers of change, as well as the impact of emerging technologies. The exercise will engage not only CPAs but also the businesses CPAs support, regulatory bodies, investors and other stakeholders who play a key role in supporting the development of high-quality, reliable and relevant financial information. “As a profession, we are always focused on the future,” says Joy Thomas, FCPA, the president and CEO of CPA Canada. “This process touches everybody.”

The potential for the accounting world is far-reaching and positive, says Carol Paradine, CPA, the CEO of the Canadian Public Accountability Board (CPAB). “Yet,” she adds, “there will be challenges and interesting questions that we need to address.” The list is extensive: the effect of emerging technologies and social and political trends on regulatory and professional oversight bodies, the impact on accounting education and training, and how these drivers will influence specific areas such as tax, audit, financial reporting and performance management.

Indeed, all these drivers of change are focused on an issue that is central to the accounting profession: adding value by helping to develop critical information that can be used by businesses, investors, regulators and other stakeholders. And it’s all happening at a time when businesses are generating an ever-growing volume of forward-looking, but largely unaudited, information that rapidly finds its way into markets, potentially affecting investor or regulatory decisions.

Lori Mathison, FCPA, the president and CEO of the Chartered Professional Accountants of British Columbia, says the profession needs to develop new and agile approaches to verify other sources of unaudited corporate information now available to markets, investors and consumers.

Echoing challenges that surfaced with the reporting of corporate sustainability information, companies now disclose all sorts of current and forward-looking data, some of which can produce risks or distort outlooks. “The best information we had before was historical financial statements,” says Olfert. “Now, there’s a huge amount of information that is real-time and forward-looking.”

Foresight, which launched this past summer, is anchored by a series of focused roundtables to be held across the country this fall, each with about 40 participants who are leaders in business and accounting. Their mandate will be to formulate scenarios that identify future directions for the profession in areas such as external reporting, audit and assurance, tax, financial management, and strategy, risk, global regulation and governance. The scenarios are also
In the face of rapid change, CPA Canada is now embarking on an ambitious national and global consultation process, dubbed CPA Canada Foresight: Reimagining the Profession. It zeroes in on the drivers of change, as well as the impact of emerging technologies and social and political trends on the accounting profession. Their mandate will be to formulate scenarios—not just in Canada, but around the world.—

Reimagining the Profession

By John Lorinc

Mapping out the future of accounting

MOVE FAST, STAY AHEAD

The scenarios are also anchored by a series of focused roundtables to be held across the country this fall, each with about 40 participants who are leaders in business and accountancy, tax, financial management, and strategy, risk, global regulation and governance. The scenarios are also bodies, investors and other stakeholders who play but also the businesses CPAs support, regulatory, quality, and risk. The firm's audit teams are actively using the technology, both with the vendors and internally with clients. Consequently, the rollout has been gradual, with Deloitte CPAs are now using a new software system, based on artificial intelligence (AI), that could change some of the most long-standing practices in the world of auditing. Rather than merely sampling commercial markets, investors and consumers.

The adoption is "still in its infancy," says Richard Olfert, FCPA, Deloitte's managing partner for Canada. "It is not yet widely adopted around the world," he adds. "But Deloitte's project is just one example of how the profession is responding to the challenges and interesting questions that we need to address." The list is extensive: the effect of emerging technologies on an issue that is central to the accounting profession: adding value by helping to develop critical analytics algorithms.

"As a profession, we are always focused on the future," says Carol Paradine, CPA, CEO of the Canadian Public Accountability Board (CPAB). "Yet," she adds, "there will be challenges and interesting questions that we need to address." The potential for the accounting world is far-reaching, says Paradine, and CPAs must be adept over time at taking on aspects of the audit process. "With each audit cycle," says Olfert, "we use its capabilities."

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"With each audit cycle," says Olfert, "we use its capabilities."
meant to highlight the employment opportunities and skills CPAs will need to remain essential players. Augmenting the roundtables, CPA Canada is soliciting feedback from its 210,000 members, its stakeholders and the public through a digital conversation considered to be unprecedented in scope. CPAs and non-CPAs globally will be able to join online forums and discussion groups hosted on “SoapBox,” a unique platform that engages them, and CPA Canada will use an AI analytical tool called Lexalytics to help identify trends and insights. (See cpacanada.ca/foresight)

The intensive roundtable sessions will include a wide range of market participants, from CEOs and investors to sustainability experts, standard setters and regulators. Catalytic governance consultant Pat Meredith explains that the process aims to develop a deeper understanding of the impact of changes on the profession so it can adapt. “The whole purpose of this exercise is not just to study [the new technologies and the impact of social, demographic and geo-political trends], but to take action,” says Meredith, who was closely involved in a similar process to overhaul Canada’s payments systems at the request of then-finance minister Jim Flaherty in 2010.

**“THE OPPORTUNITIES ARE MASSIVE IF CPAS ARE WILLING TO EMBRACE THEM AND STEP OUTSIDE THE BOX. THEY HAVE TO CHANGE HOW THEY DO THINGS, BUT NOT WHAT THEY DO.”**

The project will scope out an answer to a question that is being considered by many professions (including law and medicine): how will technologies and emerging trends impact the way CPAs do their jobs, and the role that accounting plays within the broader context of Canada’s business, financial and regulatory structures? A global perspective is critical for the process because regulators and other jurisdictions and accounting bodies around the world are grappling with similar questions.

The Foresight project builds on the significant thought leadership undertaken by CPA Canada, in particular the work done for the “Drivers of Change” report, and on other recent thought leadership research generated by the profession in recent years.

The transition in professional practice has already meant updating core competencies and expanding the skill sets resident within finance teams, both on the audit side as well as for preparers tasked with the production of financial information. Richard Olfert points out that audit teams working with AI systems will require the support of data scientists and software engineers, although it will still fall to CPAs to apply their judgment to the findings generated by the automated audit tools. “The profession has a role in verifying these kinds of metrics,” he says.

Other players in the accounting ecosystem are also dealing with these innovations. Carol Paradine, of CPAB, observes that when auditors can use AI algorithms to review a company’s entire transaction database instead of sampling it, the methodologies governing audits need to adapt accordingly. As she observes, the question facing regulators, auditors and standard setters is, “How does that black box work and how do we evaluate it?”

(It’s important to note that the hype around technologies like machine learning and blockchain is intense, and can obscure the limitations of these new systems. For example, regulators are concerned about the use of blockchain for illicit applications, such as money-laundering. And cryptocurrencies continue to produce less robust outcomes than the much-anticipated promise of perfectly transparent and accurate ledgers.)

As for machine learning, Lori Mathison points to emerging services, such as Blue J Legal, a big data algorithm for tax applications and employment law issues. While such systems can automate aspects of tax preparation and filing, Mathison notes that much of this type of work—for estate planning, to name just one example—still demands the complex judgment calls that professionals are trained to make. Paradine concurs: “I’m having trouble envisioning where you won’t have professional judgment applied.”

Overall, though, the accelerating innovation cycle, both in business settings as well as within the accounting profession, are likely to produce as much in the way of new forms of practice as it does in automating older ones. “The opportunities are massive for CPAs, if they are willing to embrace them and step outside the box,” Mathison says.

The technologies, she adds, will mean that CPAs “have to change how they do things, but not what they do.”

CPAs are well positioned, in other words, to leverage their skills in validating the integrity of huge tranches of information, but also in serving as trusted advisors to companies changing their own business models thanks to technological change. As in any revolution, it’s the smart and the nimble who thrive. •
ENVIRONMENT

LEAN AND GREEN

There are 1.1 million small businesses in Canada. Why are they not part of the sustainability conversation?

BY MATTHEW HALLIDAY

Don’t ask Sarah Burch to define “sustainability” unless you want a slippery answer: “One of the beautiful things is that it doesn’t have a precise definition,” she says. “I know that can be frustrating from a business perspective, but it also forces us to imagine what sustainability means. What kind of future do we want, and how do we want to get there?”

Burch, 37, is an associate professor in the University of Waterloo’s Department of Geography and Environmental Management, and the Canada Research Chair in Sustainability Governance and Innovation. In June, she was named one of Canada’s Top 40 Under 40—a who’s who of young business innovators chosen by a board of Canadian business leaders. They recognized her as one of the country’s most prolific thinkers on “community sustainability”—that is, how the often overlooked agility and creativity of cities, neighbourhoods and small businesses might shift the country toward a greener future. This October, she’ll be speaking at the CPA profession’s The One National Conference in Halifax, where she’ll discuss how businesses can plan and prepare to make big—rather than incremental—shifts in their approach to sustainability.

“Government and big corporations have kind of hogged the attention on sustainability,” says Burch, “but small businesses employ the majority of Canadians in the private sector, and they’re much more closely embedded in their communities. They’re in an incredible position to identify opportunities for creativity and innovation that we aren’t taking advantage of.”

Burch’s slippery definition of sustainability isn’t a dodge, then, but a recognition that with 1.1 million small- and medium-sized businesses (SMEs) in Canada, there could be just as many approaches to sustainability. And the cumulative impact of those millions of innovations, rooted in local needs and abilities, is potentially transformative.

But do SMEs care about sustainability? Last year, Burch led a University of Waterloo research project surveying 1,695 SMEs in Toronto and Vancouver on the subject. The responses were diverse, but 86 per cent said it was important, and not just for cost savings. “You’d think cutting costs was the number one reason,” Burch says. “But for a majority it was actually their reputation in the community.”

The results didn’t surprise Burch. Before arriving in Waterloo, she was a postdoctoral fellow at the University of British Columbia’s Centre for Interactive Research on Sustainability, where her research focused on clever, small-business and entrepreneurial sustainability efforts. She points to a few examples of successful sustainability transitions within the past decade: Tinhorn Creek Vineyards, an Okanagan Valley winery, made strides greening its business with methods that could be applied anywhere (using thinner bottles to reduce carbon emissions during transportation) as well as steps specific to its hot and semi-arid locale (investing in drip irrigation rather than an overhead, shower-like system). Also in B.C., Van Houtte Coffee Services converted 20 trucks to propane and optimized delivery routes, cutting emissions by 19 per cent over two years and saving $200,000. Vehicle retrofits cost $5,000 each, so the effort was paid for within a year.

Not all changes pay for themselves so readily, however, and many SMEs—operating on thin margins, with limited time, money and personnel—may struggle to take big leaps. Burch intends to tackle those barriers with “Transform: accelerating sustainability entrepreneurship experiments in local spaces,” a just-announced, seven-year project, led by Burch and linking research hubs in Canada, the U.S., Australia and several European countries.

Transform will provide seed grants of around $10,000 each to small businesses with particularly innovative ideas, while Burch and her academic collaborators will provide guidance and analyze individual projects “so we can learn what works and what doesn’t, and where.” Burch says that the role of accounting will be to figure out how to assign value and develop new metrics for the big ideas being generated: “You can’t manage what you can’t measure, as they say.” And that will be especially critical, because she believes that for the time being, we “need to look beyond what we can measure to be as creative as possible…. We often don’t have a compelling vision of what the future should look like. We muddle through, and are surprised by the future as it comes to us, rather than imagining it first.”

For more coverage from The One National Conference, visit cpacanada.ca/news.

PHOTOGRAPH BY NATHAN CYPRYS

LEAN AND GREEN

There are 1.1 million small businesses in Canada. Why are they not part of the sustainability conversation? By Matthew Halliday

Don’t ask Sarah Burch to define “sustainability” unless you want a slippery answer: “One of the beautiful things is that it doesn’t have a precise definition,” she says. “I know that can be frustrating from a business perspective, but it also forces us to imagine what sustainability means. What kind of future do we want, and how do we want to get there?”

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For more coverage from The One National Conference, visit cpacanada.ca/news.
When Elton John announced his farewell tour, excitement quickly turned to disappointment. Tickets disappeared instantly, then showed up on resale sites for more than $10,000. Though an extreme example, it’s a familiar experience for Canadian music and sports fans. “Ticket bots” scoop up thousands of seats before fans even have a chance, leaving them to watch resale prices jump up and down in the weeks before an event. Governments are taking action: Ontario banned ticket bots last December, and B.C. has vowed to stop “price-gouging scalpers.” —Steve Brearton

BY THE NUMBERS

TICKET DISASTER

Maple Leaf Sports and Entertainment will add a 30 per cent surcharge to commercial ticket brokers buying Leafs and Raptors season’s tickets during the 2018-2019 season.

$257
Value of a gold-section seat at the Maple Leafs home opener as part of a season ticket package.

$122
June 16
Original price of a first-row ticket to Harry Styles’s Vancouver concert.

$112.50
February 24
Original price of a floor-level ticket to Radiohead’s Montreal concert. Tickets sold out immediately.

$149
June 16
Original price of a Verified Platinum floor ticket.

$207.81
June 20
Highest resale price on Vivid Seats.

$305
June 26
Resale price on Vivid Seats.

$388.04
July 9
Resale price on StubHub.

$450
June 20
Highest resale price on Kijiji.

$339
Resale price through the Leafs’ “trusted reseller program.”

$558.75
Resale price on Ticketmaster.

$464
July 17 (9:40 a.m.)
Highest resale price on VividSeats.

$974.48
June 29
Highest resale price on StubHub.

$8,000,000,000
Estimated value (US$) of the global ticket resale market.

90%
Proportion of Ticketmaster web traffic reported to be from ticket bots, the site identified and stopped five billion instances of bot purchases in 2018.

87%
Proportion of Canadians who support severe fines or jail time for scalpers who use ticket bots.

66%
Proportion of adult Canadians who have purchased a ticket to a sold-out event through a resale website.

Sources: Office of the New York State Attorney General, Office of the Ontario Attorney General, Insights West, Pollstar.
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### BY THE NUMBERS

- **$615**
  - July 17 (9:45 a.m.)
  - Highest resale price on ShowTime Tickets

- **$1,198.33**
  - June 29
  - Highest resale price on SeatGeek

- **$974.48**
  - June 29
  - Highest resale price on StubHub

- **$490.83**
  - July 5
  - Reduced resale price on StubHub

- **$615**
  - July 17 (9:40 a.m.)
  - Highest resale price on VividSeats

- **$464**
  - July 17 (9:40 a.m.)
  - Highest resale price on VividSeats

- **$1,661.35**
  - July 17 (9:45 a.m.)
  - Highest resale price on SeatGeek

- **$325.84**
  - July 6 (9 a.m.)
  - Reduced resale price on StubHub

- **$239.39**
  - July 6 (2 p.m.)
  - Final resale price on StubHub

- **$189**
  - July 17 (5:30 p.m.)
  - Lowest resale price on VividSeats

- **$75**
  - July 17 (4 p.m.)
  - Lowest resale price on Kijiji

### HARRY STYLES

- **ROW 1, SEAT 45**
- **JULY 6**
- **ROGERS ARENA (VANCOUVER)**

### Average List Price (US$) of a Ticket to One of North America’s 100 Top-Grossing Tour Concerts

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2002</th>
<th>2007</th>
<th>2012</th>
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GOODWILL

WHO DO YOU CALL WHEN IT ALL GOES BAD?

