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Getting Ready to Face the Global Challenge of IFRS was the Topic of CGA-ARC Conference in Ottawa

Prepared by Paul Faulkner, MBA, FCGA and Daniel Zéghal, Ph.D., FCGA

An overflow audience in excess of three hundred attended the 16th Annual Conference of the CGA-ARC of the University of Ottawa, held at the National Arts Centre on 31 October, 2008. The purpose of the conference was to discuss the important issues related to the adoption of International Financial Reporting Standards (IFRS) in the Canadian environment.

A panel of distinguished and knowledgeable practitioners and academics was assembled to discuss the topic. They were: Ms. Luzita Kennedy, CA, a senior manager with KPMG; Dr. David Sharp, Ivey School of Business, University of Western Ontario; Dr. Rashad Abdel-Khalik, Director of the Centre of International Education and Research in Accounting, University of Illinois-Urbana-Champaign; Dr. Patricia C. O'Brien, School of Accounting and Finance, University of Waterloo; Dr. Robert Larson, Department of Accounting, School of Business Administration, University of Dayton; and Dr. Vijay Jog, President, Corporate Renaissance Group, Sprott School of Business, Carleton University. Dr. Kathryn Pedwell, Telfer School of Management, University of Ottawa, acted as moderator.

Dr. Micheál Kelly, Dean, Telfer School of Management, University of Ottawa and Frank Mensink, CA, FCGA, of the CGA Ontario Board of Governors, both welcomed



Dr. Micheál Kelly, Dean, Telfer School of Management, University of Ottawa welcomed the participants to the conference.

the participants to the conference and praised the work of Daniel Zéghal, Executive Director and the ARC for their splendid work.

Ms. Kennedy, in her presentation, noted that Canadian publicly accountable enterprises must prepare an action so that they are ready to replace Canadian GAAP with IFRS by the first full reporting date of 1 January, 2011. To achieve this, she suggests that ten actions must take place now. These actions are as follows: understand the key differences between IFRS and Canadian GAAP; carefully consider the options under IFRS; raise awareness of IFRS throughout the organization; establish a formal project plan; consider the impact on systems and processes; link IFRS with internal control; focus enterprise-wide impacts; develop a strategy for external stakeholders; get the auditors involved; actively monitor progress and, if you have not already begun, get going.

Dr. David Sharp, in addressing the issue of uniform global financial standards and their impact on Canada, has, as the aim of his presentation, the need to encourage thoughtful caution. While IFRS have as their objective the ability to be able to say the same thing about two equal companies in different countries, the existing cultures of the countries involved can hinder the achievement of this objective. Cultures have evolved quite separately in different countries. Accordingly, one can expect differences of language and the attendant problems of translation. Also, there will be differences of morals and values such as attitudes towards enforcement. These will impact how different countries will react to some of the uncertainties created by some of the judgmental areas included in the IFRS. Words such as "significant" can cause different interpretations in different countries.



Speakers and guests at the CGA - Accounting Research Center conference (left to right) Michael Maingot, member of CGA-ARC's advisory committee; Daniel Zéghal, Professor, Executive director CGA-ARC, University of Ottawa; Vijay Jog, Professor, Carleton University; Patricia C. O'Brien, Professor, University of Waterloo; Rashad Abdel-Khalik, Professor, University of Illinois-Urbana-Champaign; Frank Mensink, CGA Ontario Board of Governors; Kathryn Pedwell, Professor, University of Ottawa; Robert Larson, Professor, University of Dayton; and Luzita Kennedy, a senior manager with KPMG.

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More than 300 executives, professionals, and academics attended the conference.

Getting Ready to Face... Continued from Page 2

The application of fair value and its consequences for adopting IFRS was the topic of the presentation by Dr. Rashad Abdel-Khalik. While cases can be made both for and against the use of fair value, the main issue seems to relate to accountability as the use of management assumptions in assigning values. Included in the consequences of the use of fair value within IFRS is the abandonment of the matching principle because realization is no longer required. The recognition of both anticipated gains and losses is permitted. More emphasis will be put on the balance sheet at the expense of the income statement. It is the presenter's opinion that the United States will not adopt IFRS but that IFRS will be implemented in Canada by its target date of 2011.

Dr. Patricia C. O'Brien noted in her presentation that the Americans were embarked on a conceptual and framework convergence project relating to the adoption of IFRS. She believes that accounting exists because of the moral hazard of managerial misbehavior and to serve the needs of investors to value an organization's future performance. Regrettably, the rewrite of congruency fails to meet the two fore mentioned objectives of accounting. Some of the troublesome areas include a failure to monitor stewardship; some qualitative characteristics are threatening reliability, removing earnings as a primary focus of performance.

