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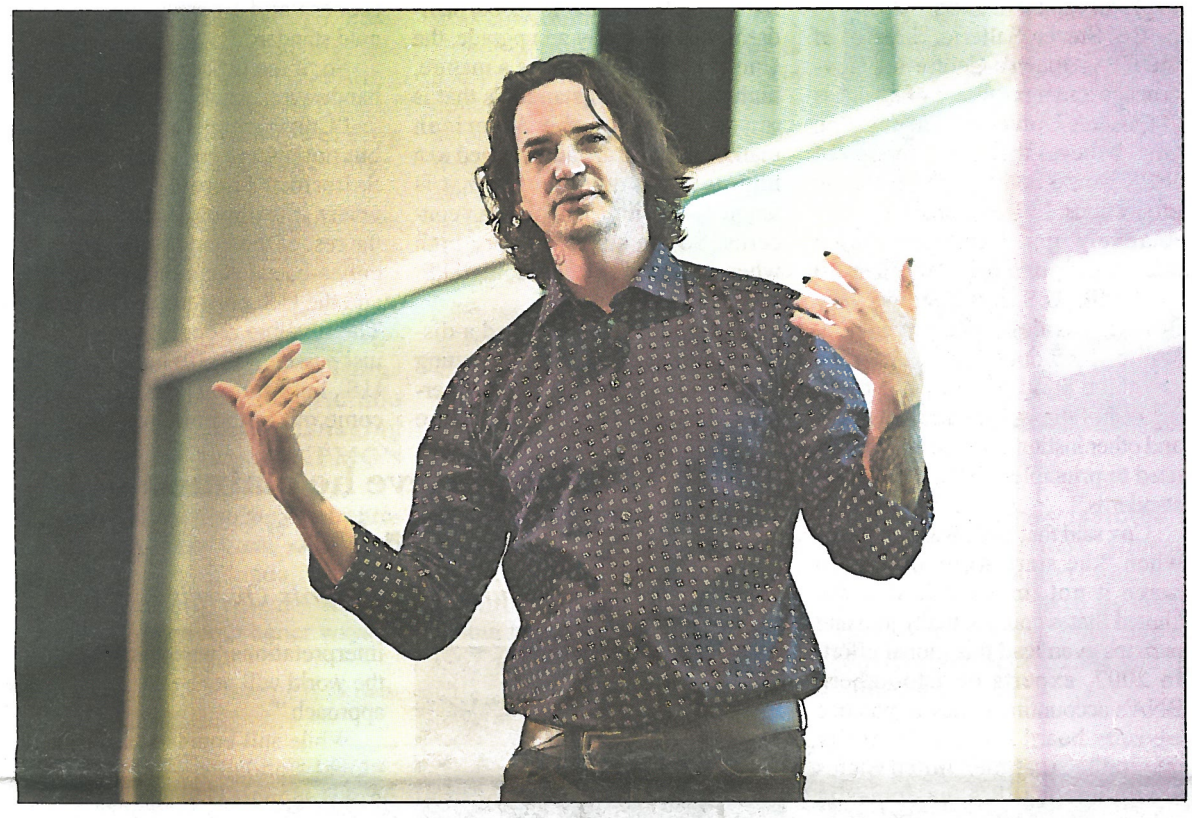

Photo by Della Rollins

Douglas Merrill, CEO and founder of ZestFinance.com and former CIO at Google, speaks at the CMA Shift conference in Mississauga, Ont.

Old metrics threaten to derail innovations

By IAN HARVEY

All businesses risk becoming irrelevant over time if they are so obsessed with the here and now they fail to recognize what's on the horizon, says former Google CIO Douglas Merrill.

In his keynote address at CMA Shift 2014 in Toronto in June, Merrill, co-founder of Zestfinance.com, said too many companies kill off innovation which could be a successful future business venture because they are too focused on traditional metrics and processes.

"In 1990 there were 100 companies on the Fortune 100," said Merrill, author of *Getting Organized in the Google Era: How to Get Stuff out of Your Head, Find It When You Need It, and Get It Done Right*. "By 2010, only two or three were left (AT&T was under new ownership but was still in effect on the list)."

Among those who had been vaporized: Eastman Kodak, once one of the most innovative companies in the world with thousands of patents to its credit.

"There's a great story about an engineer at Eastman Kodak who went to his boss one day and said 'hey, I've invented this great thing. If I shine a light at a piece of silicon it goes from a 0 to a 1,'" Merrill said. "His boss said: 'you idiot. We make film here. What good is that?'"

Of course, the invention was the beginning of the charge-coupled device (CCD) which became the foundation of digital photography in cameras, video cameras and cellphones, and changed the world, ultimately

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CGA Ontario vote clears way for final merger

By JEFF BUCKSTEIN

Members of the Certified General Accountants of Ontario have given their association an overwhelming mandate to join the Chartered Professional Accountants of Ontario, clearing the final hurdle in Ontario's quest for a fully unified accounting profession.

"The Ontario news is exciting," said Kevin Dancey, president and chief executive officer of CPA Canada in Toronto. "Selling a long-term vision is never easy but it is becoming a reality."

The support was nearly unanimous, with 97 per cent of CGA Ontario's voting members agreeing to join their chartered accountant and certified management accountant colleagues, far exceeding the two-thirds threshold required under CGA Ontario bylaws. Just over half of the Association's members — 54 per cent — participated in the vote.

"I was so pleased to see the level of engagement with the membership," said Doug Brooks, chief executive officer of CGA Ontario in Toronto. "I think they were well informed. In the forums they were asking really good questions, and obviously felt that we had the right circumstances to move forward."

Members of CPA Ontario participated in a non-binding vote, with 64 per cent supporting the proposed unification agreement, and another 10 per cent agreeing to let council decide. Provincial CAs and CMAs had joined forces in the new organization earlier in the year. Members from all three legacy bodies can now use the CPA designation in addition to their original designation.

"We have been discussing unification with our members for the past three years so it is heartening that approximately three out of four of our voting members put their trust in unification," said Rod Barr, president and chief executive

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Cox drops a bombshell in IFRS speech

By GUNDI JEFFREY

"I've come to bury IFRS," Christopher Cox said in June, kicking off a keynote address to the 33rd SEC and Financial Reporting Institute — and a media firestorm.

The remark immediately went viral in the accounting world. After all, Cox, the former Securities and Exchange Commission chairman, was crucial in setting up a "road map" for converging international financial reporting standards with U.S. GAAP.

"But that was several years ago," said Cox, now a partner at law firm Bingham McCutchen and president of Bingham Consulting. "The fact is, far too much time has gone by with no meaningful progress. I think we have to fairly conclude that the moment has passed. Full-scale adoption of IFRS in the United States might once have been possible, but it is no longer. This is not a prognosis. It's just a statement of fact."

Noting that the "prospect of a global standard is truly dazzling," he said he doesn't believe he'll see it in his lifetime.

"An international language of disclosure and transparency would significantly improve investor confidence in global capital markets," said Cox. But, he added, "today there is a real risk that the continuing increase in global trading and investing has gotten far ahead of the accounting standards that are necessary to make it all work. That is why, when I was SEC chairman, I worked to ensure that the United States was doing everything necessary to make financial information from companies in different countries both comparable and reliable."

Cox

I think we have to fairly conclude that the moment has passed. Full-scale adoption of IFRS in the United States might once have been possible, but it is no longer. This is not a prognosis. It's just a statement of fact."

Christopher Cox, former SEC chair

"I can't believe he claimed this is a fact," says Paul Cherry, former chair of the IFRS Advisory Council and now a member of Canada's Accounting Standards Oversight Board. "And one should never say never in situations like this. Yes, the tide for enthusiasm has waned in the U.S., but if you look at the rest of the Americas and Canada, we're all in the IFRS camp."

