

## COMMENT

# Unaccountable accounting standards

## Investors need protection of a national regulator

AL ROSEN

The United States managed to institute a national securities commission in 1934, just five years after the stock market crash of 1929. In Canada, of course, we're still waiting. The costs of not having a national securities commission are clear: higher costs, lost economic output and abysmal investor protection. Nevertheless, we continue to go it alone on the world stage, apparently believing our way is the best. The irony is simply too much to take.

Over the past several months, this column has looked at the pitfalls of Canada adopting International Financial Reporting Standards (IFRS). After running an initial shock-and-awe campaign unabashedly promoting the new standards, the auditors of Canada have gone noticeably silent of late.

It has become clear that the auditors, and the accounting standard-setters they financially control, have a lucrative stake in the game of advancing IFRS. And despite clear examples of the drawbacks, loopholes and deficiencies of IFRS, Canada continues on its premature advance toward adopting the standards.

In light of the highly dubious net benefits of IFRS for investors and companies alike, the new fallback position for Canada's auditors has become: "We can't afford to go it alone on the world stage when it comes to accounting rules." And in case you missed it, therein lays the irony.

Opposite sides of same

argument are being invoked in order to meet the short-sighted wants of our various self-regulatory organizations. Apparently, we're smarter than the rest of the world when our securities commissions are looking to protect their provincial bailiwicks. But we can't afford to go it alone on financial reporting issues (a choice that just happens to deliver a fee windfall to our self-regulated auditors).

The two issues are much more intertwined than that, however. The conflicting arguments from our auditors and regulators actually combine to deliver a powerful one-two punch against investors. As explained in previous columns, IFRS is

## Auditors have a lucrative stake in the game of advancing IFRS

deficient compared with current Canadian standards on numerous fronts. IFRS contains loopholes not present in Canadian standards. IFRS is silent on specific prohibitions that have been built into Canadian accounting over the years. IFRS does not address specific industries critical to our economy. And IFRS opens up our accounting standards to political influence from abroad.

All of that combined represents just the first blow to investors. The devastating combo is rounded out by the fact that IFRS does not consider Canada's globally unique approach to securities regulation. The crux of IFRS is that it allows for new situations by adopting a very open and malleable framework. That

framework can then be used by executives to mould the rules to suit their company. Of course, someone must still play schoolyard cop, lest all the kids go off in their own directions. In countries that already use IFRS, that policing role is fulfilled by a strong national securities regulator. Oops! We don't have one.

Our disparate provincial regulators currently do a terrible job of clamping down on accounting and financial reporting chicanery. In fact, in another sad twist, they frequently defer back to the same auditors who clearly have shown no interest in protecting investors.

Therefore, simply amalgamating the current talent of the provincial commissions will do little to help securities enforcement in Canada. However, a completely new national body with an increased budget and more respect in the market would begin to attract career-minded regulators. A focus on investor protection never before known in Canada could finally have a chance of taking hold. That way, future decisions, such as adopting IFRS, would finally have to be vetted by a body that actually cares about protecting investors.

This is not to absolve the auditors by any means. They know full well the risks to which they have exposed investors by adopting IFRS when no regulatory safety net exists to back up the weaker standards.

The United States has a 75-year head start on Canada when it comes to having a national securities regulator, so it would seem wise for us to borrow a few pages from their book, such as giving ultimate say over accounting rules to a new securities commission.

It would just entail giving the auditors a taste of their own medicine, by letting them know we can no longer afford to go it alone on the world stage when it comes to letting our auditors financially control and influence our choice of accounting standards.

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■ Al Rosen is a forensic accountant at Accountability Research Corp., an independent firm serving Canada's largest institutional investors. [accountabilityresearch.com](http://accountabilityresearch.com)