There are many challenges to the true convergence of IFRS to the standards of other countries. This was the theme of the presentation by Dr. Robert Larson. These challenges arise in the areas of already accepted standards, national issues, political interference and translation problems. In the United States, it is practice that different entities use different accounting and some companies prepare multiple financial statements. In the European Union (EU) while IFRS must be used, some exceptions are allowed. Different rules apply for listed and non-listed companies. The standard setting and approval processes in the EU are elaborate and lengthy. The final approval body is the European Parliament.

Dr. Vijay Jog discussed the impact and implications of IFRS, while IFRS and Canadian GAAP are not too different, there are some significant differences. These include a too heavy reliance on the balance sheet problems of relevance and reliability and the importance of fair value for certain situations. These differences are important enough to present problems of verifiability and reliability. Under the IFRS there can be the exercise of too much professional judgment in the preparation of financial reports. This, in turn, can present a chance for the auditors to avoid their accountability. In his opinion, the adoption of IFRS may not be the right thing for Canada to do. Accounting will be based on principles rather than rules and the improper use of fair value can result in misleading results.



Professors from Telfer School of Management, University of Ottawa who attended the conference.

Governance and Charities: An Exploration of Key Themes and the Development of a Research Agenda

What follows is a summary of a presentation made by Professor Noel Hyndman, subject leader in accounting in the School of Management and Economics at Queen's University, Belfast, N. Ireland, UK, to an audience of academics at the Telfer School of Management, University of Ottawa, on 19 November, 2008. This presentation was a part of the distinguished speaker series sponsored by the CGA Accounting Research Centre in Ottawa.

The objective of the presentation is to explore the major themes that relate to governance in charitable organizations. The charity sector is a large one and is playing an ever increasing role in providing what were once government services.

The public want visibility in what the charities are doing and how they are spending the money that has been donated to them. Accordingly, there may be a need for good governance for charities. Governance for charities relates to all the involved stakeholders donors, users and regulators.

Perhaps the major theme relates to charities and their donors. Some suggest that the motivation for donations is the "warm glow" that they

leave for the donors. If that is so, then perhaps accountability is not needed. However, large donors may want accountabilities. In such cases, it is up to the charity to legitimize its behavior by accounting for its performance.

Charities must react to the demands of their regulators. The rationale for regulation seems to be to reassure down that the charity is operating within the law. While regulators may encourage donors, they may detract from the work being performed by the volunteers of the charitable organization.

The beneficiaries of a charitable organization may or may not have a say in how the charity is run. Should they be involved at all? Their active role in running a charity could have an impact on future services.

Governance in charities can also impact the relationship between the Board and management. The size and composition of the Board is problematical. For example, should donors be on the Board, some large donors may demand it. Also, it is questionable whether the Board should monitor or be a partner with management.

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Governance and Charities... Continued from Page 2

Out of all this comes a research agenda which needs to address a number of issues:

- the attitude of donors to the chariting use of funds;
- how charities signal their behavior to donors;
- the appropriate level of government regulation;
- the appropriate degree of user involvement in the charity; and
- the composition of the Board.

The research agenda generally must try to decide whether good governance guides are either useful or appropriate for charitable organizations.

SAMPLE OF PUBLICATIONS

"La gouvernance d'entreprise en dehors des États-Unis: mécanismes obligatoires ou librement consentis?" Bozec, R., 2009., International Journal of Canadian Studies, forthcoming

"An analysis of voluntary disclosure of performance indicators by Canadian Universities" D. Zéghal and M. Maingot, Tertiary Education and Management, Vol.14, Num.4, Dec.2008, pp.269-283

"The adjustments of corporate governance mechanisms in Canadian Banks following regulatory changes" D. Zéghal and M. Maingot, Corporate ownership & Control journal, Vol. 6, Issue 2, Winter 2008, pp.443-455.

"A study of Corporate Governance Disclosure and its Country-Level Determinants in the Emerging Markets" D. Zéghal and H. Ben Othman, Research in Accounting in Emerging Economies, 2008,

"Governance-Performance Relationship: a Re-examination Using Technical Efficiency Measures" Bozec, R., Dia, M., Bozec, Y., 2008, British Journal of Management.

