



Certified General
Accountants
Comptables généraux
accrédités

Certified General
Accountants Association
of Canada

Ottawa Office
1201 – 350 Sparks Street
Ottawa, ON
Canada K1R 7S8

Tel: 613 789-7771
Fax: 613 789-7772
www.cga-online.org/canada

January 11, 2008

Mr. L R. Wilson
Chair, Competition Policy Review Panel
Industry Canada
235 Queen Street
Ottawa, ON K1A 0H5

By email: competitionreview@ic.gc.ca

Dear Sir:

Please find attached CGA-Canada's submission to the Competition Policy Review Panel.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Carole Presseault". The signature is fluid and cursive, written over the printed name.

Carole Presseault
Vice President, Government and Regulatory Affairs

Attach.

CGA-Canada's Submission to the Competition Policy Review Panel

Sharpening Canada's Competitive Edge

Introduction

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to provide its views on the themes explored by the Competition Policy Review Panel. We would like to congratulate you on your appointment as Chair. Your work is to be commended as the task is significant and the long-term effect important.

The Panel will have received an initial submission by CGA-Canada that elaborates on the findings of the report *Fading Productivity*. The following compliments the initial submission.

Canada's professions are a testimony to Canada's past successes. The professionalization of the work force has facilitated Canada's presence in the world and will continue to play a key role in ensuring its continued prosperity. CGA-Canada has been part of this. As it marks the 100th anniversary of its founding this year, CGA-Canada has a lot to celebrate. In the course of our first century, CGA-Canada grew from a small accounting club in 1913 to become the fastest-growing accounting designation in Canada with some 68,000 members and students. CGA-Canada has affiliates in every Canadian province and territory as well as in Bermuda, the Caribbean, and Hong Kong and has representation offices in China.

CGA-Canada prepares members for a commitment to integrity and trust and facilitates lifelong learning to ensure Certified General Accountants remain firmly at the forefront of the profession. Members contribute to the creation of economic growth and well-being in their roles as strategic and financial leaders to all sectors of the economy. In this respect, the issues raised by the scope of your work are relevant to our members and the clients they serve. We share the common goal of ensuring that we have the appropriate framework to ensure the long-term international competitiveness of Canada and Canadians.

CGA-Canada's Six-Point Plan

Late last fall, CGA-Canada outlined a six point plan to prosperity and productivity. The plan mainly focuses on tax and fiscal policy which we believe taken together will provide a solid base on which to continue building a prosperous Canada positioned to compete globally. The foundation of the plan includes fiscal prudence, a call for a comprehensive review of Canada's taxation policy, improved interprovincial trade, efficient and effective regulation and an agenda to ensure the promotion of Canada's knowledge advantage. All elements are relevant to the work of this Panel; however, for the purpose of this submission, we wish to focus on two main elements: tax competitiveness as well as efficient and effective regulation.

Tax competitiveness

The Panel has undoubtedly heard from a large number of stakeholders on the importance of a competitive tax agenda. Numerous studies support the view that worldwide, Canada finds itself at the higher end of business tax rates. Personal and corporate taxes should be measured against international benchmarks to ensure that Canada becomes a leader in providing an environment that fosters investment and growth – rather than penalizing it. This should be a continuous exercise to ensure that we do not allow gains to be overshadowed. The tax relief plan announced by the government last fall is a welcome departure to the ad hoc targeted tax cuts and special provisions that we believe have very little impact on the total competitiveness of the tax system. In fact, it is our contention that the ad hoc nature of these measures unduly complicates taxation for consumers and for business.

As professional accountants, we best know that Canada's taxation system is unnecessarily cluttered, complex and inconsistent. This Panel might wish to take on the challenge of investigating how the tax system could be made simpler, fairer, more efficient, and as a result more competitive. As the first order of business, for example, governments should contemplate how to accelerate the harmonization of the GST and to continuously work toward keeping tax bases broad and neutral.

Efficient and effective regulation

The Panel asks, rightly so, *how can Canada best compete on a broad basis for investment?* There are many important factors identified by the Panel. CGA-Canada wishes to add its voice to the requirement for a regulatory environment that is efficient and effective. In this respect, we will comment on the following:

- Internal trade
- Securities regulation
- International Financial Reporting Standards
- The regulation of public accounting

Internal Trade

Despite the globalization of markets, Canada still has a long way to go to establish free trade among our provinces. It is often harder to move goods and services across provincial boundaries than across our international borders. This hurts our competitive position but, more importantly, it is just not the way a country should work.

Speech from the Throne, October 16, 2007

Canada's record on internal trade is dismal. Canada lacks the instruments to facilitate the exchange of goods and services across provincial borders. Despite work that has been ongoing for more than a decade little progress has been achieved. The *Agreement on Internal Trade* signed more than 12 years

ago has not worked as intended.¹ It is limited, complex and unenforceable. Barriers to trade damage Canada's productivity and competitiveness; they raise costs, reduce innovative capacity and impose costs – hardly an attractive proposition for foreign direct investment.

CGA-Canada believes that the time has come for the federal government to step up to the plate and exercise its power to regulate trade and commerce under the Constitution. We propose that in keeping with its responsibility to establish an economic union without barriers to trade and to regulate interprovincial trade, the federal government should:

- Set in legislation a set of open trade principles based on the premise of a free and open market; and
- Establish a standing internal trade tribunal.

CGA-Canada has done considerable policy work in this area. We remain available to the Panel and their staff, should it wish to explore further these themes.

Securities regulation

Undoubtedly, the complexity of Canada's securities system has been the subject of much thought and discussion. Recent public statements by the federal Finance Minister have added impetus for reform. The consensus among the business community is well established – our country's ability to attract capital depends on regulatory efficiency including the manner in which capital is raised in Canada's markets.

In fact, research conducted by CGA-Canada in late 2006 among publicly listed small and medium-sized entities (SMEs) found that of all regulation in Canada, the fragmented nature of securities regulation is of the greatest concern to them. Given that the SME sector is the engine of economic growth and job creation, this is a significant finding and one that should be addressed.

We are encouraged by the so-called "passport" initiative endorsed by a majority of provinces and territories as a manner in which the regulatory burden might be alleviated.

Reform, in our view, should consider the broadest mandate for a securities regulator. Should a new model emerge it should be driven from the following principles: regulatory efficiency, professional inclusion, transparency, accountability and sensitivity to regional concerns.

High quality financial reporting and disclosure play an important role in ensuring the integrity of capital markets. A credible standard setting function and appropriate oversight of the auditing function are critical to ensuring a fair, efficient and transparent market with high levels of investor confidence.

¹ See CGA-Canada's discussion papers on the topic at <http://www.cga-canada.org/en-ca/ResearchAndAdvocacy/AreasofInterest/InternalTrade/Pages/InternalTrade.aspx>

Canada's capital markets and its instruments must be as robust as anywhere else in order to attract investors.

A new model for securities regulation should include both functions – financial reporting standard setting and auditor oversight.²

Currently, Canada is at odds with the rest of the world in that both functions lack independence from the profession it oversees. This in turn may create a perception that the organizations created to fulfill those roles are unable to carry out its functions with as much rigour as necessary to protect the public interest.³

In other jurisdictions, the setting of financial reporting standards as well as oversight is subject to direct governmental involvement. In the United States, the federal Securities and Exchange Commission oversees the Public Company Accounting Oversight Board, an organization charged to supervise the auditing of public companies. Australia has established a government oversight model for both accounting and auditing standard setting. In the United Kingdom, the Financial Reporting Council is an independent government body that has been established to oversee accounting and auditing standard setting as well as auditors of public companies.

CGA-Canada believes firmly that because the Canadian Public Accountability Board – the private organization charged with the important task for overseeing auditors of public companies – is not at arms-length from auditors and does not have a legislative basis, may be challenged in its ability to carry out its mandate in the public interest.

Addressing these issues could assist in making Canada a destination of choice for investment.

International Financial Reporting Standards

We previously argued that to be internationally competitive, Canada should reform the manner in which accounting and auditing standards are set as it is antiquated and does not measure up against best practices in comparable jurisdictions. The growing sense urgency resides in the fact that many countries have been migrating to a common set of accounting standards, namely the International Financial Reporting Standards (IFRS) as set by the International Accounting Standards Board. Canada is set to adopt IFRS for publicly accountable enterprises by 2011. As enterprises prepare for this important transition, the question remains on what basis should other enterprises (non-publicly accountable enterprises) report after the transition date for publicly accountable enterprises. There is no consensus on the direction.

Stakeholders are deliberating a number of options.

² See Poonam Puri, "The Regulation of Public Accounting and Accounting and Auditing Standard Setting Under a Common Securities Regulator In Canada." (CGA-Canada, February 2007)

³ See Adam C. Pritchard and Poonam Puri, 'The Regulation of Public Auditing in Canada and in the United States: Self-regulation or Government Relation' (Fraser Institute, February 2006)

CGA-Canada is of the view that Canada should also adopt IFRS for non-publicly accountable enterprises and is supportive of the IFRS SME initiative of the International Accounting Standards Board.

Because of the globalization of the marketplace and the attendant desire for some uniformity and comparability, the application of IFRS for SMEs can help decision making – whether in mergers and acquisition activities within a jurisdiction or on international basis; in seeking to lower the cost of compliance in multi-jurisdictional supply chains or; in bolstering comparability of financial statements by investors residing in different jurisdictions. IFRS for SMEs can be of significant value.

The *Canada Business Corporations Act* delegates the setting of accounting standards to the Canadian Institute of Chartered Accountants (CICA). Because of the importance of financial reporting on business decisions, CGA-Canada is calling on the Panel to press the case for adoption of IFRS for SMEs in Canada as means in which to increase Canada's competitiveness.

4. The regulation of public accounting

Recently, the Competition Bureau released a significant report on the professions. Titled *Self-Regulated Professions – Balancing Competition and Regulation*, the study provides valuable information and advice on the regulation of the professions. Of obvious interest to CGA-Canada, is Chapter 3 – Accountants. Specifically, the Commissioner recommends that provincial regulators give all members of an accounting designation who have the appropriate level of competence the right to practice the full extent of public accounting. Given the role professional accountants play in the preparation of financial information and the subsequent decisions that are made based on financial information, this recommendation is significant and relevant to the issues before the Panel.

Since the regulation of professionals is, under the Canadian constitution, a jurisdiction reserved to provincial governments, Canada has inherited a patchwork system of regulation of public accounting that, until recently, has impeded the ability of qualified professional accountants in some jurisdictions to provide the full scope of public accounting. Successive panels, convened under the *Agreement on Internal Trade*, have found that those measures have impeded mobility and impaired trade. We are pleased to report that those barriers are in the process of being removed by provincial governments.

We are concerned however with recent public reports advocating for reinstatement of those barriers under the guise of a national public accounting standard. Such a call is simply window dressing to prevent qualified professional accountants from providing the full scope of services required by Canadian businesses. Such an approach is anti-competitive, contrary to the principles of effective regulation and would have an effect of restricting market entry and thus increasing cost – hardly an environment conducive to investing.

Concluding remarks

We wish to thank the Panel for the opportunity to provide our views. We look forward to participating in further discussions and you wish you well in your deliberations.