When scandal hits, José Hernandez can help clean it up and fix your company. But you may have to face up to some unpleasant facts. **BY PETER SHAWN TAYLOR**

A dawn raid. Websites screaming “corruption” and “bribery.” A massacre on the stock market. And amid all the chaos, a carefully managed international brand lying in tatters.

When this sort of corporate nightmare hits, José Hernandez can often expect a frantic call for advice. A Canadian CPA and principal of the Zurich-based consultancy Ortus Strategies, he has carved out a unique niche in the high-stakes world of scandal response and remediation. With two decades of experience advising multinational organizations such as Daimler AG, SNC-Lavalin, Siemens and FIFA, Hernandez helps companies recover from crises and ensure such things never happen again.

In the process, he has had to become as much a philosopher on the human condition as an expert on fraud detection, brand management and global accounting regulations.

“Bad behaviour is embedded in the DNA of the human race,” he observes. “Every day something bad is going to happen in an organization—someone will be sleeping with a subordinate or cheating on their inspection forms or falling off a ladder. You can’t change that. But as the leader of an organization, your job is to ensure you have procedures in place to deal with this behaviour.” The good news: “Misconduct is inevitable. Scandal is not.”

When a corporate crisis does hit, Hernandez notes, it’s generally because all those small and inevitable instances of human misconduct have been allowed to metastasize into something larger and more dangerous—a culture of systemic failure that eventually manifests itself in damning headlines and early morning police raids. No company would tolerate an employee stealing from the till or abusing customers. Yet the biggest corporate scandals often arise when companies turn a blind eye to behaviour that’s equally unethical but on a far bigger scale. Hernandez explains this can include such things as deferential treatment for rule-bending star performers, lax financial controls over highly profitable divisions or “winking” at the use of arms-length agents to hand out bribes or other inducements to win big contracts in foreign countries. “Double standards are the great evil of the corporate world. If you give a pass to someone in the organization because they’re a rainmaker or a high performer, you have lowered the ethical bar for everyone,” he warns. “No one can go unchecked.”

Hernandez has made cleaning up corporate business practices his life’s work. He studied accounting at the University of Waterloo and earned his professional accreditation in Canada and the United States. As a partner at PricewaterhouseCoopers, he developed a specialty in corporate fraud and since 2001 has been based in Europe, where he’s worked on many of the continent’s biggest accounting scandals, at the same time earning a PhD in fraud prevention from Vrije Universiteit Amsterdam. In 2005 Hernandez began working with former FBI director Louis Freeh at the firm Freeh Group, to advise companies on how to recover from major scandals. These efforts were expanded upon two years ago when Hernandez established Ortus as an independent consultancy specializing in the longer-term aspects beyond a crisis and toward corporate transformations.

“BAD BEHAVIOUR IS EMBEDDED IN THE DNA OF THE HUMAN RACE. MISCONDUCT IS INEVITABLE. SCANDAL IS NOT.”

All that experience has taught him that most business leaders caught up in corporate wrongdoing don’t set out to do wrong. Rather, their downfall generally arises from a well-meaning effort to boost growth or otherwise satisfy investors and the board. Yet an unhealthy obsession with performance above all else can distract from the primary purpose of an effective business leader—to protect the firm’s most valuable assets over the long-term; in particular, the company’s brand. He notes, for example, that between 2005 and 2015 every company that’s held the top spot in global auto sales has been hit with serious allegations of criminal misconduct, massive fines and devastating reputational damage. (Most recently with Volkswagen’s calamitous efforts to cheat on diesel emissions tests.)
Hernandez also warns against falling under the spell of charismatic leaders. During his work for FIFA, international soccer’s governing body, he met long-time FIFA president Sepp Blatter, who was recently banned from the sport for eight years after an ethics investigation uncovered secret payments made on his behalf. “He was unbelievably charming and larger-than-life,” Hernandez recalls. “And the power of such leaders can be intoxicating to those around them. It is often difficult to resist subscribing to their mission, even when our better instincts may be telling us their mission is on the wrong side of ethics and the law.”

When difficult decisions must be made, Hernandez says, courage is far more important than charisma or popularity. “It’s not about good and bad people,” he notes. “It is about good and bad judgment.” Quite often the best decisions will not be the most popular ones.

So when that first frantic phone call does come—sometimes in the immediate fallout of the crisis, sometimes months later when the scandal simply refuses to die—Hernandez's first piece of advice is to accept the situation as real. “There’s a natural tendency for business leaders to want to deny bad news,” Hernandez observes. “They’ll say ‘prove it.’” Lawyers, too, often consider it their job to defend the company from attacks without considering the validity of the claims. It’s the wrong approach, he argues, since it simply delays a comprehensive understanding of the crisis and the creation of a permanent solution. As difficult as it may seem, “my first piece of advice is always to own it,” he says. “Set up an independent investigation by a competent third party and give them carte blanche to go wherever the facts take them.”

As Hernandez explains in his upcoming book, Broken Business: Seven Steps to Reform Good Companies Gone Bad, to be published this fall, once the facts are established, complete resolution of a corporate scandal then includes accepting responsibility, remediating the problem—an often difficult and time-consuming process that can include admitting guilt, removing tainted employees and possibly making wholesale changes to the business—and finally establishing new compliance systems.

Above all else, he says, a reformed company must commit to operating in the highest ethical manner. It’s not always an easy task, as enforcing rigid rules may create dilemmas for firms that operate overseas, where business and government practices differ substantially from home. He recalls the response he got when explaining new anti-corruption policies to a client firm in Russia: “I had one employee say to me, ‘So you want me to not pay bribes during work hours, but when I drive home and get stopped by a policeman and need to give him a payment, that’s okay?’” As a matter of fact, yes, says Hernandez.

“We can accept that the world is not perfect, but still take reasonable steps to do things in the right way,” he advises. Corporations must therefore set standards for themselves that may supersede those of their constituent human workers. This includes protecting whistle-blowers and letting employees know they won’t be punished for acting in ways that put corporate ethics and brand-protection first.
It may also mean forgoing deals that require bribes or cut corners. That said, Hernandez notes, “a lot of bribery and corruption tends to disguise lazy business practices or technical problems.” In his experience, firms that commit themselves to acting ethically often find those lost deals come back once they fix the underlying performance issues and compete on value rather than graft.

Hernandez’s efforts are more than just a professional calling. He’s experienced the devastating impact of corruption first-hand. In the 1980s, his father, Raúl, was general manager of a successful seafood plant in the city of Puerto El Triunfo, in his native El Salvador. “I would visit the plant every summer, and I loved to check out the busy factory and the docks and all the boats,” Hernandez recalls. “Then one year there were demonstrations outside the plant and rumours it was going to be seized. I was afraid for my father’s life.” In 1987, when Hernandez was 13, his father abruptly abandoned the plant and moved the family to North York to live with relatives, who sponsored them as immigrants to Canada. Only years afterwards did he learn the reason for their sudden departure: “My father later told me that when the workers took over the plant, the CEO was visited by three individuals—one close to the president, one close to the workers and another who was a lawyer. Each demanded $150,000 to make the problems go away.”

When Hernandez returned to Puerto El Triunfo as an adult several years ago, he was shocked to see the once-thriving operation of his youth lying in ruins—long since driven into bankruptcy by corruption and politics. “It’s a ghost town now,” he says wistfully. “You can still see the ships abandoned in the mangroves, and the whole area has slipped back into poverty. It really saddens me.”

His experiences have given him a deep and unique global perspective in tackling corporate fraud and corruption. And while his head office and focus is currently in Europe, Hernandez remains committed to the profession back in Canada as well; he is the CPA Canada representative on the federal government’s Advisory Committee on Money Laundering and Terrorist Financing.

Hernandez has also become something of an evangelist for the broader role of accountants in society. “In my opinion, accounting is the greatest profession in the world,” he boasts. “We’re not doctors, and we don’t save lives, but corporations can do a lot of damage if they’re not managed in the right way. And accountants are the guardians of business lives. We have the power to speak up, a great code of ethics and a commitment to the truth.”

I never set out to become an influencer. In 2013, I was five years out of university, where I’d studied psychology and English, and was working as a freelance writer. I got invited to a lot of events—a perk of being in media—including, at one point, a Nike running pop-up shop. At the time, I was about to get married and trying to keep fit and healthy, so I went. I found myself in a group—not necessarily celebrities or bloggers, but people with large social media followings nonetheless—who, like me, were approached to review new gear. That was my first brush with “influencers.”

Everyone has a different definition of what it means to be an influencer. I see an influencer as someone—an artist, writer, business mogul, socialite or maybe just a big spender—who is doing something online that’s earned them a large following and put them in a position that other people aspire to.

I’ve always liked taking nice photos and putting thought into my Instagram posts. But I was astounded when—despite the fact I had fewer than 10,000 followers at the time (I now have 17,500)—Mountain Equipment Co-op sent me an email asking if I’d be their first ambassador.

Today, partnering with brands and freelance writing are my sole sources of income. I have an agent and work with companies like MEC, Chapters-Indigo and Nike. Brands say they like my voice and authenticity. They may approach me specifically or go to my agency and ask, “Who on your roster would be good for our campaign?” Brands use influencers for a sense of personal attachment. The idea is that we’re not as removed from our followers as, say, a model in a commercial—we’re closer to a friend. Some followers realize I am paid by the brands I feature; others may not (bylaws require me to be transparent about whether a post is sponsored). Either way, there’s a level of trust there.

The work I do depends on the brand. Sometimes, it’s a one-off picture, like the one I took at a Wiz Khalifa concert for Amex. Other times, it’s an
I never set out to become an influencer. In 2013, I was five years out of university, a single post and even more from campaigns. Once I take the image, I write a caption and send it to the brand for approval. I also attend meetings and about three events a week—fitness stuff, parties, charitable events. Sometimes I go to events just to stay relevant. It’s easy to get scared about not being in demand, but I try to remind myself that the right brands might just not have the budget for me at that moment.

I didn’t consciously start this “business.” I go with the flow and accept or decline opportunities as they come. But there have been moments when I’ve decided to organize myself and strategize. I’ve been proactive and pitched my own ideas, a couple of which have come to fruition in big ways. The biggest challenge has always been convincing potential investors that they should not only be involved, but care about it as much as I do.

The projects I take on have to serve me. Anything where a brand wants me to be a Price Is Right model for their product, I almost immediately say no—that goes for events with free alcohol as a selling point. But if the key messaging is well-being or something that’s aligned with fitness or charitable work, even if it’s sponsored by a product, I’ll do it.

I’m lucky that the brands that have approached me understand my core values. Last year, with Air Transat, I went on my first humanitarian trip to the Dominican Republic to see the outreach work of SOS Children’s Villages. I also appreciate having a platform to say important things and take on passion projects, like being the face of One Brave Night, a fundraiser for the Centre for Addiction and Mental Health. I love that people care what I have to say.

**INFLUENCERS ARE NOT AS REMOVED FROM FANS AS, SAY, A MODEL—WE’re CLOSER TO A FRIEND**

That said, I have definitely taken jobs where I end up thinking, “Why did I do that?” I want my platform to be a reflection of who I am, but it’s hard, especially when dollar amounts come into it. You end up saying, “I need to eat” or “I really want to take that trip with my brother.” You can get blinded by a dollar amount, even if it’s not a big one. I get nervous, because I’m still a freelancer. I still stress about money. As a sole proprietor, it can be exhausting always being “on,” relying mostly on yourself to keep going and knowing when to take breaks to avoid burning out. My agent helps with administrative work, which is a relief, but, ideally, I’d like to hire someone to help me stay organized and execute my ideas.

Everything has an expiry date—if not the influencing industry, then I do. I’m posting creative writing now to get back to my writing roots. I’ve also consulted for brands here and there, and I’ve created programs like a book club with Indigo. It shows I’m not just a face. I can do more.”

—As told to Katie Underwood
THE ECONOMY

A HEAP OF JUNK

The real debt crisis may be the surge in low-quality corporate bonds

Overvalued home prices and high household debt levels are the economic issues most worrying Canadians today. However, it might surprise you to know that personal debt is not the only debt problem we face—in fact, it may not even be the most serious. That title goes to corporate debt, which has been growing at an alarming rate.

Roughly 10 years of emergency lows in interest rates have kept the yield on safe assets like government bonds at extremely low levels, forcing investors into a continuous search for higher returns elsewhere. This has been a boon to businesses—yields on corporate bonds sat near record lows relative to government bonds for years, having made it extraordinarily cheap to increase leverage in the last decade.

And businesses have been more than happy to oblige. Data from public filings shows that gross issuance of corporate bonds has hit fresh records nearly every year in Canada since 2010. Last year, corporations issued a record $273 billion in bonds, and this year is on track to top that. Average issuance in the last five years was double that of the previous five, and corporate debt-to-GDP is at an all-time high.

Under normal circumstances, this would be a worrying trend, but probably wouldn’t signal an imminent threat. Higher issuance is the logical reaction to lower borrowing costs. But there has also been a notable shift within the corporate bond sector toward riskier issuers. Sales of high-yield bonds, also called junk bonds, hit a record of more than $3 billion in 2017, eclipsing a market that normally averages sales in the hundreds of millions.

A rising interest rate environment, like the one we’re now in, would normally signal tougher times ahead for corporations issuing debt. Indeed, the yield spread between higher-rated, investment-grade corporate bonds and government bonds has actually widened in the last six months. Recall that bond yields move inversely with prices—the higher the price, the lower the yield and vice versa. The spread between corporate and government bonds, therefore, is the relative price between the two instruments—a rising spread is therefore an indication that investors are less likely, relatively, to buy into corporate bonds. This can be a reflection of a number of things, but typically signifies growing vulnerability within the corporate sector.

And the lower the credit quality, the greater the vulnerability.

Based on these facts, one might assume then that creditors would be less willing to absorb a dramatic increase in junk issuance. Yet, investors jumped on those bonds like they were T-shirts at a Kanye West pop-up store.

The spread between junk bonds and government bonds has actually continued to narrow in the past year, thanks to investors bidding up bond prices. This is completely counterintuitive when you consider the default risk, but completely intuitive if you consider the return. And that relationship is clear: in a rising rate environment, the higher the credit rating, the worse the return. Investors are looking for yield, and they don’t care where they have to go to get it.

INVESTORS JUMPED ON JUNK BONDS LIKE THEY WERE T-SHIRTS AT A KANYE WEST POP-UP STORE

But junk bonds are junk for a reason—their default risk is higher because they are inherently more vulnerable than their higher-grade counterparts, and the fact that yield spreads are counterintuitively narrowing suggests that investors may be mispricing that risk.

Junk bonds are not the only thing we need to be worried about. Perhaps even more disconcertingly, it’s not like things are that much better on the investment-grade side of things either.

A recent Bank of Canada analysis showed that investment-grade issuance has notably migrated toward the lower ratings (BBB being the lowest, AAA being the highest). In the U.S., this issue is downright stark—BBB-rated bonds alone make up nearly half of the investment-grade universe and, in dollar terms, are more than double the size of the junk bond market.

BBBs are somewhat unique when it comes to how we think about risk, especially today—they benefit from significantly lower debt costs by being considered “investment grade,” yet most are just one or two downgrades away from being considered junk. And there’s nothing like rising interest rates, trade disputes, political tensions and the other economic risks we currently face to put the sustainability of one’s finances under the microscope by credit rating agencies.
Should any event, external or otherwise, trigger a slowdown in growth or in any way cause rating agencies to doubt the outlook for corporates in North America, then many of those companies may see themselves being downgraded from investment grade to junk. It would be like waking up and finding out you were simultaneously a subprime borrower and that your mortgage was up for renewal. What rate do you think you’d get?

If individual corporations lose access to wholesale markets, the risk is that they then start to cut investment spending, shed jobs, or both. This, in turn, could cause a deterioration in other businesses’ outlooks, potentially triggering a domino effect that would hinder the wider economy. The risk of that happening in Canada is not yet at brace-for-impact level, but the situation is heading in that direction.

So while it might be instinctual, at this point, to worry at the thought of record household debt levels, just remember that households may not be the straw that breaks the camel’s back. It might be all the junk we put up there.

Francis Fong is chief economist at CPA Canada.

THE WORKPLACE

WHAT A WOMAN WANTS?

Female-friendly businesses are popping up across Canada. Are they empowering women or patronizing them?

When I was a young woman shopping for my first car, I brought my father along to help navigate the bargaining process. I knew the first quote would be too high, but I lacked the confidence to barter without backup. I did, however, expect to test-drive the car. The salesman was about my age and completely tone-deaf. Although we told him I was the one buying the car, he spoke directly to my father as he answered my questions. When it came time for the test drive, he handed Dad the keys, telling him he’d have to drive because the car had a standard transmission. I’d been driving standard for years, and this was the final insult. I resolved right then to buy the same car somewhere else.

That was a few decades ago. You’d expect today’s sales personnel to be better trained and more sensitive to the needs of all clients: men, women and everyone in between. So why, in 2018, are there still new businesses, like car and bike repair shops that were once the exclusive domain of men, being marketed specifically to women? It suggests that women still feel uncomfortable or ripped off doing business in an all-male environment. But do these female-friendly businesses empower or patronize the women they seek to serve? And how can it be a good business proposition to risk alienating half of consumers who happen to be men?

A 2009 Harvard Business Review paper called “The Female Economy” reported that despite the immense buying power of women, many found it difficult to find pants that fit, a healthy meal, or a financial advisor who isn’t condescending. “Companies continue to offer them poorly conceived products and services and outdated marketing narratives that promote female stereotypes.”

We’ve all seen such examples. When outgoing PepsiCo CEO Indra Nooyi told Freakonomics Radio her company was developing a chip better suited to the delicate sensibilities of women who don’t like the loud crunching sound and the orange residue Doritos leave on your fingers, Twitter lit up and PepsiCo quickly backtracked. “We already have Doritos for women—they’re called Doritos, and they’re loved by millions.” I bet Nooyi had no end of product research backing her assertion that women find the orange colouring annoying. But tone is everything, and Nooyi missed the mark.
The same fate befell BrewDog, a Scottish craft beer purveyor that fell into the trap of “pink it and shrink it” marketing. For International Women’s Day, the brewery released a version of its Punk IPA called “Pink IPA”; it had a pink label and the slogan “Beer for Girls,” and 20 per cent of sales were donated to causes that fight gender inequality. BrewDog thought its customers would appreciate the irony. Instead, men and women alike slammed the company’s marketing ploy as cheap and patronizing.

And yet, businesses led by and marketed to women are multiplying. Women-only workspaces, professional chat groups, fitness, networking and social clubs abound in cities across Canada—there is even an all-female tattoo shop in Toronto.

Three years ago, Andrea Smith opened Side-saddle, a bicycle shop in East Vancouver geared primarily to women. She chose her motto carefully: Women Focused, Everyone Welcome. All but one of her staff are women and their mandate is to make a middle-aged woman with big thighs feel as comfortable as a spandex-encased lad with the body mass index of a greyhound. Her mechanics know their stuff but lay off the jargon if it’s obvious the client isn’t interested or doesn’t care.

In North Vancouver, sports car mechanic Leah Gillanders opened Leah’s Automotive with the goal of making men and women feel equally welcome. It has a spotless waiting area and washroom. Her male customers are loyal and jokingly grumble about being cut out of the know-your-car courses she offers to women.

No business can win over every consumer, says Darren Dahl, a marketing professor at the University of British Columbia’s Sauder School of Business. So, it can be a good strategy to cater to one segment of the population whose needs are not met elsewhere. Sometimes, that unmet need crosses gender lines, he says. Smith and Gillanders estimate 40 to 50 per cent of their customers are men who trust the competency of female entrepreneurs and like the low-pressure, service-oriented operating style. It turns out a lot of men feel just as uncomfortable as women in a gym full of testosterone-fuelled power lifters.

Still, what makes Smith’s and Gillanders’ businesses a success among women—and men—when Lady Doritos and pink pints flopped? Their efforts were driven by respect for women, not just women’s wallets. Both Smith and Gillanders have mentored female employees and shared their expertise with other women through workshops and classes. Their shops are busy, suggesting the female focus is both an enlightened approach and a savvy business strategy.

I haven’t bought a car in a long time. But if I were in the market, I might consider Precision Hyundai, a car dealer in Calgary that has actively recruited women to work in every facet of its business. Its website encourages female clients to request help from a cast of female staffers, if it would make them feel more comfortable. The dealership’s very existence makes me think that even in 2018, there must still be salespeople out there tossing the keys to Dad.

Adrienne Tanner is a Vancouver-based journalist, former deputy editor at the Vancouver Sun and frequent contributor to the Globe and Mail and Maclean’s.

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THE ‘I’S HAVE IT

The secret power of personal pronouns BY PETER SHAWN TAYLOR

The pants don’t fit. There’s a strange charge on your bill. You can’t get the app to work. So you contact customer service. Which greeting is more likely to put your concerns to rest: “How can we help you?” or “How can I help you?” According to new research on the hidden power of customer service grammar, the ‘I’s have it. Grant Packard teaches at the Lazaridis School of Business and Economics at Wilfrid Laurier University in Waterloo, Ontario, and is an expert on the language of business relationships. While customer service agents are trained to use “you” frequently to emphasize the importance of the customer when dealing with complaints, Packard’s work reveals it’s how they talk about themselves that really matters. “Agents almost always refer to themselves as ‘we,’” implying they’re part of a bigger group,” says Packard. “But people really want to deal with an individual, not some faceless representative of a big corporation.” Along with two co-authors, Packard tested the power of “I” by examining more than 1,200 actual customer service emails to a major online retailer. They discovered consumers were significantly more likely to make subsequent purchases when agents took personal responsibility for their problem by using “I” instead of “we.” Additional surveys and experiments they conducted bolstered their case. “Using ‘I’ signals an agent is personally and emotionally involved in your situation,” he says. Conversely, overuse of “you”—“you have to type in your credit card number,” or “you need to reload the app”—can leave the customer feeling it’s all their fault. Using ‘you’ too much can actually be a turn-off,” Packard adds.

He argues this “I” effect has relevance beyond call centres and websites. Other large, impersonal entities such as hospitals and governments could similarly improve customer satisfaction by paying closer attention to their employees’ pronouns. And CEOs, he notes, have a bad habit of referring to themselves as a corporate “we,” particularly when reporting bad financial results. A little personal responsibility can go a long way.
The same fate befell BrewDog, a Scottish craft beer company. In 2018, it released a version of its Punk IPA called “Pink IPA”; it had a pink label and the slogan “Beer for Girls,” and 20 per cent of sales were donated to causes that fight gender inequality. BrewDog’s marketing ploy as cheap and patronizing. Instead, men and women alike slammed the company’s efforts to shrink it marketing. For International Women’s Day, the brewery released a version of its Punk IPA with the message: “Girls can drink IPA just as well as men.”

The secret power of personal pronouns

BY PETER SHAWN TAYLOR

Darren Dahl, a marketing professor at the University of Waterloo, Economics at Wilfrid Laurier University, the ‘I’s have it. “How can you concern to rest: customers, if you're just going to use ‘you’ frequently to emphasize the corporate big corporation.”

Three years ago, Andrea Smith opened Side Street, an all-female tattoo shop in Toronto. It has a spotless waiting area and washroom. Her employees and shared their expertise with other women. Both Smith and Gillanders have mentored female power lifters. It turns out a lot of men feel just as uncomfortable as women in a gym full of testosterone-fuelled men. For businesses led by and marketed to women, the low-pressure, service-oriented operating style.

So, it can be a good strategy to cater to one segment of British Columbia’s Sauder School of Business. No business can win over every consumer, says Smith. But: “If you’re able to use ‘I’ instead of ‘we.’” And yet, businesses led by and marketed to women are multiplying. Women-only workspaces, professional chat groups, fitness, networking and social events are adding up.

Our customers have some of the most complex payroll needs in the country which only a solution like VIP can effectively handle.
John Ruffolo, a CPA with an entrepreneurial itch, is bringing Canada's once-dormant tech scene into the global limelight—one start-up at a time

BY LUC RINALDI

PHOTOGRAPHS BY DANIEL EHRENWORTH

Every day, John Ruffolo walks past a graveyard of gadgets. Just beyond the entrance to his downtown Toronto investment firm, OMERS Ventures, three glass panels shield a mini-museum of amusingly retro machines: a Super Pong IV console circa 1975, a Macintosh Classic computer from 1990, a dusty Palm Pilot. Next to a bulky Motorola DynaTAC, the first commercial cellphone, a placard reads, "Everyone wanted to be the first to get their hands on these awesomely unwieldy portable analogue brain-fryers."

The geeky shrine is a reliable conversation piece for visitors and a welcome distraction for anxious entrepreneurs, many of whom have gazed at it moments before trying to convince Ruffolo, a 52-year-old CPA-turned-venture capitalist, to fund their supposedly world-changing start-up. But the gallery's most important function is perhaps to serve as a daily reminder to Ruffolo and his two-dozen staff: today's revolutionary technologies are tomorrow's quaint junk. Any clever gizmo or app can get a company going; it takes a lot more—constant tinkering, organizational savvy, limitless passion—to build a successful business. As the CEO of OMERS Ventures, Ruffolo's job is to find the most promising dreamers and give them what they need to end up less like Palm and more like Apple, a company that parlayed that clunky old Mac into a global dynasty.

As it happens, an ancient machine played a part in one of Ruffolo's biggest deals. OMERS Ventures, which launched in 2011, narrowly missed the first two chances to invest in Shopify, the Ottawa-based online-retail giant. "Shopify was the one that got away," he says. "We weren't ready for them yet." But Ruffolo hardly accepted his fate. He assigned a Ventures staffer to keep tabs on the company, stay in touch and make sure that when Shopify was looking for more funding, their firm was at the top of the list. "OMERS sent us this antique cash register, which we put in the lobby of our office," says Russ Jones, who was Shopify's CFO at the time. "Through all of our interactions with them, they became almost the de facto choice."

In 2013, Ruffolo met with Shopify CEO Tobias Lütke for what was supposed to be a 30-minute coffee; they ended up speaking for more than two hours, during which they agreed OMERS Ventures would lead the company's next round of financing.
John Ruffolo, a CPA with an entrepreneurial itch, is bringing Canada’s once-dormant tech scene into the global limelight—one start-up at a time

BY LUC RINALDI

PHOTOGRAPHS BY DANIEL EHRENWORTH

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DECIDER
Within a month, Ruffolo’s team had persuaded a handful of other venture capital firms to join them in investing a total of $100 million, then one of the largest rounds in Canadian tech history. Shopify, which now has a market cap of nearly $23 billion, has since become shorthand for national success. When discussing what Canada needs to do to rival Silicon Valley, entrepreneurs have a habit of saying, “We need more Shopiftys.”

Most businesses court Ruffolo, not the other way around. He invests in fewer than one per cent of the companies that pitch him, but, for those lucky few, he provides a Midas touch. Yes, he chooses companies that are poised to succeed, but it’s equally true that they succeed because he chooses them. Through OMERS Ventures, he has invested $400 million in nearly 40 of Canada’s most promising companies, including the social media management platform Hootsuite, the online storytelling sensation Wattpad and the restaurant software company TouchBistro. Plenty more, including the fintech powerhouse Wealthsimple, have gone through OneEleven, an OMERS Ventures-backed accelerator that houses and scales mid-sized start-ups.

In Canada, there is a sense that everyone in the tech community plays for the same team. When one company wins, the whole country thrives: bright minds move here, massive companies set up shop here, foreign investors park their cash here. Ruffolo is the closest thing that team has to a coach. He may not get the glory of its most celebrated players (Shopify et al.), but his behind-the-scenes efforts are what prepare them for the big leagues. That goes far beyond cutting cheques. Ruffolo has the ear of government, which he’s used to lobby to secure funding for start-ups, help skilled tech workers migrate to Canada, and influence how entrepreneurs’ stock options are taxed. He sits on an almost comical number of corporate boards and advocacy councils. Most importantly, he believed in Canadian tech even after the dot-com crash and the 2008 financial crisis, when virtually every other bank, pension fund and venture capital firm stopped funding start-ups. And his success at OMERS Ventures has since persuaded them to start investing again. “He’s been a consummate champion for Canadian tech, and a courageous one at that,” says Ruffolo’s friend Jim Balsillie, the former co-CEO of Research In Motion (now Blackberry) and another CPA. “He just soldiers on.”

Earlier this year, OMERS Ventures announced it would open offices in Silicon Valley, London and Singapore, making it the first global venture capital firm based in Canada. The firm plans to invest $2 billion over the next decade in domestic and foreign companies. In many minds, Ruffolo is already the most important person in the Canadian technology scene. Now he’s coming for the rest of the world.

Past the tech cemetery, the rest of the OMERS Ventures office straddles the line between button-down Bay Street institution and start-up stereotype. Though the walls are austere and white, they house wellness rooms and a games nook with a Pac-Man arcade terminal, bubble hockey and foosball table. On a July afternoon, a TV in the lounge plays a World Cup game, but Ruffolo isn’t particularly interested—his team, Italy, didn’t qualify. Still, a miniature Azzurri jersey hangs on the glass wall of his office, where, on the off chance he’s not on the road or in a meeting, he spends his time at a standing desk. Behind him, a wall is lined with Raptors and Leafs paraphernalia, books and pictures. There’s one of John and his wife, Carryn, with whom he has two young children: a son, Caymus, named after their favourite California cabernet sauvignon, and a daughter, Rome, after John’s favourite city, which the family visits every year or two. Other photos show Ruffolo in far-flung locales with fellow members of Les Domestiques, a philanthropic cycling club that counts among its ranks TD Ameritrade head Tim Hockey, Purpose Investments CEO Som Seif, Mattamy Homes founder Peter Gilgan and Queen’s business school namesake Stephen Smith. Ruffolo’s affinity for the sport comes up often among those who know him, as does his penchant for blue jeans. Surrounded by friends-in-high-places portraits and shelves of awards, only the unfussy denim—described by a friend as Ruffolo’s badge of honour—hints at his working-class origins.