Canada's Accounting Standards Board chair Linda Mezon says "the AcSB remains convinced that the global adoption of converged high-quality standards is the best path to follow for transparent financial reporting and effective access to capital markets. Clearly, IFRS is one way forward, with 122 countries around the world using IFRS as their 'language for financial reporting.' One language for financial reporting puts companies in the best position in global capital markets."

But Steven Salterio, director of the CPA-Queen's Centre for Governance and a professor of business at Queen's University in Kingston, Ont., believes that U.S. adoption of IFRS would be "a mistake of epic proportions. IFRS are an example of relatively more principled-based accounting and, over the last 40 years, the U.S. has become very invested in rules-based accounting. While IFRS does very well in the rest of the world, it's in the context of the rest of the world having auditors and other institutions that are already used to principles-based accounting standards."

Cox said that there was a moment when "the stars were aligned to make it not impossible that the United States could actually join and perhaps even lead this global effort. In 2007, experts on Bloomberg BNA's accounting policy & practice advisory board saw it as 'virtually inevitable' that the United States would adopt IFRS for domestic public companies."

Following the SEC's November 2007 decision to allow foreign private issuers to use IFRS without reconciliation to U.S. GAAP, most people believed that at least permission for U.S. filers to use IFRS, if not a mandate, was a foregone conclusion.

"Well, almost seven years have passed since then," said Cox. "Rather obviously, the high tide of American enthusiasm for IFRS has receded."

The problem, he said, is that public companies and investors clearly don't want them. "That is why today there is not even a plan for expanding the voluntary use of IFRS in the way that, for example, Japan has done."

Cox noted that, as America moved closer to the reality of being part of a global system, and the actual details of what it would mean came more clearly into focus, the experience proved troubling.

"What American stakeholders want from their accounting standard setter is relatively straightforward, and they began to see they couldn't get this from the IASB.

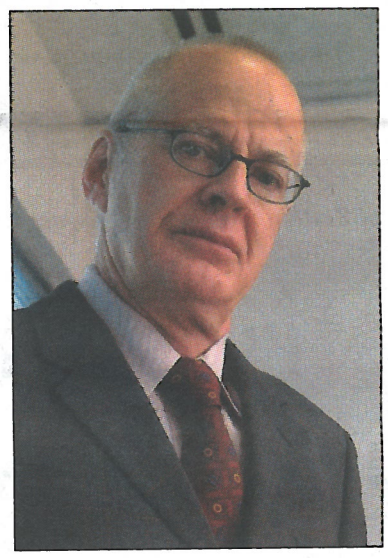
"It really boils down to five things," he said: standards developed in their interests, a transparent process, an independent and accountable standard-setter, and all stakeholders participating in the standard-setting process. U.S. stakeholders, he said, soon began to realize that each of these needs "was being degraded by virtue of making the system global."

Furthermore, "unlike many of the countries that today use IFRS, for whom the switch to global standards was definitely an upgrade, the United States already has a mature, high-quality set of standards that is tailor-made for the American market. And we are accustomed to a high level of due process that is uniquely sensitive to American concerns. So the bar is set very high when it comes to convincing U.S. stakeholders to switch."

Cherry said Cox painted a distorted picture of the standard-setting environment today. "He says America's participation is lost to the global initiative for a single set of high-quality standards, but he doesn't mention that the FASB and IASB have ongoing joint meetings, doesn't mention that the FASB is part of the new accounting standards advisory forum of national standard setters, doesn't mention that the SEC is still a very influential player in the International Organization of Securities Commissions, the IFRS monitoring board and the IFRS advisory council, that there are U.S. trustees serving the IFRS Foundation or the fact that the Financial Accounting Foundation provided a very large amount of funding to that foundation."

"I can't believe he claimed this is a fact."

Paul Cherry, Accounting Standards Oversight Board



Cherry

Cherry said he finds Cox's implication that American stakeholders have no meaningful access to IASB deliberations "offensive," given that "the IASB has bent backwards to reach out to U.S. stakeholders — some would say too much effort has been spent on the U.S."

As for transparency and due process, says Cherry, "most people would concede that the IASB's due process and transparency are the gold standard."

So, if the U.S. doesn't get on the bandwagon, what's next?

"Convergence where possible but not always convergence," says Salterio. "There will be places where it is impossible to reconcile the rest of the world's belief in principles-based accounting standards and the U.S. need for detailed rules. The revenue recognition standard just passed was also adopted by the U.S., but I fully expect the FASB to come out with numerous detailed interpretations, whereas the rest of the world will not be taking such an approach."

While still hoping for one set of global standards, Mezon and the AcSB support U.S. securities laws at least giving financial statement filers the choice to use IFRS or U.S. GAAP for their SEC filings because of the benefits that offers.

"The U.S. is a great alternative source of capital for Canadian companies," she said. "The U.S. is simply a bigger capital market than Canada, so there's more access to capital with a larger pool of investors."

In a statement released right after Cox's speech, IASB chair Hans Hoogervorst noted his surprise that "former chairman Cox has shifted his focus from a single set of high-quality global standards to maintaining a national standard setter that is 'supple' when responding to domestic priorities and concerns. We continue to believe that investors are best served by high quality-globally comparable information, and that includes U.S. investors. As former chairman Cox noted, U.S. investors have trillions of dollars invested in entities reporting under IFRS. We never forget the importance of these stakeholders and are expanding our efforts to reach out and consult with them on all of our projects."

In a statement to *The Bottom Line*, Cox said he remains a supporter of the IFRS mission, "and am disappointed things have come to this pass — but I think it's a fair appraisal. I hold out hope for a change for the better, including initially the voluntary use of IFRS by U.S. issuers in limited circumstances where industry comparability for the benefit of investors would be enhanced."

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Board ready to go it alone on some standards

By GUNDI JEFFREY

The International Accounting Standards Board appears to be going its own way on at least one of its major convergence projects with the U.S. Financial Accounting Standards Board — financial instruments — after several joint attempts were soundly rebuffed by U.S. users, preparers and investors, according to a recent speech by Ian Mackintosh.

The vice-chair of the IASB also made it clear in a June 23 address to the IFRS Foundation Conference in London that unconverged leasing and insurance standards are sure to follow, and an IASB-alone exposure draft on the conceptual framework is scheduled for later this year. Mackintosh also expressed his frustration that the FASB seems to be advocating returning to previously failed models of international co-operation in the setting of accounting standards.

At least one observer echoed Mackintosh's outlook. "Given the size and distinctiveness of the U.S. economy, as well as the fact that U.S. financial reporting standard-setting is complicated, with the FASB and Securities and Exchange Commission both playing roles, the full adoption of IFRS in the United States is unlikely in the foreseeable future," said Thomas Scott of the University of Waterloo, Ont. "In this regard, the U.S. is an important outlier, but not an outlier whose example will be followed by others. Accordingly, most countries will continue to support the IASB, and a policy of collaboration between the IASB and FASB — with as much harmonization as manageable — is likely to persist indefinitely."

Given the size and distinctiveness of the U.S. economy, as well as the fact that U.S. financial reporting standard-setting is complicated, with the FASB and SEC both playing roles, the full adoption of IFRS in the United States is unlikely in the foreseeable future.

Thomas Scott, University of Waterloo

Mackintosh said he expected IFRS 9 *Financial Instruments* to be released in July, representing "the final piece in our response to the financial crisis." The standard differs in key respects from U.S. GAAP, and Mackintosh lamented that, "despite our best efforts, we were unable to reach agreement with the FASB on impairment. We consulted the Financial Stability Board (FSB) and others about whether to go back to the drawing board with the FASB in a final attempt to achieve convergence. However, it was decided that doing so would add several years to the project and the advice from the FSB and others was that it was more important to get the standard issued."

SCOTT

According to Mackintosh, IFRS 9 introduces a new, expected-loss impairment model that limits the ability of banks and others to defer the timely recognition of loan losses and provides a logical, single-classification approach driven by cash-flow characteristics and how cash flow is managed. It solves the so-called 'own credit' issue, whereby banks and others are able to book large gains through their P&Ls as a result of the value of their own debt falling due to a decrease in credit worthiness. It allows companies, both within and outside of the financial sector, to better reflect their risk management activities in their financial statements. It also significantly reduces the complexity associated with accounting for financial instruments.

The leasing and insurance convergence projects also appear to be heading in different directions, although Mackintosh hoped the leasing effort might still be pulled out of the fire. He cited a 2005 SEC report that predicted "strong resistance" in the U.S. to significant changes to the leasing guidance, "both from preparers who have become accustomed to designing leases that achieve various reporting goals, and from other parties that assist those preparers." After that warning, Mackintosh said, "we were not surprised by the stiff opposition we have faced."

Mackintosh noted that IASB research clearly shows that the leasing standard will significantly affect fewer than 10 per cent of listed companies. "In effect, we are institutionalizing aspects of best practice." And, in the economic sectors mostly affected by the standard, "it brings much needed insight into the true leverage of companies."

Acknowledging that the proposed changes "will not be without cost to preparers," said Mackintosh, "we have already made some pragmatic decisions to help keep costs to a minimum, and we are motivated to look for improvements that will make the standard less costly to implement and apply."

Meanwhile, high on the IASB agenda is the conceptual framework project aimed at "providing the IASB with a consistent point of reference in the development of standards."

The project will review the different measurement bases IFRS use and the information they provide. It will also provide a clear conceptual separation between what goes into profit and loss versus what ends up in other comprehensive income. It also will revisit the 2010 decision to remove the word "prudence" from the conceptual framework in favour of "neutrality."

MACKINTOSH

"We still believe that neutrality is an essential concept in financial reporting," Mackintosh said. "However, some commentators have interpreted the removal of the word 'prudence' as the IASB giving a green light for 'imprudent' reporting . . . It is unhelpful for this perception to continue, so in May this year the IASB tentatively decided to reintroduce the word 'prudence' into our conceptual framework while also making it clear that being prudent does not mean introducing bias."

The second major project on the IASB's agenda is a comprehensive review of financial disclosures. "It is a common complaint that the size of annual reports is ballooning, while the amount of useful information … has not necessarily been increasing at the same rate," Mackintosh said.

The IASB has created a 10-point plan to drive changes in disclosure behaviour, "including our own." The effort will begin with targeted amendments to IAS 1, *Presentation of Financial Statements*, a project to consider proposals to have IAS 7, *Statement of Cash Flows*, require the disclosure of changes in liabilities classified in financing activities and look at how materiality works with accounting policy disclosures. A longer-term project will deal with the principles of disclosure.

Although Mackintosh noted that the convergence projects are coming to an end and the IASB is moving from a largely bilateral working relationship with the FASB to a more multilateral approach with national standard-setters around the world, he was disappointed by recent statements from FASB members signalling they want to place more priority on improving U.S. GAAP than converging with IFRS.

He cited FASB vice-chair Jim Kroeker's June 5 speech saying that "we recognize that one size may not always fit all. By that, I mean that we understand that differences in standards will persist because of the legal, regulatory and cultural differences among different jurisdictions." And the 2013 FAF Annual Report states that the FASB's mission is first to improve GAAP and then converge "if possible."

"If divergences are more or less accepted as inevitable," Mackintosh said, "it can be no surprise they become the norm rather than the exception. If all IASB constituents were to insist on the primacy of national preferences, obviously the goal of a single set of global standards would come to naught. That was the old IASC (International Accounting Standards Committee) approach. We tried it for 25 years and it failed."

Despite the lack of agreement on some standards, says Scott, the IASB is "making progress on a variety of challenging accounting issues. Most countries in the world have adopted, or are in the process of finalizing the adoption, of full IFRS. These countries appear to be committed to working with the IASB. It is highly unlikely that we will see a return to a variety of distinct national financial reporting systems for publicly accountable enterprises. The countries that have adopted IFRS for publicly accountable enterprises will continue to support the IASB."

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