"Fuzzy Evaluation of Risk Management Profiles Disclosed in Corporate Annual Reports" D. Zéghal and M. Dia, Canadian Journal of Administrative Sciences, Vol. 25, Issue 3, September 2008, pp. 237-254

"An Analysis of the determinants of research & development voluntary disclosure by Canadian firms" D. Zéghal, R. Mouelhi and H. Louati, Irish Accounting Review, Vol.14, Num.2, winter 2007, pp.61-89

"Corporate governance and bankruptcy filing decisions" by D. Zéghal and K. Lajili, Working paper 08-05, March 2008

RESEARCH ABSTRACTS

1-An analysis of voluntary disclosure of performance indicators by Canadian Universities

By D. Zéghal and M. Maingot, 2008

Managing by performance indicators (PIs) is an important and controversial issue for many stakeholders concerned with higher education in the university systems all over the world. This study analyzes the voluntary disclosures of PIs by Canadian universities. The sample consisted of the 44 universities used by Maclean's Canadian Universities ranking, which divide the universities into Primarily Undergraduate, Comprehensive, and Medical-Doctoral.

We were able to identify 123 PIs which were regrouped in 18 categories. The top two categories were disclosures about research and finance which are not surprising since research and the financing thereof appear to be the mission of most universities. The larger universities in the Medical-Doctoral category appear to engage in a much higher level of disclosure of PIs than the Comprehensive and Primarily Undergraduate categories. According to our results, voluntary disclosure of PIs is positively affected by university size and mission. These results seem to be consistent with disclosure theories, particularly political cost theory and legitimacy theory and with previous results in the corporate sector. They are relevant to different stakeholders concerned with higher education.

2- Governance-Performance Relationship: a Re-examination Using Technical Efficiency Measures

By Bozec, R., Dia, M., Bozec, Y., 2008.

The objective of this study is to analyze further the governance-performance relationship while improving on two methodological issues: control for endogeneity and firm performance measurement. To mitigate the endogeneity problem, we, first, focus on sub-samples of firms for which we, ex-ante, expect better corporate governance to cause better performance. Second, we use Generalized Least Square (GLS) regressions for panel data. To control for potential measurement bias, we measure firm performance using Data Envelopment Analysis (DEA). The research is conducted in Canada over a five-year period from 2001 to 2005. Corporate governance is measured based on the ROB corporate governance index published by the Globe and Mail. Overall, the results show that better governed firms are more efficient.

This study is in line with a growing number of recent studies that propose alternative measures of firm performance. By using DEA, this study brings together the corporate finance and productivity literature.

3- A study of Corporate Governance Disclosure and its Country-Level Determinants in the Emerging Markets

By D. Zéghal and H. Ben Othman

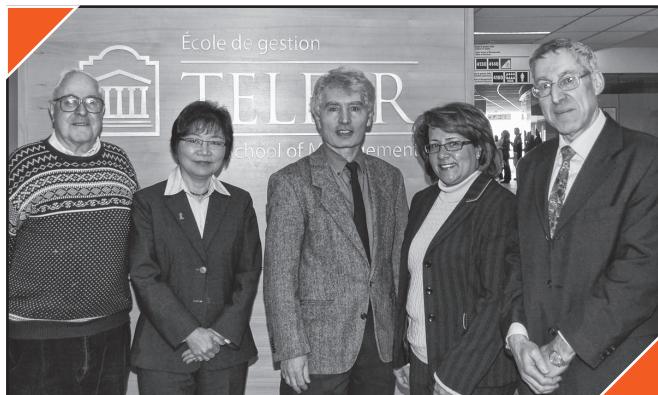
This study examines country-level attributes that impact on Corporate Governance Disclosure (CGD) depending on the emerging market country's legal system. In this paper, we evaluate CGD level using 749 annual reports (year ended 2006) in 57 emerging market countries. We develop a CGD determinants model that compares differences in country level attributes between common law and civil law emerging market countries. Our model builds on a multiple regression and assumes interaction between the origin of the legal system and country-specific attributes. According to the results of this research, common law emerging markets have substantially higher levels of CGD than civil law ones. CGD is positively associated with the size of the capital market for the entire sample of emerging markets and for the sub-samples of common law and civil law countries. Law enforcement also has a strong positive influence on CGD in common law emerging countries, whereas it has no influence on CGD in civil law emerging countries.

Providing CGD levels for emerging markets helps to a better understanding of the corporate governance characteristics that prevail in each country. Decision makers (international investors, market authorities, standard setters, etc.) should be aware of how country level attributes may interact with the legal system (common law or civil law) to influence CGD. This study contributes to identifying the attributes that influence CGD with reference to common law and civil law emerging markets.

DISTINGUISHED SPEAKER SERIES

The Accounting Research Centre sponsored the three following presentations by distinguished speakers.

1. Dr. Fred Pries, Department of Business, University of Guelph. «Contributing to inter/multidisciplinary research: Roles for accounting researchers»
2. Professor Kwaku Opong, