



Another Canadian myth

Let's get this straight: there have been no big improvements in investor protections post Enron

O get e-mails from all types of people. Some are truly deranged, and others are hopelessly conflicted and greedy. When they are both, they tend to be equity underwriters. But most are just regular investors looking to better understand Canada's investment environment. While the topics of the e-mails cover everything imaginable, one question in particular keeps getting asked: Hasn't Canada improved its financial reporting since Enron? Unfortunately, this is one of those figments that just persist, like those alligators that supposedly live in New York City's sewers.

In reality, very little improvement has been made in investor protections in Canada during the past five years. The myth of greater vigilance lingers for two main reasons. For one, it's not a cautionary tale like most urban legends. People actually want to believe that there are significant financial safeguards in place, and that improvements are being made. This makes selling the idea very palatable, as investors' psychological predisposition is easily exploited.

The second contributing factor is a very active PR campaign to perpetuate the myth of improving financial safeguards in Canada. In previous columns, I have explained how auditors are more interested in minimizing their legal responsibilities than they are improving financial reporting and auditing rules.

So, it shouldn't come as a surprise that when the Senate Committee on Banking, Trade and Commerce was holding hearings three years ago on how to increase financial safeguards in Canada, the lobbyists for the status quo were operating in full force. At least one of the major auditing firms hired an MP-turned-lobbyist to secure face time with the senators and their "influencers" in order to plea for no improvements to be made. The goal of the wide-ranging effort, as touted on the lobbying firm's website, was to "ensure that regulatory initiatives would not be inconsistent with [the accounting firm's] business model." That's lobbyist-speak for "we made sure that the archaic and investor-unfriendly business oligopoly remained in place."

While the proposed Federal Accountability Act might crack down on the lobbyist problem, the underlying inequity remains. Investors are forced by federal and provincial legislation to pay



Better financial safeguards are a fiction, like Ogotogo or sasquatch

Canadian Association of Income Funds. The CAIF is the country's largest income trust trade association, which is funded by the companies themselves. Does anyone really expect any useful action here?

The problem again comes back to the self-regulation of auditing firms in Canada. The Accounting Standards Board won't act on income trusts because it lacks the willingness and resources to commit to the job. This is by design. The board is deliberately hobbled both financially and ideologically by the parties that ultimately control it, the large auditing firms of Canada.

So, in answer to the queries of many, I'm sorry to inform you that any talk of so-called investor protection improvements in this country is simply another Canadian myth, worthy of mention alongside Ogotogo or sasquatch.



Al Rosen (al.rosen@rosen-associates.com) is a forensic accountant and principal of Rosen & Associates in Toronto.