Ruffolo’s father arrived in Canada in 1955, a 17-year-old Italian with little money and a single suit. When he got off the boat, he was herded into a cattle train that took him to Toronto. He married another Italian and settled near Jane and Sheppard, an immigrant neighbourhood with a rough reputation but a strong Italian community, where neighbours walked between fenceless backyards to borrow tomatoes and zucchinis. “No one had any money,” says Ruffolo. “We all relied on each other.”

John, born Gianni, excelled at Catholic school, skipping an early grade and later becoming his high school’s valedictorian. During summers, when he begged to go to camp, his father, a house painter, put a brush in his hand and brought him to work. The province didn’t fund Catholic secondary schools at the time, so Ruffolo got a job at the local BMO branch to pay for his final three years. When he was 17, the bank extended its hours and promoted him to part-time manager, the youngest in company history. (Ruffolo’s mother, 73, is currently BMO’s oldest manager, at the same branch.) “When customers had a complaint, they’d say, ‘I want to speak to the manager,’” he says. “They’d call me and the customer would say, ‘No, I said the manager.’”

Ruffolo won a full-ride scholarship to York University’s Schulich School of Business, and intended to transition into investment banking at BMO. But at a career fair, his friends encouraged him to apply to Arthur Andersen, an accounting firm that sent its new recruits to Chicago for an orientation that doubled as an all-expenses-paid party. Ruffolo hand-wrote and submitted his résumé on the spot. In his interviews with BMO and Arthur Andersen, he asked his interviewers the same question: “How long until I’m in your position?” BMO told him 20 years; Arthur Andersen said nine. So Ruffolo chose accounting.

Ruffolo earned his professional accounting designation in 1990, two years after joining Arthur Andersen. “I was surprised how much I liked the accounting firm,” he says. But he longed to go beyond taxes and balance sheets; he wanted to work with CEOs and understand, in minute detail, every aspect of their businesses. At 25, his only way in was to run Arthur Andersen’s high-tech practice, a nascent and unglamorous file where CEOs weren’t much older than Ruffolo. His first two clients were Microsoft and Oracle. “I got so much exposure to so many different industries and entrepreneurs,” he says. “I didn’t run a technology business and I wasn’t a venture capitalist, yet I felt I knew the space so well.”
Several of Ruffolo’s colleagues say he developed a deep understanding of Canada’s technology sector thanks to his curiosity: “That’s interesting” is practically his catchphrase, and he’s unafraid to ask others to explain things to him. Gilgan, a friend and another professional accountant, credits part of Ruffolo’s business savvy to his early training and experience. “The beautiful thing about doing public accounting and auditing was witnessing someone else’s mistakes,” he says. “You get a million-dollar education that doesn’t cost a dime.” (At OMERS Ventures, Ruffolo currently employs a number of CPAs, who he says are passionate, flexible and inquisitive. “If you don’t have those underlying characteristics, you will fail, at least in our organization.”)

In 2001, when he was in his 30s, Ruffolo was one of the select few to make global partner at Arthur Andersen. “It was the biggest cheque I’ve ever cut in my life,” says Ruffolo of buying into the role. “Way bigger than the house I had just bought.” As it turned out, the timing was disastrous. Less than a month later, Enron, one of Arthur Andersen’s largest clients, was booked for keeping huge debts off its balance sheets, a scandal that led to the company’s eventual bankruptcy. Though Ruffolo wasn’t involved with the account, his position as a global partner made him potentially liable if Enron took Arthur Andersen down with it. That massive cheque, his accountant designation and his clients were all on the line, and he and other partners took a two-thirds salary cut to help pay the wages of the dissolving firm’s service staff. Cash-strapped, he was living in an apartment with no furniture and bracing for the worst. “You could see it,” he says. “The brand was done. We’d hit the iceberg.” Meanwhile, he had just begun dating Carryn, a marketing manager at Arthur Andersen (she left the firm and worked as an artist when the two became serious). “I remember telling him I was fine if we only ever ate food-court food,” she says. “That’s when I knew she was the right person for me,” says Ruffolo.

Then, as quickly as things collapsed, Ruffolo’s job-like trial ended. After Enron declared bankruptcy, Arthur Andersen Canada merged with Deloitte, and, on a Monday morning in June 2002, he walked into his office to find everything changed: logos, business cards and desktop backgrounds had all been switched over the weekend. His phone rang, and an old client began talking to him about a deal as if nothing had happened. “It was like The Twilight Zone,” says Ruffolo. His designation, his partnership, his salary—they were all safe. “I think that was the moment in his career that he started taking bigger risks,” says Carryn. “When you have nothing left to lose, you take greater chances. And when you’re not driven by money, you make sound decisions.”

Ruffolo escaped the Enron scandal intact, but the mid-2000s was a lousy time for Canadian tech. The dot-com bubble had burst, and unless you happened to run a company called Research In Motion, things looked bleak. Investors, whose tech returns had tanked over the past few years, had no appetite for risk. Venture capital invested in Canada dipped from its $6-billion peak in 2000 to $1.7 billion in 2005, and fell only further, to about $1 billion, after the 2008 financial crisis. “That was the bottom of the pit for venture capital, and there were zero signs of it resurrecting,” says Ruffolo. “Virtually all of the traditional players, particularly the pension funds and banks, said, ‘You know what? We’re tapping out.’”

Ruffolo had a first-row seat to the drought. At the time, he was leading Deloitte’s technology, media and telecommunications practice; running the firm’s Fast 50, a ranking of growing Canadian companies; and advising the CEOs of Rogers, OpenText and RIM. (It was conceivable they didn’t know Ruffolo was an accountant; to the chagrin of his employer, he didn’t mention it on his business card to avoid being pigeonholed.) He used the position to prod institutions—government, banks, pension funds—that he thought had a duty to re-stimulate the innovation sector, publicly criticizing them and proposing taxes on those that didn’t pitch in.

At least one pension fund was listening. Like most others, OMERS—the Ontario Municipal Employees Retirement System, which pays the pensions of the province’s local government employees—had ditched venture capital in 2008. But within a year or two, then-CEO Michael Nobrega, who had been Ruffolo’s boss at Arthur Andersen, was itching to get back to it. A CPA with an affinity for high tech, he frequently drove from Toronto to Waterloo on weekends to meet with young start-up founders. When pension funds want to invest in entrepreneurs, they typically entrust the job to venture capital firms, reasoning that the sector’s deals are too small to merit their own staff and resources within the organization. (OMERS has $95 billion in assets, compared to Ventures’ $800 million, for example.) But Nobrega resolved to skip the middleman and create a wing of OMERS that would invest in start-ups directly.

Nobrega enlisted Ruffolo as an advisor on the project, but, within a few meetings, it was clear Nobrega wanted him to lead it. “Michael said to me, ‘You’ve been poking at this,’” says Ruffolo. “You think you’re so smart? Why don’t you do it?” Ruffolo was torn. Would he really leave Deloitte, where he was building a promising career, to start a venture-capital firm at a time when tech investment was virtually nonexistent?
He decided it would be hypocritical not to. “I’d been trying for five years to fix this, and I finally felt I had the opportunity to solve the problem from the inside once and for all.”

OMERS Ventures launched in 2011 to a chorus of confusion. “People said, ‘You’re an accountant. Who the hell do you think you are running a venture capital firm?’” recalls Ruffolo. Rival firms wanted him to fail, so that they could soak up OMERS’ tech money themselves. A number of OMERS executives wanted Ventures to die quickly, too; they saw it as Nobrega’s frivolous yet risky pet project. Others doubted there was anything worth investing in. “John took a lot of cheap shots,” says Balsillie. “A lot of people said he was overpaying, or that he was focusing too much on Canada.” Almost everyone seemed to be against the idea. “But the entrepreneurs?” says Ruffolo. “They all went, ‘This is awesome.’”

Ruffolo cycling with his wife, Carryn

Getting a hold of Ruffolo is easy. Impressing him is not. Out of 100 pitches, he might grant 10 a formal audience at the OMERS Ventures office. From there, just one—if any at all—will turn into an investment, and that’s only after a further series of meetings, not an impulsive Dragons’ Den-style handshake. To determine which one in 100 makes the cut, Ruffolo runs through a mental checklist. Is it a tech company that could one day exit or have an initial public offering? (He likes to tell the story of a misguided pitcher who asked him to invest in what he claimed were Toronto’s best rice balls.) Beyond that, is the idea realistic and doable? Does it address a significant problem? Can it sustain them through all-nighters and turbulent patches—or just a get-rich-quick fantasy? Pitchers’ most common mistake, Ruffolo says, is revealing it’s the latter, by, for instance, dictating how long it will take for their company to exit and how much of a return Ventures will receive. “That’s an immediate No,” says Ruffolo. “First, thank you very much, but we’ll tell you what our internal rate of return is. Number two, that already tells me you’re in it for the money.”

When a start-up signs with Ventures, it exchanges company equity for a slice—anywhere from a few million to tens of millions—of the $800 million that Ventures manages on behalf of OMERS, the Big Banks, insurance companies and others. (These institutions pay the firm a small management fee but stand to hit the jackpot if a company in the Ventures portfolio gets acquired or successfully IPOs.) As one of Canada’s largest tech venture capital firms—alongside Toronto’s Nigerian Partners and Montreal’s Novacap—Ventures also has significant institutional sway; it can persuade other venture capitalists, including larger American investors, to fund the companies it anoints, as it did during the Shopify deal. “U.S. venture capital firms put their nose up at some Canadian firms, like, ‘Why would you pick these guys?’” says Jones, the former Shopify CFO. “But I’ve found a lot of the U.S. firms have a lot of respect for both John and OMERS.”

Jones says Ventures was more supportive than other venture capital firms, too. “Some firms get cold feet,” he says. “They say, ‘We’ll give you the money, but it’s up to you to be successful.’ A lot of them talk about doing the heavy lifting, but in the case of OMERS we actually got the support we’d hoped for.” Ventures helped Shopify find office space and connect with advisors and experts. “When we invest in a business, we work for them,” says Orlando. “They tend to be young, tech-oriented entrepreneurs, so the work we do is roll-up-your-sleeves.”

A less obvious perk of winning over Ruffolo is access to his colossal Rolodex. It’s about to get a flurry of new pages thanks to OMERS Ventures’ expansion. Within a decade, the firm plans to triple its assets and open three new offices abroad, each with its own local team, something no Canadian venture capital firm has ever done. The first, in Silicon Valley, will give the firm a foothold in the mecca of high tech and allow it to invest in more American companies, many of which are exponentially larger than Canadian businesses. The second, in London, will be fully operational in 2019, with a third slated for Singapore. They will serve as bases of operations for expansion into Europe and Asia, which are experiencing tech booms to rival North America’s. At the same time, OneEleven, Ventures’ accelerator, is opening locations in cities including Boston and Berlin, both home to a heavy concentration of start-ups.

Ruffolo made his name taking risks, but expansion may be his biggest gamble yet. OMERS Ventures is a giant in Canada,
but abroad it will be a small fish in a giant pond. Ruffolo will need to compete with colossal American venture capital firms like Benchmark, Accel and Sequoia Capital—a California investor currently raising a record-setting US$8-billion fund—for the attention of both worthy start-ups and first-rate staff, who will be responsible for hand-picking foreign companies with the same rigour Ruffolo uses at home.

But if Ventures succeeds, the profits from these projects will flow back to Ontario, reversing a long-standing tradition of brilliant minds and ideas—and the money that stems from them—leaving Canada. Just as importantly, these international outposts will provide a valuable pathway for Canadian companies to reach the rest of the world, just as the country’s sector is blossoming. To Ruffolo, the global play is a natural next step. “How can I tell a company to scale up when I don’t do it myself?”

Within a few years of its inception, OMERS Ventures had made believers out of doubtful OMERS execs and helped reignite the Canadian venture capital engine. “John was proven right,” says Balsillie. “Now, people are copying him.” Firms old and new began raising and investing amounts unseen since Y2K. (That trend has continued: Canadian venture capital surpassed $1.3 billion, a record high, in the first quarter of 2018.) Start-ups and accelerators sprouted across the country, and American tech Goliaths opened Canadian offices, creating thousands of jobs.

Still, there was a malaise in the tech community. In September 2015, Ruffolo invited the CEOs of the companies in the OMERS Ventures portfolio to the Drake, a trendy boutique hotel in west Toronto, to speak with Balsillie. They were concerned foreign multinationals would sideline the success of
homegrown companies—how could a 20-person start-up in Vancouver, for example, compete with Microsoft for talent and attention? “When Amazon and Google are talking to the Canadian government three times a week,” says Balsillie, “do you think they’re asking, ‘How can I help Canadian tech companies do better?’”

That month, Ruffolo and Balsillie founded the Council of Canadian Innovators, an advocacy group that would act as a single voice for Canadian start-ups. The group began formally lobbying ministers and MPs on causes raised by member CEOs, including government funding, stock-option taxation, fast-track visas for tech workers, and national intellectual-property and data strategies. (In 2017, the Liberal government reprimanded the Council for promising start-ups access to politicians in exchange for a $10,000 annual membership fee; the Council has since revised its practices.)

“For a year and a half, it was us knocking on government’s door,” says Ben Bergen, the Council’s executive director and a former campaign worker for Minister of Foreign Affairs Chrystia Freeland. “Now it’s reversed. In a number of areas, the government really wants to consult with us.” Ruffolo himself advised Navdeep Bains, the minister of Innovation, Science and Economic Development, on certain files, but he says his main role is to provide a forum where CEOs can lead the conversation. “True success will be when Jim and I fade off-screen and disappear.”

Suzuki informed Ruffolo’s thinking on issues like carbon taxes and Indigenous involvement in fighting climate change, and Ruffolo became vice-chair of the David Suzuki Foundation, roping high-profile guests into charitable events and galas, which he attends in his trademark blue jeans. “He’s an enlightened entrepreneur,” says Suzuki. “If all the business community was like John, we’d be so far ahead on environmental issues.”

On a brisk Tuesday morning this past April, Ruffolo took a seat onstage in a basement event space at MaRS, a labyrinthine complex of research labs and start-up offices in downtown Toronto. He was the odd man out on a panel of crypto currency geeks and blockchain boosters, gathered to launch Ether Capital on the NEO Exchange. (Relax, the majority of OMERS staff doesn’t fully understand that sentence either.) When the moderator addressed Ruffolo, he didn’t waste words: why would a risk-averse pension fund dive into the notoriously volatile world of crypto? “That’s a question a lot of people have asked me,” Ruffolo conceded. On the surface, it was an odd pairing. But, he continued, he thinks 10 to 15 years ahead—“self-driving cars, not flying cars,” as he put it. He was certain that the blockchain technologies undergirding crypto would soon transform modern life, and he wanted in. “I bet for tomorrow.”

What does tomorrow hold for Ruffolo? Over the years, he has rebuffed lucrative offers to join companies preparing to IPO. “I don’t think he’d ever want to be the top guy, because there’s too much bureaucracy and politics,” says Carryn. “It would be frustrating for him not to be the one to stir things up… John is the renegade in a lot of the stuff he touches.” He’s routinely one step ahead of convention: Ventures invested in a handful of blockchain companies before most people had even heard the word, and Ruffolo sounded the alarm about data privacy long before the Cambridge Analytica scandal and Sidewalk Labs made it the topic du jour.

OMERS recently began asking Ruffolo to look into his crystal ball on investments beyond the Ventures file, too: agriculture, real estate, infrastructure, clean technology. “Every business is becoming a tech business. If tech can hijack taxis, it can hijack everything,” says Balsillie. “Once everybody wakes up to that, they’ll ask, who really understands it best?” At which point, he says, “John will become more of a visionary than a rebel.”

Not that Ruffolo seems keen to abandon his rebellious streak. He says, if the opportunity arose, he wouldn’t be much interested in running OMERS, or in the politicking and administrating it would entail. “There are better people who really love that stuff,” he says. “That doesn’t turn my crank.”

Ruffolo would much rather keep working with entrepreneurs. Keep building businesses. Keep chasing revolutionary ideas that might one day earn a hallowed place collecting dust behind a pane of glass. •

Within a decade, OMERS Ventures plans to triple its assets and open three new offices abroad, something no Canadian venture capital firm has ever done. “How can I tell a company to scale up when I don’t do it myself?” says Ruffolo.

When I asked Ruffolo’s friends and colleagues to gauge his influence, they emphasized his knack for seeing both the forest and the trees. He can sic the Council on a nationwide project in the morning, then troubleshoot a 20-something entrepreneur’s software problems in the afternoon. “He’s capable of weed-crawling but also gliding at 30,000 feet,” says Gilgan. Mark McQueen, the president of CIBC Innovation Banking, says this puts Ruffolo in a unique position. “He can both fund companies and help government design programs that are relevant to the ecosystem as a whole.”

David Suzuki, a longtime friend, focused instead on Ruffolo’s steadfast commitment to the environment. Suzuki is accustomed to meeting with business leaders who give sustainability polite lip service, but after he spoke at a Deloitte clean-tech conference in 2005, he says Ruffolo was genuinely motivated to act. The two struck up an unlikely alliance: a free-market capitalist and left-leaning environmentalist, dining, fishing and debating with one another.
mentalist, dining, fishing and debating with one another. genuinely motivated to act. The two struck up an unlikely Deloitte clean-tech conference in 2005, he says Ruffolo was sustainability polite lip service, but after he spoke at a is accustomed to meeting with business leaders who give Banking, says this puts Ruffolo in a unique position. “He can both fund companies and help government design programs lead the conversation. “True success will be when Jim and him himself advised Navdeep Bains, the minister of Innovation, the government really wants to consult with us.” Ruffolo says his main role is to provide a forum where CEOs can also available in French.

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  cpacanada.ca/cts
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TRANSFER PRICING

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Every year, currency fanatics crown the planet’s most beautiful new bank note—each snazzier and more secure than the last. All the money in the world.

By Luc Rinaldi
Every year, currency fanatics crown the planet’s most beautiful new bank note—each snazzier and more secure than the last

BY LUC RINALDI
Every realm has its great rivalry. Leafs versus Habs. Beatles or Stones. DC against Marvel. In the annals of bank note design, there’s no showdown like Canada versus Kazakhstan. It began in 2011, when both countries were nominated for the Bank Note of the Year Award—the Olympics of paper money, administered by the International Bank Note Society (IBNS). Kazakhstan’s 10,000-tenge note, a pale violet sheet of birds, buildings and monuments, defeated Canada’s golden $100 bill. Then it happened again—twice. In both 2012 and 2013, as Canada released its new polymer series note by note, the Kazakhs eked out slim victories over the runner-up Canucks. It was cash’s equivalent to Usain Bolt’s 100-metre-dash threepeat, only without the conciliatory silver medals.

Not that Canada is without monetary bragging rights. In 2004, the Canadian $20 bill—featuring the Queen and Bill Reid’s Indigenous artwork—won the first-ever Bank Note of the Year Award. Every year since, the 2,000 members of the worldwide society—a self-selecting club of currency enthusiasts—have nominated and voted for their favourite notes, judging for aesthetics and security. It doesn’t matter what the bill is worth or how many people use it, allowing for obscure entries like the Faroese 1,000-kronur note to trump the Scottish fiver, as it did in 2005.

By keeping tabs on the world’s best bank notes, the IBNS has effectively catalogued the rapid evolution of paper money in the 21st century. Whereas in the 1900s the Bank of Canada issued new notes to great fanfare every 15 years or so, fresh bills now arrive in our wallets on the regular—in fact, since 2001, there have been more years in which Canada issued a new note than years it didn’t.

That’s primarily in the name of security. What better way to outwit counterfeiters than to swap in a new design as soon as they figure out the old one? “Since bank notes began, the counterfeiters were right behind,” says Dennis Lutz, president of the IBNS. “It’s been a constant job to outthink them, because they’re good.” Inspect a modern note and you’ll find plenty of elements designed to stump them: textures, watermarks, colour-changing holograms and, should you happen to have an ultraviolet or infrared light handy, stray flecks and hidden figures.

Modern bank notes are prettier, too. The Federal Reserve may have missed the memo, but the days of staid presidents printed on cotton are over. Waterfalls, gorillas and rugby players are the new Benjamins. “I don’t think the Canadian note that won in 2004 would even place today,” says Lutz. “It didn’t have the pizzazz.” Every year, he adds, the designs get more sophisticated, and the voting gets closer. “Who knows what they’re working on now?”

Printed money wasn’t always so glamorous. Its origins trace back to the Tang Dynasty in China (618-907 CE), but when Emperor Chen-tsung introduced the first universal bank notes—an IOU for a set number of coins—about 1,000 years ago, some merchants refused to accept them. Sweden caught on to the idea in 1661, when it issued Europe’s first notes, each hand-signed by at least 16 officials to guarantee their legitimacy and prevent reproduction. At first, cities, banks and other institutions with printing presses could issue their own money, the value of which depended more on the group’s reputation than the number printed on its bills. Eventually, state banks standardized currency, monopolizing the creation of notes and ensuring they would be recognized at face value. Bills proliferated during the industrial revolution to accommodate a growing number of financial transactions, and eventually began appearing in increasing denominations—the U.K. famously printed a series of £1-million notes for internal bank use in 1948.

About 32 years later, Lutz started collecting legal tender and, in the early 2000s, joined the IBNS. Dedicated notaphilists,
as they’re called, regularly travel to Valkenburg, Netherlands, home of the world’s largest paper money expo, in search of rare specimens. It can be an expensive hobby—there’s no getting around the fact that a high-value note is, well, high value—and a dangerous one: a handful of dealers were recently imprisoned when they tried to take notes illegally out of the African island nation of São Tomé and Príncipe.

“People use paper money every day, but they don’t know anything about it,” says Lutz, a 71-year-old physician from North Dakota. “You can determine the entire financial history of a country if you study its money.” A nation’s heroes, values, financial booms and busts—they’re all there in the faces, symbols and numbers. Among Bank Note of the Year judges, he says, uncluttered designs, vibrant colours, flora and fauna are in; politicians—especially the Queen—are out. “It isn’t that people don’t like them, they’ve just seen it before,” he says. “There have been more than 30 different images of Queen Elizabeth on bank notes during her reign.”

Of course, taste is subjective. A bright, bold note to one person may be a gauche, undignified mess to another. Despite their individual flourishes, bills look fundamentally similar because consistency denotes reliability. You can only inject so much razzle-dazzle before they start to look like Monopoly money, as Australia learned in 2016. Despite the fact that its $5 bill was a Bank Note of the Year finalist, Aussies panned its purple, yellow and magenta colour scheme, comparing it on Twitter to “clown puke” and germs in a petri dish.

Other notes have courted controversy for their geopolitics (Ukrainians weren’t fans of a recent Russian bill that featured a map of annexed Crimea) or their chemical composition (in 2016, vegans and religious groups unsuccessfully petitioned the Bank of England to stop using trace amounts of tallow in the printing process). During public consultations on Canada’s current $20 bill, focus groups worried the Vimy memorial looked too much like the Twin Towers, that it was too “porno-graphic” or that it was a Conservative plot to glorify war. “People can read almost anything into any note,” says Lutz.

In other words, when you’re trying to capture the spirit of an entire nation in a six-inch slip of paper, someone is always going to be offended. Try to take Alexander Hamilton off the American $10 bill and Lin-Manuel Miranda fans lose it. Try to put Harriet Tubman on the 20 and the alt-right cries political
correctness. The U.S., for its part, has had just one of its mono-
chrome bank notes...  

2015  
WINNER
CPA-BANK_toSEND.indd   34 2018-08-17   5:03 PM

2017  
FINALIST
CPA-BANK_toSEND.indd   34 2018-08-17   5:03 PM

2016  
FINALIST
CPA-BANK_toSEND.indd   34 2018-08-17   5:03 PM

2015  
WINNER
CPA-BANK_toSEND.indd   34 2018-08-17   5:03 PM

The winning Swiss notes have a turbulent history. The bank
held a design competition back in 2005, selected a winning artist and spent years finessing the look and security of its new series, only to run into major delays, including a misprinting that forced the bank to shred and burn an early batch of francs in 2012. Ultimately, it took the bank 11 years to introduce the first note of the new series, the 50 franc. Grossenbacher finally found out it won the Bank Note of the Year Award while reading the news online. “It made us proud,” he says. “Even if it took a long time.”

Such painstaking processes may not be necessary for much longer. Sweden, the birthplace of European paper money, is now on track to become the world’s first cashless society thanks to the wide adoption of bankcards and mobile payments. In a 2018 Riksbank survey, only 13 per cent of Swedes said they’d used cash in their most recent purchase, down from 23 per cent in 2014. (By comparison, 44 per cent of Canadian transactions involved cash in 2013, down from 54 per cent in 2009.) The Swedish Riksbank expects the printed krona to disappear by the 2030s.

Lutz contends that rumours of cash’s demise are greatly exaggerated. “It’s ironic that Sweden”—with all its cash-free
describes—“has redesigned its currency in the past three years,” he says. He points to Britain, where the amount of physical cash in circulation surged last year, and to dense, developing countries like China and India, where it’s still commonplace to hoard high-denomination notes instead of dumping them into a savings account. “There are too many uses for cash,” he says. That includes illegal business. “I don’t think anyone believes it’s going to disappear in our lifetime.”

Canada may be Switzerland’s stiffest competition for the next Bank Note of the Year Award, which will be given in spring 2019. Two years ago, Justin Trudeau announced the Bank of Canada would put an iconic woman (who’s not the Queen) on a bank note alone for the first time. From more than 26,000 public submissions, the bank formed a short list of five candidates, including track-and-field runner Bobbie Rosenfeld and Quebec suffragette Idola Saint-Jean. Finance Minister Bill Morneau, who had the deciding vote, ultimately chose Viola Desmond, who became a civil-rights hero after she fought segregation at a Nova Scotia movie theatre in 1946.

Desmond gave the bank note its central themes: human rights and social justice. “How could we make that really come alive on a bank note?” says Boyd Laanstra, senior analyst of visual content at the Bank of Canada. “We needed to choose images that looked fantastic but also reflected Canada.” With input from community leaders, First Nations elders and many others, Laanstra and his team selected the ultra-Canuck elements that would accompany Desmond: the Canadian Museum for Human Rights, a passage from the Canadian Charter of Rights and Freedoms and the vaulted dome ceiling of the Library of Parliament. The symbols double as a bulwark against counterfeiters: the kinegram ceiling reflects the colours of the rainbow, while an eagle feather shifts from green to gold. “When the content and the security work well together on a bank note,” says Laanstra, “that’s when the magic happens.”

The note, which will enter circulation this fall, was the first nominated for the 2018 Bank Note of the Year Award. Your move, Kazakhstan. ◆

For a closer look at some of the nominated bank notes, visit cpacanada.ca/news.

UGANDA
50,000 SHILLINGS
Uganda’s most valuable bank note is also its most beautiful. It features silverback gorillas, a Ugandan map and a monument erected to celebrate the country’s independence from Britain in 1962.

SWITZERLAND
10 FRANCS
After a countrywide design competition, the Swiss National Bank selected Zurich artist Manuela Pfrender to create this and five other new bills. Each features a theme, hand movement and key motif, such as time, wind or language.

RUSSIA
2,000 RUBLES
The note is a tribute to the Russian Far East, with images of the new Vostochny Cosmodrome and the Russky Bridge, near the border with North Korea. A unique touch: the bill has a QR code that links to the Bank of Russia website.

MALDIVES
1,000 RUFIYAA
Maldives, the teeny tropical nation in the Indian Ocean, gives a new meaning to “watermark” with this note, which features a sea turtle, whale shark and hundreds of subtle water droplets (like those in the clear window) when viewed from a particular angle.
You called the parliamentary committee report into the collapse of Carillion a watershed moment," adding: "It should be seen as a wake-up call for business leaders, for regulators and for auditors." Strong statements. Tell us more about your thinking.

Carillion was not the first high-profile corporate failure, nor will it be the last, and it is important to remember that it was a management failure first and foremost. But it turned the spotlight on the auditors—as is only right and proper—and the parliamentary committee report concluded that they had fallen short of the high standards expected of them.

This is a watershed moment because the profession is recognizing that the status quo is no longer an option. For too long now there has been an acceptance that there is an "expectation gap" between what audit is technically required to do and what society has come to expect—and there is much truth in that. But now the profession has seen firsthand that politicians, regulators and wider society expect something more from auditors than just expressing a pass/fail opinion on financial statements. If the profession is not meeting the demands of society, then that is our problem, not theirs, because without the trust and confidence of wider society, we cannot deliver. Every day there are thousands of good audits that do exactly what they are meant to, but if trust in audit as a whole is undermined, then those audits suffer. So when I said this was a wake-up call, what I meant was we need to change. We need to explore how we can regain that trust. If we cannot, then I genuinely fear we will not have an audit profession in 20 years' time.

What can Canada learn from what is happening in the U.K.?

I think the main aspect for everyone globally to take away from this is trust. Audit—and the whole accounting profession—can only operate if it commands the trust and confidence of society as a whole. I think Carillion made it clear that everyone is a stakeholder in this process. By comparison, concern about financial services, for example, can seem distant from everyday life. But when people see hospitals not being built, roads delayed, and large-scale job losses, not to mention the prospect of school dinners not being served, military personnel going unhoused, and pensions failing to be paid, it brings it home quite starkly that audit is in the public interest, not just there to serve investors.

Has Carillion tarnished the reputation of auditors in both the U.K. and abroad? If yes, how can that be reversed?

Unfortunately, I believe that it has. The best way, in my view, for the profession to start to rebuild trust is to demonstrate both value and relevance. This will mean showing how audit can deliver confidence in business, and always displaying the very highest professional, technical and ethical standards. But I think it will also mean exploring how...
Michael Izza, head of the ICAEW, on the pressures on auditing after a massive English business failure

In January, Carillion plc, a massive U.K. construction company, collapsed after multiple profit warnings sent its stock tanking. It was Britain’s biggest corporate failure in years, and because the firm had hundreds of government contracts to build and manage homes for the military, and provide services to schools, hospitals and prisons, it sent shock waves through the economy.

