

Becoming a Destination for Talent, Capital and Innovation – Questions 1, 2 and 3

1. *How can Canada better promote inward foreign direct investment (FDI)? What policy change could contribute to this objective?*

As noted to our submission regarding *Canada in a Global Context – Question 2*, nationally consistent standards for practicing public accounting that match those of our major sources of FDI are vital to securing and receiving much needed investment.

Investors on Wall Street have the certainty that the Certified Public Accountants (CPAs) who sign off on American financial statements are among the most highly educated and tightly disciplined in the world. That is also true of Chartered Accountants in the U.K. and the leading accounting designations working in other major nations.

The Canadian Chartered Accountant designation is the only one currently recognized as equivalent to the highest local designation in the U.S., U.K., France, Japan, Hong Kong and numerous major economic powers (*See Appendix F – Recognized Accounting Bodies*). That reciprocal recognition allows audit and assurance professionals in Canada to more easily work with their peers in other countries and assures investors that professional standards are not compromised in any one country.

Currently, international business people and investors can rest assured they are dealing with internationally recognized audit and assurance professionals if they have the Canadian CA designation. The Institute believes that we can enhance Canada's global reputation by using a public accounting licensing system similar to the one found in Ontario as the basis for similar systems in other provinces and territories.

As with Ontario, this would provide high internationally recognized standards and allow other designations to enter the field of public accounting if they choose to meet those standards. In that way, the public is protected, competition is facilitated and our ability to continue to attract and service FDI is enhanced.

2. *In particular, what mix of policy changes would be required to make Canada the preferred point of entry to, and location in, the North American market for high-value activities of non-North American business entities?*

As described in our submission regarding *Canada in a Global Context – Question 4*, Canada's joint and several liability regime is a growing barrier to investment and is increasingly out of step with other North American and overseas jurisdictions.

In our previous answer, we focused on how joint and several liability is deterring audit firms from doing needed work and, therefore, hurting investment in our communities. The Institute also pointed out how other jurisdictions are either ahead of Canada in investigating liability reform or are actually making changes that will give them a competitive advantage. For example, every Great Lake State bordering Ontario has already taken steps towards liability reform.

However, the Institute would also like to point out that professional liability risk is especially important if a jurisdiction wishes to attract business entities engaged in high-value activities, most of which require access to a deep pool of senior-level professional talent.

Our members work in public accounting, industry, public service, academe, not for profits and elsewhere. Liability issues are a factor for all, but none more so than those engaged in the practice of public accounting.

Every time a CA signs off on a financial statement – whether they are working for an international firm on Bay Street or at a one-person practice on Main Street – they are currently “betting the firm.” Because of the severe repercussions of losing a lawsuit under a joint and several liability system, where being found even one per cent responsible for a loss can leave a firm or individual accountant responsible for all of the damages, the pressure is enormous (*See Appendix G – How Big is the Problem?*).

That risk means auditors must put more time and effort into each assurance assignment, which is reflected in higher costs that must be passed onto the client. It means insurance, when available at all, is also reflected in higher costs. It means that assignments for good companies that entail some risk of liability are being turned down, which costs the broader community in terms of missed opportunities for investment, growth, jobs and competitiveness.

For individual professionals, liability risks can drive them out of higher-risk work, such as auditing and assurance, into other areas of practice while also deterring recruitment at the partnership level. In the near future, as Canada’s global competitors move forward on liability reform, this trend may draw professional talent out of the Canadian market altogether.

Because of reciprocity agreements with our global trading partners, Canadian CAs can currently attract accounting professionals from many other jurisdictions and Canadian CAs can and do work around the world. But, if we fall behind in terms of protecting our professional talent pool with fair and effective liability reform, that two-way flow could quickly result in a “brain drain” of Canadian financial professionals seeking employment in other jurisdictions. The result would be a decline in Canada’s ability to compete for the high-value jobs and investments that are the keystone to success in the 21st Century.

3. Is the modernization of Canada’s competition and investment laws sufficient for successfully attracting foreign direct investment in Canada? What other priorities and policy issues should governments address?

The modernization of Canada’s competition and investment laws would be welcome by the CA profession and are certainly a good start towards successfully attracting foreign direct investment. However, as previously stated in our submission, legal liability reform and the establishment of nationally consistent and internationally respected public accounting standards are also vital to attracting FDI.

Simply put, a country with a risky and increasingly uncompetitive liability regime will have significant problems in retaining or attracting both highly skilled professionals and needed foreign investment. International talent and capital are freer to pick and choose where to “land” than ever before. Canada needs a fair liability regime that continues to protect investors while also meeting the needs of the wider business community and general public.

Similarly, a country without high standards for the practice of public accounting would be at a tremendous disadvantage in attracting FDI, which requires assurances that financial statements are signed off by people who are both highly qualified and held accountable for their work. Canada’s current situation, where provincial and territorial standards are a patchwork quilt and legislated standards in some jurisdictions fall well below those of the country’s only internationally recognized accounting designation, is only marginally better.

Mandating high, internationally recognized standards of qualification and conduct for public accounting from coast to coast will help Canada maintain its international reputation as a safe and competitive place to invest.

Recommendations:

1. Stakeholders from government, business, the professions and the general public should continue to be consulted on ways to make Canada more competitive. As part of that undertaking, the Institute of Chartered Accountants of Ontario seeks to play an active role in any upcoming stakeholder consultations.

2. The Competition Policy Review Panel should undertake subsequent inquiries that would include an examination of the effects on our country's ability to compete internationally through the adoption of both nationally consistent, internationally recognized public accounting standards of qualification and conduct and legal liability reform.
3. The Competition Policy Review Panel should take the position that efforts to make Canada more competitive should focus on keeping our country's policies, standards and legislation at or above the international norm so as to remain competitive globally.