Critics were soon questioning the role of auditors. In May, a U.K. parliamentary committee report accused Carillion of deceiving lenders and investors, and criticized its auditors for a lack of oversight. The Financial Reporting Council, the regulator of the audit sector in the U.K., has come under fire in recent years for failing to take timely action in connection with high-profile corporate collapses, and for being “too cosy” with the audit profession.

Michael Izza, the chief executive of the Institute of Chartered Accountants in England and Wales (ICAEW), has been candid about the future of auditing amid the fallout, saying the profession needs to “be prepared to think and act differently.” He spoke to Bryan Borzykowski from Pivot in July.

**Q** You called the parliamentary committee report into the collapse of Carillion a watershed moment,” adding: “It should be seen as a wake-up call for business leaders, for regulators and for auditors.” Strong statements. Tell us more about your thinking.

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we can update what is essentially a 19th-century process for a 21st-century economy. How can auditors add more value? Are there other areas where assurance can be used? I believe there are. I think we will find a number of areas where the expertise and experience that auditors have can be applied to ensuring more trust in business as a whole.

What, specifically, are the expectation gaps in the U.K.? Do you think the same sentiments are being or will be felt elsewhere? We have been talking about the expectation gap for a long time—the phrase first appeared in the 1870s! ICAEW has defined the expectation gap as being “the difference between what the public and other financial statement users perceive auditors’ responsibilities to be and what auditors believe their responsibilities entail,” and there are a number of areas where this might be an issue, the most common three being fraud, going concern and internal controls.

But I think there is a wider issue here, and that is a more general feeling that auditors are not being held to account, that they are only ever responsible to the people that pay their bills. This is not the case. Professional accountants came into being as a way to protect society against corporate misbehaviour.

It is this more general expectation gap that needs to be addressed. This is not about dry technical details in long statements; it is about trust and confidence. I am optimistic about audit, and I believe that there is plenty that can be done to restore that trust, but we need to start now.

How do you get started? Who is leading the drive for change? I hope that we are. The Audit Quality Forum, a group made up by ICAEW, the FRC [the Financial Reporting Council] and the government’s BEIS [Business, Energy and Industrial Strategy] department, is convening an independent review of the future of audit. This will look at the scope of the audit; what does society require, and how can we meet those needs? What will we have to do to restore trust? How can we use our expertise to demonstrate the value and relevance of audit today?

In Canada, we have multiple layers of compliance and oversight; audit committees, auditors, management, standard setters and regulators work together, and it’s fair to say the overwhelming majority of audits are done to the highest standard. In your opinion, how important is this kind of collaboration?

I think it is vital that there is constant dialogue between audit committees, auditors, regulators and management if we are to safeguard and improve audit quality. ICAEW has done a lot of work on this, and we have seen enhanced dialogue between auditors and audit committees—especially in financial services in response to the financial crisis. But it needs to go beyond this.

One thing that is absolutely critical is that we avoid unintended consequences when seeking to remedy the challenges faced by the audit profession. For example, when the European Commission’s Statutory Audit Directive came in in 2016, it included a number of measures rightly aimed at enhancing competition and choice. But just two years later the number of audit firms registered for Public Interest Entity audit work has dropped from 51 to 32, a fall of around 40 per cent. This is far from ideal.

Regulators, who are tasked with being the stewards of audit quality, will need to strike the right balance between a proportionate level of regulation and one that dissuades smaller firms from taking on larger audit work. ICAEW is constantly working on guidance and thought leadership that helps guide best practice and raise standards. The good news is that everyone has exactly the same objective in this area—making sure that audit work is of the highest quality.

What gets measured gets done

With audit quality being such an important issue, CPA Canada, the Canadian Public Accountability Board and the Institute of Corporate Directors have created the Audit Committee Guide to Audit Quality Indicators, a comprehensive guide to assist companies in reviewing and evaluating factors of audit quality. Audit quality indicators (AQIs) can offer insights and facilitate collaboration among auditors, management and the audit committee. These indicators also provide more in-depth information to assist stakeholders in assessing and achieving sustained audit quality. Indicators can include, for example, the expertise of an audit team, the timing of audit execution and the level of communication.

Stefan Mihailovich, principal of corporate oversight and governance at CPA Canada, highlights the fact that there is no “one-size-fits-all” answer to the issue of audit quality. “It’s vital for the audit committee to have an open dialogue with both the management team and the external auditor,” he says. “All parties involved need to understand what ‘audit quality’ means to the organization, and how they think it can be best achieved.”

While the guide is geared toward audit committee members, it is also recommended reading for management and audit teams. It can be found at cpacanada.ca/AQIguide.
Change is rapid in today's business landscape. You believe there should be a greater use of technology in the audit sector. In what way?
Technology is already changing the way that we do audit. For example, in terms of something like inventory, there was a time when you had to send someone to physically count things, whether that was cars, say, in the automotive industry, or to clamber all over a warehouse. Now, you can use drones. They are faster and have more capability. But the use of technology, especially Big Data and artificial intelligence in the form of machine learning, has the potential to change things even more. When I started as an auditor everything was conducted through sampling. Now we have the capability to audit 100 per cent of a company's transactions, and cognitive technology can process vast amounts of data faster and more precisely than any human. Obviously this has a beneficial effect on accuracy and speed, and potentially on cost. But where it really has the capability to change things is on what the audit of the future can offer. Because such technology focuses on pattern recognition, it has the potential to point out where processes or controls can be improved. And it will be able to identify outliers and exceptional events, meaning there might be a potential to spot, say, fraud.

Technology is only going to be more commonly used in audit, and the profession should prepare for that. That means that the auditor of the future needs to be comfortable with technology. That doesn't necessarily mean everyone will need to be able to code, but it does mean they need to be up to date with technical capabilities and happy in the new technology environment if they are to remain relevant to business.

Beyond what you've already mentioned, where do you see the accounting profession over the next five to 10 years? What other changes do you anticipate? What needs to change?
As I say, I think one of the main changes will be the impact of technology on the profession. Robotic Process Automation and artificial intelligence are going to revolutionize the way we do business. I expect we will see a lot of compliance work being automated, and artificial intelligence increasingly being used to spot patterns in Big Data, and in decision-making environments.

But this does not mean there will be a reduced demand for the profession—in fact I believe quite the opposite. I think we will see professional accountants moving up the value chain to more strategic roles. This will have an inevitable effect on the skills and aptitudes needed to become a professional accountant. I suspect we will need to engage more with technology, but I also believe we will need to focus on instilling the softer skills—strategy, communication and leadership, for example.

It’s worth noting that the rise of technology will not just change the way we do accounting. It will also change the things we are accounting for. Take artificial intelligence, for example. We know that AI cannot display bias, as it is a computational algorithm. Yet evidence from the United States shows us examples of very explicit bias in AI software—which can only have come at the data input stage. So I believe we will see a demand for assurance on the processes and controls around data. And then there are broader questions. How do you audit a robot? How do you tax a robot?

What strengths does the profession bring to the table to help businesses successfully navigate change?
The core values of professional accountants, whether they are based in the U.K., Canada or elsewhere, have always been trust and integrity. We train people to be able to bring the highest levels of professional and technical expertise, alongside the highest ethical standards. The specific areas and skills of accountancy may change depending on technology and markets, but the essential qualities—integrity and professional skepticism—never will. For example, some aspects of the modern office—tablet computers, say, or smartphones—would seem bizarre to our Victorian forebears. But I believe they would still recognize the core of what we do straight away.
Cheap land. Low taxes. Friendly government. Plenty of sunshine and young people. Alberta has a huge head start in Canada's newest industry.

The vastness of a Prairie province is hard to convey in anything other than aerial photographs. Alberta is all wide-open fields and gleaming glass cities—although the buildings in those cities are noticeably less bustling since the fall in the price of oil. It has the sense of a place, in other words, that is still waiting to be filled up. Poised for the next boom.

If both government and industry get their way, the seeds of that boom can be seen from the sky when flying into Edmonton. On the grounds of the Edmonton International Airport sits Aurora Sky, an 800,000-square-foot behemoth: a rectangular pool of pane glass as large as 14 football fields. Inside the building are 27 kilometres of irrigation pipe, an array of robotic systems to handle harvesting and packaging and, when fully operational, more than 700,000 lush, green marijuana plants. This is the gem of Aurora Cannabis, a juggernaut of the Canadian marijuana industry. It is, at the moment, one of most valuable cannabis companies on the planet, boasting a market cap of about $4.3 billion. But Aurora has even bigger plans. Although its Edmonton facility is mind-numbingly ambitious—set to produce 100,000 kilos of marijuana per year once it's at full capacity, after the product is legally available in Canada on October 17—another giant grow op, larger again by half, is already under construction in Medicine Hat. And it won't stop there; the airport location is a strategic bet. Aurora wants to be the leading provider of marijuana in the world, the Budweiser of weed.

This is a rare, arguably unprecedented moment in Canadian business history. A legal multi-billion-dollar industry is about to be created wholesale out of the dregs of a black market. Statistics Canada estimates that Canadians already spent $5.5 billion on marijuana in 2017—giving investors an enormous opportunity to profit as pot transitions from a street drug to a mainstream inebriant.

The legalization of marijuana in Canada is fortuitous for companies with large ambitions. As Canada is the second country, behind Uruguay, to fully legalize marijuana at the federal level, companies that can thrive here will have an enormous early-mover advantage as the drug gains acceptance in Europe, America, Australia and Asia.

It's a critical moment as well for the regions that want to take advantage—and the province poised to gain the most from Canada's competitive edge is Alberta.

Ontario may have the country's largest population and much of its early marijuana investment—Aurora's biggest competitor, and the leader for the moment in market capitalization, is Canopy Growth Corporation, formerly Tweed Marijuana Inc., based in Smiths Falls, Ontario. But, increasingly, it's Alberta that's moving ahead.

The province is as well-known for its farmlands as its oil sands. It has comparatively cheap land, and some of the lowest energy costs of any Canadian province—an enormous...
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BY JEN GERSON

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The province is as well-known for its farmlands as its oil sands. It has comparatively cheap land, and some of the lowest energy costs of any Canadian province—an enormous
boon to an industry that will rely heavily on indoor growing facilities. According to a recent Fraser Institute report, for example, small industrial consumers in the Toronto area paid an average of 16.27 cents per kilowatt hour for their power. By comparison, Calgary-area companies paid 6.53 cents.

Alberta also enjoys more sunshine than almost any other part of the country. Medicine Hat, Lethbridge, Calgary and Edmonton all rank among the top 10 sunniest locales in Canada, which is a boon to large-scale farming.

And it has comparatively low taxes—no provincial sales tax, of course, low income taxes, and a general corporate tax rate of 12 per cent, with a small-business rate of just two per cent. Ontario’s corporate rates sit at 11.5 and 3.5 per cent, respectively. Quebec’s: 11.7 and eight per cent. More than that, the provincial government, desperate to diversify its economy, has introduced a capital investment tax credit. The program offers a non-refundable credit worth about 10 per cent of the cost of capital expenditures like new equipment, structures or machinery. Aurora Cannabis will channel its credit to Aurora Sky.

Demographically, Alberta is the youngest province in the country, with a median age of 36.7, and its labour force is relatively underemployed thanks to the oil downturn, with an unemployment rate at about 6.5 per cent.

Crucially, Alberta opted for a private retail distribution model, which is not only attracting large- and small-business owners but will also ensure that the province has an extraordinary number of marijuana dispensaries. In the first year of legalization, it’s predicted that Alberta will have licensed 250 dispensaries—which roughly five times as many as Saskatchewan and 12 times as many as Quebec. (In Ontario, the newly elected Doug Ford PC government announced in August it was shifting the province from a plan for 40 government-run dispensaries to a private retail system, beginning next April. The province will still handle online sales, but much about the shape of the retail market in Canada’s most populous province has yet to be determined.) A robust private retail system is no small advantage to a company like Aurora, which plans to be vertically integrated, with ambitions to grow, process and sell marijuana products. It’s also, arguably, an advantage for any new industry to operate in a jurisdiction with comparatively less regulation and a more open environment.

Perhaps most importantly, Alberta is still struggling to get off its back foot since the 2014 oil crash. A province eager to end its reliance on the oil and gas sector has been only too happy to welcome any nascent industry. Despite its reputation as a conservative province, there’s little reeler madness or moral squeamishness about marijuana in Alberta. This is business.

“In Alberta, we recognize that the cannabis industry is booming. Premier Rachel Notley and our government’s position is that this is another way to help diversify the economy,” says Deron Bilous, Minister of Economic Development and Trade.

The provincial government has aggressively reached out to existing and potential cannabis companies; Bilous says he spoke to almost all of the attendees at recent industry conferences held in Edmonton and Calgary. “All of them have said to us that Alberta is the best province to be investing in. This is where all the cannabis companies are going,” Bilous says, noting the combination of industry-friendly government, private retail, low taxes and investment credits: “Ontario obviously has a larger population, but they favour what we are doing in the province of Alberta.”

**It’s tricky to see inside** the enormous grow op now consuming so much of the Edmonton International Airport. Aurora limits access to its facilities for good reason: “Humans are the number one vector for contamination,” says Cam Battley, chief corporate officer of Aurora Cannabis.

People are the most common source of mould and other pathogens that can spoil a gram of weed.

So, Aurora has built an enormous facility that is serviced largely by robotic systems. “It is leagues ahead of anything else that exists in terms of cannabis production today,” he says. “What we have is the most tightly controlled environment of any cannabis production facility in the world. I suspect it is not just the most advanced cannabis facility in the world, but the most advanced agricultural facility in the world.”

Aurora has been expanding at a remarkable clip, with strategic investments in medical marijuana companies across Canada, Europe and Australia. But the Aurora Sky facility could only happen in Alberta.

The entire greenhouse sits within the airport property itself. “It’s ideal because we have all the utilities that we need: gas, water and power. And not only do we have power, we have power supplied from two different substations to the airport, because that’s required.” (Airports have to maintain a steady supply of power, leaving Aurora in a strong position to take advantage of that requirement.) The facility can also benefit from the heightened security of an airport.

Edmonton International is small enough, still, to afford the space required for such a venture, but large enough to ensure daily flights to airports across the country and around the world. Aurora Sky will be uniquely well-positioned to provide fast, same-day delivery by air as medical and recreational cannabis gain both social and legal acceptance.

The international market is a key aspect of Aurora’s long-term strategy, Battley says, and as with any commodity, transportation and logistics are critical. “You couldn’t do this at Pearson, there is no way,” Battley says. “It’s our Goldilocks solution.”
The facility, as large as 14 football fields, will produce 100,000 kilos per year.

At Aurora Sky, 27 km of irrigation pipe will carry water to 700,000 plants. Robotic systems will handle the harvest.

Cheap power. Low taxes. Good transportation. A favourable climate and a friendly government. Then there’s the money part.

The Auroras of the world are now working with the big banks—in June, the company signed a debt deal worth up to $250 million with BMO, the largest transaction of its kind in the cannabis industry with a traditional lender.

For smaller players, though, one of the benefits Alberta provides has been access to the Alberta Treasury Branches, or ATB Financial, the provincially owned Crown corporation, which has proven more willing to take a chance on marijuana start-ups than larger lenders.

“The basis for us leaning into this industry was the fact that we as Albertans saw—whether you look at our strength in agriculture, the low power prices or the land available—Alberta as an opportunity for this industry to grow,” says ATB’s CEO, Curtis Stange.

“I can tell you that we’re still defining what our policies will be, what our approach will be to this market. That’s part of the due diligence when you enter into a market like this that is brand new. You don’t leave any stone unturned.”

The bank has focused on supporting cannabis start-ups with credible and well-known management teams “that know how to enter a new market, and have got some consistent track record,” Stange says. “And you balance that with the spirit of new entrepreneurs.”

For example, one company, Sundial Growers, secured a $56-million financing deal from ATB, thanks in part to an executive team that boasts Coca-Cola veteran Torsten Kuenzlen, who was appointed its CEO, and former Calgary Stampeders football club co-owner Ted Hellard, who is executive chairman and has a long history in creating local digital marketing companies.

In addition to banks, the chambers of commerce in both Calgary and Edmonton have welcomed cannabis in their respective cities. “The Edmonton chamber’s approach was that we knew legalization was coming and I think we were just really pragmatic about it,” says chamber president and CEO Janet Riopel.

Some members expressed concerns about how legalization would affect workplace safety, but Riopel says that the provincial government is working to address that issue. The province already has rules against impairment on the job but is reviewing those laws in light of legalization.

“We communicated to our members the opportunity that existed. We have been in a very low downturn in our province here for a very long time now,” she says. “The government understood that and proceeded to address [legalization] as a new multi-billion-dollar industry, and an unprecedented opportunity for Alberta and the entrepreneurs there.”

While the federal government is responsible for legalizing marijuana, the details of how the drug will be distributed and monitored were left to the provinces.

The government of Alberta conducted several surveys to get a sense of how restrictive they should be. Those polls overwhelmingly showed that Albertans preferred a private retail distribution model to parallel the way liquor is sold in the province. A number of other provinces opted instead for a public or a mixed model that would largely keep private businesses both big and small out of the retail chain.

“Because of our success with our liquor distribution model that is long proven now to be a success story, we know that our business community is perfectly ready, willing and able to take this on,” Riopel says.
Alberta received hundreds of applications for dispensaries. The plethora of outlets will not only serve the country’s youngest population, but a province that already spends more per capita on liquor consumption than the Canadian average—a product of its youth and wealth. Alberta has 38 per cent of the country’s medical marijuana licences and is comparatively free of the illegal dispensaries that have become common in other major Canadian cities.

All of these factors are believed to give Alberta a competitive advantage over even Canada’s long-unchallenged bud capital of British Columbia, says Lindsay Blackett, a former Progressive Conservative cabinet minister who’s now a partner at Arete Cannabis Consulting in Calgary.

B.C.’s rollout of marijuana rules has been comparatively disorganized, he says. Alberta has been quick and responsive to the cannabis business, and this has given the unlikelier province an advantage, he says. He summed up the sentiment of early weed investors: “It’s Ontario, then Alberta. Not Ontario, then B.C. Ontario, then Alberta. That is the place,” says Blackett.

**Which is not to say Alberta** doesn’t still have a lot of work to do, says Chris Damas, editor of BCMI Cannabis Report. By dint of Ontario’s much larger population, he predicts that Alberta’s marijuana industry is destined for second place.

The majority of licensed pot producers are still stationed in Ontario. “It certainly looks like a saving grace that Alberta has another industry that they can diversify into,” he says. However, “like any government initiative, it’s fraught with concern that the government may not get it right.”

Damas notes that monopoly government buyers in Ontario and B.C., for example, are already trying to undercut producers on price. “They’re manufacturing an industry—some say it was already there—but we don’t know how it’s going to unfold,” he says, noting that it’s still uncertain how much of the black market legalization will replace. And while analysts predict that legal marijuana will soon begin to nip at alcohol sales, the valuations on many cannabis companies are, at best, still just projections.

Blackett says he expects that some of the larger players now dominating this market will collapse or be consolidated. No legal marijuana company can rely on a past track record to demonstrate its competence.

Aurora, for example, has grown extremely quickly and run up a lot of debt to fund that expansion. Its financials show it has more than $1.6 billion in assets, but annual revenues prior to legalization of only $18.1 million. Its stock price, like many in the industry, has been volatile, and it’s yet to turn an annual profit.

There are also questions about Aurora Sky’s harvest, and whether its weed will be tainted by proximity to the jet fuel emissions and vibrations of nearby airplanes—concerns that Aurora’s management flatly dismiss.

Whether legal marijuana can compete with the black market product on price, variety, convenience and quality remains unknown. Already, there are concerns about whether there are enough licensed producers to supply the hundreds of retail outlets that will need to stock their shelves come legalization day.

Another mystery is just how large the actual market even is. Edible and concentrated marijuana are expected to be more popular than the dried plant in the long run, as is the case in legalized U.S. jurisdictions. But Canada won’t legalize those products until 2019, at the earliest.

In short, marijuana may soon be legal, but it’s still a risky business. “The key question will be: are the ends going to justify the means? We have to decide how much GDP improvement is going to be sustainable, and whether the social costs of recreational cannabis are not going to be excessive, because there is always a cost,” Damas says.

He is waiting for international push back on Canada’s headlong rush toward legalization as well. “The UN has protested, but we haven’t found out what the repercussions of a G7 nation [making] recreational cannabis legal are.”

Blackett remains more optimistic. “I don’t think we’re in the middle of a cannabis bubble, as far as its crashing,” he says. “Companies are doing their due diligence and I encourage their investors to do their due diligence. But what we see is an increasing demand.”

Of course, as the NDP faces a daunting election in 2019, much of its future is also pinned to the continued success of Aurora, and the diversification efforts behind it.

“I think we’re going to see other companies like Aurora making larger and larger investments in Alberta,” Bilous says. But, then, that’s Alberta for you. Always looking for the next big thing. ◆
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University study, about double the proportion in the U.S. What’s more, half of those plant-munchers are under the age of 35—a massive, upwardly mobile and largely untapped market.

THE PLAN: For the Canadian rollout of its burgers (which contain beets, yellow peas and potatoes, among other things), Beyond Meat chose the country’s 925 A&W restaurants. Though the chain has experimented with its own vegetarian burger, it is known primarily for its celebration of ground cow. Yet it wasn’t a hard sell, according to Beyond Meat chief growth officer Chuck Muth. “They were looking at the demand for plant-based options, particularly amongst millennials, who are driving a lot of growth today,” he says. “Far and away, our biggest consumer group is millennials, and Gen Z after them.”

THE RESULT: “The launch exceeded even our most optimistic expectation,” says Muth. Though A&W did not share specific sales data, online reviews were favourable. What’s next? Beyond Meat’s foray into A&W serves two purposes: to wet the collective whistle of Canadian vegetarians and vegans, who are generally underserved by meat-heavy restaurant chains. It is also an introduction to its retail products—burgers, sausages, chicken strips and faux ground beef—which are likely to hit Canadian supermarket shelves soon. “Canada is a very good consumer base for us,” says Muth. “Not only is there a bigger percentage of vegetarians in Canada, but also a bigger concentration of health-conscious consumers.”

MEAT YOUR MATCH

The secret weapon to get vegans into a burger joint: a veggie patty that doesn’t taste like cardboard

By Martin Patriquin

THE GAMBLE: California-based Beyond Meat produces vegetarian takes on carnivorous standards like burgers, sausages and chicken strips. But unlike the cardboard-like iterations of meatless fare currently sitting neglected at the back of your freezer, Beyond Meat products taste freakishly close to the real thing, with more protein and none of the cholesterol. The sausages crack and pop, the burgers ooze grease (the secret is coconut oil). The company, which sells its wares in the meat aisles of several American supermarket chains, wants to break into Canada for good reason: nearly one in ten Canadians consider themselves vegetarians or vegans, according to a recent Dalhousie University study, about double the proportion in the U.S. What’s more, half of those plant-munchers are under the age of 35—a massive, upwardly mobile and largely untapped market.

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Kelli Ricco came to Costa Rica seven years ago to figure out how to live well. The co-owner of a personal training company in New Jersey, she was sick of get-healthy-quick schemes. To build a better business, she decided to study cultures where people were naturally living “longer, healthier and happier,” and soon found herself in Costa Rica’s Nicoya region, one of the world’s blue zones, where people regularly live past 100 years. Ricco found inspiration there, but also opportunity. Armed with newly learned wellness secrets, she approached the luxe Four Seasons resort, which quickly saw the potential. Today Ricco runs its fitness and wellness programs with a pura vida, or “pure life,” mindset.

At the resort, guests can disengage from their busy lives through the Disconnect to Reconnect program, in which they hand over their phones for 24 hours and are, in turn, given a list of 24 potential activities, including everything from dance classes to stargazing to monkey-watching. If they make it through the full day without giving in to the urge to check their phones, they win a prize—a pura vida phone case to remind them of what they’ve learned during their tech fast. Ricco has also expanded the slow-down mentality to include phone-free spa sessions, sound therapy with Tibetan bowls, and chakra energy rebalancing.

“People come here and ask, ‘How can I upgrade to the highest Wi-Fi connection?’” says Ricco. Only later do they start asking how they can learn to disconnect. “A lot of times people don’t even realize that they come for that.” But as technology saturates our lives, hotels and resorts are increasingly betting the most extravagant thing they can offer guests isn’t super connectivity, but the ability to really experience their own vacation, without distractions.

In a recent study of 2,000 Americans by OnePoll, a market research firm, participants checked their phones an average of 80 times a day while on vacation—some went as high as 300 times a day. More than 46 per cent stayed plugged in to connect with family and friends; 68 per cent looked at social media. But another study of Canadian employees, conducted for Accountemps, found that more than one-third of vacationers used their phones to check in to work—a number that jumped to 46 per cent for millennials.

People are so bad at disconnecting, it’s no wonder some are willing to pay to be forced to do it. This year, 20-something entrepreneur Zach Beattie...
launched a tour company called Off The Grid, based in Washington, D.C., and specializing in 10-day phone-free (or phone-limited) trips around the world. Marketed toward millennials, the company offers three “modes” to unplug: easy, where you’re allowed to check your phone at a designated time each day; hard, giving you three chances, total, to check in; and all-in, which puts your phone on total lockdown. Trip gear includes old-fashioned paper maps, what the company calls analogue watches, and travel journals. Rather than packing the itinerary with events, Off The Grid also says it believes in “under-scheduling” so that people have solo time to, among other things, reflect on their experiences. “Sometimes it takes a full group of people, or a reason to say ‘I’m unplugging,’ versus just trying to do it cold turkey,” Beattie told Business Insider. “And this trip gives you a reason.”

Digital disconnection is part of an exploding tourism niche. In recent years, “wellness tourism” has grown faster than overall global tourism, according to the Global Wellness Institute, with spending going from US$494 billion in 2013 to US$563 billion in 2015. Put another way: people took 691 million wellness-related trips to destinations like spas, health resorts, relaxing and rejuvenating is projected to rev up demand for tourism and spa therapies.” So widespread have these programs become, says Nandini Choudhury, a research consultant with Fact MR, that hotels are now targeting categories based on gender, age, occupation or some specific health condition: “Programs for corporate types, such as digital detox packages, are becoming some of the most popular.”

The Great George Hotel in Charlotte-town offers a Digital Detox package that locks guests’ devices at the front desk for safekeeping. “Some check them in for their entire stay, others choose to have them out of sight and out of mind for only a few hours at a time,” says general manager Megan Hunt.

Not everyone travels far to unplug, either. The Mandarin Oriental in New York offers a spa program and hotel package called the Digital Wellness Escape. Most of the hotel’s guests, says Laura Lambert, the hotel’s spa director, actually live and work in the city. They come because they are looking for a way to fully disconnect and, as she puts it, “to manage their relationship with technology.” The top 80-minute spa feature (US$345) kicks off with a soak in a Shungite bath, a mineral which, Lambert says, is rich in fullerenes—carbon molecules—and is meant to bind with the free radicals people absorb from tech devices, making them inert, and thus easily eliminated from our bodies. Guests can access a full range of “mindfulness activities,” such as journalling, note-card writing, colouring and meditation. And they take home guidelines developed in partnership with the Mayo Clinic that, as Lambert says, are designed to build a “digitally balanced lifestyle.” You don’t even need an energy-enhancing crystal to see the wisdom in that.

and yoga and meditation retreats in 2015. And while certain wellness venues may sound eye-rolling to some, it’s good business. In response to the boom, hotels that wouldn’t normally know a root chakra from a root vegetable are getting into the game. Consumers are increasingly willing to shell out for added health benefits, whether it’s an in-room yoga mat or a phone-free full spa resort. One market research firm based in Ireland, Fact MR, said this year that the “growing need for de-stressing, detoxification, and yoga and meditation retreats in 2015. And while certain wellness venues may sound eye-rolling to some, it’s good business. In response to the boom, hotels that wouldn’t normally know a root chakra from a root vegetable are getting into the game. Consumers are increasingly willing to shell out for added health benefits, whether it’s an in-room yoga mat or a phone-free full spa resort. One market research firm based in Ireland, Fact MR, said this year that the “growing need for de-stressing, detoxification, WASTE AWAY

Canada’s new crop of sustainable grocery stores asks consumers to bring their own bags, bottles and containers. Will shoppers play along? BY MICHAEL MCCULLOUGH

Upon walking into Nada, a new 2,300-square-foot grocery store in a gentrifying part of East Vancouver, one encounters a few familiar features: tables loaded with fresh produce, bulk-food bins, customers with cloth bags slung over their shoulders, a soft-jazz cover of “Will You Still Love Me Tomorrow?” wafting over the PA.

Other sights, however, are less expected: the large metal kettles bearing taps marked “apple juice” and “white vinegar.” In fact, there are no rows of plastic bottled drinks to be found. Even free-range eggs are sold individually (69 cents each). As with everything on offer here, you are meant to bring them home in your own receptacle.

Nada, which opened in June, bills itself as a zero-waste grocery store—one of a handful of new food retailers going package-free. Montreal boasts no fewer than three—Mega Vrac, Vrac & Bocaux and Loco—and another, called Nu, launched in Ottawa in August 2017. At its opening, federal Environment Minister Catherine McKenna enthused, “This is really the future of shopping.” A number of retail experts beg to differ.

According to David Ian Gray, of retail consultants DIG360 in Vancouver, waste reduction is on-trend, but only to a point. Just over 10 per cent of shoppers bring a reusable shopping bag to the supermarket in more progressive markets, and concern about microplastics in the ocean and in food chains has provoked several major cities, along with McDonald’s, Starbucks and A&W Canada, to announce the phasing out of plastic drinking straws. But what this new breed of food stores is asking of its customers is “a pretty radical behaviour change,” Gray says.

WELLNESS TOURISM IS EXPLODING. HOTELS THAT WOULDN’T KNOW A ROOT CHAKRA FROM A ROOT VEGETABLE ARE GETTING IN ON IT.
In addition to shopping bags, shoppers at zero-waste grocery stores must have on the ready, and remember to bring with them, an assortment of jars, bottles and bags. That logistical challenge may deter time-starved shoppers, along with those who would otherwise drop in spontaneously.

Another step zero-waste shoppers must factor into their visit is the weigh-in. Once customers arrive at the store, their containers must be weighed empty at the checkout before being filled, so that the weight can be deducted from the total. Nada removes a small amount of pain from that process by providing customers with a dishwasher-safe sticker encoded with the jar’s weight that you can use again and again, but still.

A bigger consideration for most shoppers—and for the viability of the business model—Gray says, is whether the store carries what they’re looking for, and whether it’s of good quality and competitively priced. (Items at Nada come at a premium: $3.49/100g for coffee, $1.19/100g for white basmati rice, 99¢ to $1.49 each for avocados—similar to the prices of organic products.)

“I don’t think these independents will be terribly disruptive in the short term,” agrees Tim Reeve, a responsible-sourcing consultant in Vancouver. The fact is, five grocery giants—Loblaws, Sobeys, Metro, Costco and Walmart—control more than 80 per cent of Canadian food sales. They may adopt practices pioneered by smaller players, such as creating a bulk-food space in their floor plans for cereals, oils, coffee and the like, where customers can load their own containers.

Alain Michaud, Quebec retail and consumer practice leader for PwC Canada, agrees: “I could see the big players going this way if there is sufficient demand.”

However, a bigger influence on their behaviour, Reeve says, will be packaging regulation and fees imposed for recycling the packaging they currently use.

Another consideration is that, as the Food and Agriculture Organization of the United Nations estimates, one-third of the food the world produces gets wasted; airtight packaging might help limit the spoilage. “To get rid of plastic entirely would cause food waste to soar,” Reeve says.

And if plastic waste is such a big problem, there is another solution: alternative packaging materials that are biodegradable. Coca-Cola’s Dasani brand of bottled water, for example, is piloting a 30 per cent plant-based bottle with the aim of eventually getting to 100 per cent. Canadian paper manufacturer Cascades Inc. is making a concerted effort to develop and market sustainable packaging that in many cases can be substituted for petrochemical plastic. A breakthrough in this area could be seen as a threat to the zero-packaging grocery’s current business model.

Still, Michaud sees a niche for a small number of zero-waste groceries in every major Canadian city, provided they have a good product offering, the right location and reasonable prices. He says the question will be whether there is enough consumer appetite to justify opening additional stores, and whether the owners will have the financial means to expand.

He acknowledges the hurdles, not the least of them being food safety. “If food poisoning takes place, and the customer used their own container, who’s responsible?”

Back at Nada, in addition to groceries, you can pick up other supplies to shrink your ecological footprint, for example gold-coloured reusable drinking straws or wool dryer balls that take the place of single-use fabric-softening sheets. Gray considers the zero-waste stores out there a statement—a well-intentioned attempt to demonstrate the feasibility of a business model built around sustainability, and the lifestyle it enables. Perhaps the best their founders can hope for is to have the grocery giants co-opt their best ideas.
A TALENT FOR NUMBERS

In his new book about the Houston Astros’ spectacular turnaround, author Ben Reiter finds a big business takeaway: when it comes to predicting the performance of a team, on the diamond or in the boardroom, daring matters just as much as data. **BY BRIAN BETHUNE**

Prediction is hard, “especially about the future,” runs a wry Danish proverb dear to Sigurd Mejdal, universally known as Sig. The son of Danish and Colombian immigrants to America, a former Lockheed Martin rocket scientist with a side MA in cognitive psychology, and a master of baseball analytics, Sig is one of the key figures in Ben Reiter’s new book, *Astroball: The New Way to Win It All*, an engrossing story about professional baseball, and about much more than that.

In the first half of this decade, the sad-sack Houston Astros racked up three consecutive 100-loss seasons while managing the remarkable feat of playing games that sometimes recorded local TV ratings of 0.0, meaning Nielsen couldn’t verify that anyone at all had tuned in. In 2014 Reiter, a baseball writer who bought into what management was doing to turn the team around, cheekily predicted—on the cover of *Sports Illustrated*, no less—that the flailing Astros would win the World Series in 2017. They did.

That might explain Reiter’s book contract, but not the “new way” itself. Big Data is an obvious but only partial answer. Sig’s analytic chops were certainly crucial: as the Astros’ Director of Decision Sciences, his ability to gather and scrutinize data like never before created the equivalent of a stock-picking screen, only this time the picks were human stock, namely prospective players. But Sig is also a fan of wrt large, a sweating, screaming, literally towel-chewing onlooker in big games. He cheered on a hand-picked player to pull off a championship series-changing play at home plate, even though he knew the percentage decision was a safe throw to first.

At their best, Sig and Reiter’s other central figure, Astros general manager Jeff Luhnow—the man who hired Sig—relied on their data but not to the bitter end. They rarely forgot the classic warning on mutual funds prospectuses: “past performance is no guarantee of future results.” Brain and gut, they learned, sometimes painfully, have to be in synch: the data is the tool, not the master. Humans, and their ability—and willingness—to develop and to take chances, are still the key.

That’s what gives *Astroball* relevance far beyond baseball. In the 15 years since the publication of *Moneyball*, Michael Lewis’s account of the pioneering efforts of Billy Beane and the Oakland Athletics to use statistical analysis to guide their player choices, the tide of Big Data has crested over sports, academia, government and business. There are now so many ways of gathering information and consequently such explosive growth in data sets, Reiter argues, that the apparently predictive information is often foolishly allowed to call the shots. Just ask Hillary Clinton, the writer suggests, whose data scrapers were confident that campaigning in the industrial Midwest in 2016 would be a waste of resources.

Baseball is in many ways the perfect laboratory for data experiments. Individual performance is far easier to isolate than in other team sports. The financial risks and rewards involved are huge and relatively quick to manifest themselves. Years of losing saw Astros’ revenues sink to US$175 million in 2014, a take that almost doubled in only three years when the World Series champions brought in US$347 million. *Forbes* now reckons the value of the team, which owner Jim Crane bought for US$465 million in 2011, at US$1.65 billion.

The stakes in Houston were therefore high, higher than they had been in St. Louis, where Luhnow (and Sig) ran the scouting department for the Cardinals. There Sig developed a draftee evaluation system called STOUT (meaning half stats, half scouting). But although both the old-line scouts and new statistics guys had input, they still often failed to understand each other’s rationales or to trust that their side had a fair hearing. That left Luhnow to essentially flip a mental coin with some draft selections, creating a dampening effect on organizational morale. Given the scope of his authority in Houston—now he ran the whole team, not just the scouts—and the raw talent that consistent losing brought in through the draft, Luhnow wanted to do better.

Big Data proved helpful in an unexpected way. The “gut” choosers, the scouts, began to have data about themselves measured—if they ranked players they approved of high on a scale, how did those players turn out over the years? If a large number of high-rankers turned out badly, or if low-ranked prospects excelled at statistically improbable
rates, even the most hidebound scout was willing to consider adding or subtracting evaluation points.

The nerds’ willingness to allow that their algorithms were not perfect was just as important. The analytics, too, bore their creators’ cognitive prejudices, including a bias toward information for its own sake. In 2009, Sig and Luhnow’s Cardinals passed on drafting New Jersey native Mike Trout, not because their data told against the future two-time American League MVP, but precisely because they didn’t know much at all—climate means northerners play fewer games than southerners while growing up.

In Houston, management made it clear to the scouts that it valued their experienced opinion, while the scouts realized their own thoughts could be usefully plotted against results. Under Luhnow, both sides came to feel respected and part of the process when they fed information into the Astros’ decision-making machinery, and that morale-building peace between old and new hands became a major plank in Houston’s rapid climb from the cellar.

Astrobally is a great baseball story, but Reiter is convincing in the claim his book has larger lessons. It’s a tale that powers many a contemporary business book: a flailing organization takes on new leadership, which applies new ways of thinking and new information-based tools to power its promised turnaround, an objective which relies on enthusiastic employee buy-in and crafting a functioning workplace out of new talent and the survivors of the old regime.

The effort can produce spectacular results for employees. Take the example of Dallas Keuchel, whose pinpoint control was hobbled by his too-slow fastball: in his first two years with Houston, he was an on-the-bubble pitcher with a losing record. But by 2014 Keuchel decided to embrace the reams of information Sig’s quants had amassed. He spent hours watching their video and poring over scouting reports, learning how batters swung against junkballers like him, and exactly where to position his fielders. He figured out how to make control work for him, making his fastball speed irrelevant. Keuchel had every opportunity to demonstrate his improvement, which (unlike his fastball) came hard and fast: in 2015, with a record of 15-0 at home and 20-8 overall, he won the American League Cy Young Award.

Finding a shirt cut exactly for your body shape used to require a visit to the tailor, or hours flipping through the racks and then trying to get the key for a change room. Now, all you need is an app. If you download MTailor, the one co-founded by Stanford graduate Miles Penn, you prop your phone against a wall and slowly spin in front of it for 15 seconds as it scans your body size (wearing a tight top, or no top at all, is key). A bespoke shirt is then made to measure in your colour and style preferences and, for an average of $90 including shipping, arrives on your doorstep within two weeks.

The app has a 4.8-out-of-5 approval rating on iTunes and, according to Penn, is 20 per cent more accurate than a professional tailor, based on an in-house experiment the company conducted in which tailors competed against phones. In addition to accuracy, one of the major advantages of the app is that it can “measure more people in one day than an in-person tailor could in a lifetime,” Penn says.

Given the growth in the online fashion market, Penn’s estimate might soon be put to the test. Globally, e-commerce revenues are expected to increase 48 per cent over the next four years, to US$713 billion in 2022. Meanwhile, traditional retailers are dying. In 2017 in the U.S. alone, almost 7,000 stores closed, 13 per cent more than were shuttered during the recession of 2008. Custom fashion was long thought to be immune, but now online start-ups are harnessing technology such as AI, virtual reality and data analysis to create customized...
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LOGIN AND ACCESS YOUR SAVINGS AND OFFERS
garments at a reasonable cost, without ever pulling shoppers out of the house.

 Montreal-based Frank and Oak isn’t yet asking you to use your phone as a scanner, but it’s using technology to redefine the shopping experience. The brand sells trendy casual and office wear, and though it has a handful of retail stores, a significant portion of its business is based on a clothing subscription plan that delivers a box of three or so items to customers each month. At the outset of the subscription, shoppers fill out a questionnaire—including their size, what colours they like—and then receive personalized recommendations every month.

 The items (priced somewhere between the Gap and Banana Republic) are chosen predominantly by an algorithm that studies the customer’s answers, compares them to similar customer profiles, and picks garments that profile type might like. The items are then mailed to shoppers to try on at home. What they like, they pay for; everything else is mailed back at no charge. (If they return everything, they pay a $25 “styling fee.”)

 With every purchase, return, complaint about sizing, click and like, AI builds a more detailed portrait of the customer. “It’s exactly like working with a personal shopper,” says Frank and Oak co-founder and CEO Ethan Song. “The recommendations get stronger as the relationship goes on. Except the AI allows us to offer the customized service on a much larger scale, at a much lower price.”

 San Francisco–based undergarment maker ThirdLove has also begun using AI-guided data analysis to customize its products. By studying the bust measurements of its shoppers, the lingerie company realized many women required specialized sizing, including half-sized cups, they hadn’t been offering. Nor were those sizing options being offered by traditional retailers such as Victoria’s Secret, which currently sells roughly half of women’s underwear in America. So in 2017, ThirdLove launched a beta-program, adding 25 bra sizes to bring its total number of options to 70. “That sold out in eight days,” says co-founder Heidi Zak, a former Google executive. Upon the program’s official launch, “there were 1.3 million women on ThirdLove’s waitlist for these new sizes.”

 The granular customer profiles AI provides have also helped companies like ThirdLove and Frank and Oak improve their back-end efficiency. “With data, we see what’s trending in terms of purchases, likes and other feedback, so we know exactly how much of what products we should order,” says Song. Likewise, “ThirdLove is able to offer more sizes than most brands because we are online-operation (sales at Victoria’s Secret, meanwhile, have been declining since 2016). And at Frank and Oak, between 2012, when it launched, and 2015, revenues exploded by 18,000 per cent.

 Portuguese footwear start-up Undandy takes customization one step further. It has built an online 3-D modelling tool that allows men (just men, for now) to design their own custom brogues, boots and sneakers. The interface offers a staggering 156 billion combinations of material and aesthetic choices. (The shoes themselves, notably, are handmade by European cobblers, the same way they’ve been made for generations.) A custom pair of brogues costs about $245, and anything that doesn’t fit is altered free of charge until it’s right. “The next plan,” says co-founder Rafic Daud, “is that we go into 3-D printing, so we’ll be able to build a custom cast around a customer’s foot, to create the best fit.” Now, if someone could write an algorithm to solve the eternal problem: how to match your shoes with your belt. •

“THE APP CAN MEASURE MORE PEOPLE IN ONE DAY THAN AN IN-PERSON TAILOR COULD IN A LIFETIME,” SAYS MTAILOR CO-FOUNDER MILES PENN

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LAST OUT

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54  PIVOT  SEPTEMBER/OCTOBER 2018
portion of its business is based on a handful of retail stores, a significant beta-program, adding 25 bra sizes so in 2017, ThirdLove launched a portion of women’s underwear in America. This in turn has fuelled expansion of what products we should feedback, so we know exactly how in terms of purchases, likes and other improvement our back-end efficiency. ThirdLove and Frank and Oak providers have also helped companies like these new sizes.”

With every purchase, return, information about sizing, click and like, they pay a $25 “styling fee.” Other than investing for; everything else is mailed back at no charge. (If they return everything, they are then mailed to shoppers to try on the profile type might like. The items chosen are chosen predominantly by an algorithm that studies the customer’s answers, compares them to similar customer profiles, and picks garments out a questionnaire—including their size, what colours they like—and then consists of the subscription, shoppers fill out a questionnaire—including their office wear, and though it has a as a scanner, but it’s using technology isn’t yet asking you to use your phone ever pulling shoppers out of the house. To redefine the shopping experience. As a reasonable cost, without garments at a reasonable cost, without Canadians Income Taxation, 6th Edition

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I have an expert knowledge of tax and small business, but if I’m explaining tax changes on split income to another accountant, it’s going to be a different conversation than the one I’d have with a client. It’s the same in soccer. Players have a good working knowledge, but not an expert knowledge. If they ask me something, I have to do my best to explain it without being overly technical.

I spent 45 days at the World Cup, but I didn’t abandon my accounting post entirely. Most of my clients have gotten used to me doing this, and if it can wait, they won’t bother me. If I had two hours to kill, it wasn’t enough time to go to downtown Moscow or take a tour, but it was the perfect time to get some work out of the way.

In Major League Soccer, it’s easier to see things develop. At the World Cup, the game moves faster—everything happens at breakneck speed. There are fewer bad touches of the ball, so the ball stays in play longer. And it’s a knockout tournament, so there’s a greater sense of urgency—and a lot more pressure. The whole world is watching.

I wouldn’t want to be a full-time referee. The professional accountant in me knows the lifespan of a CPA is a lot longer than that of a referee. But I don’t have to choose—I can do both.

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*Optional workshops not included in base conference registration. Please see website for further details.*

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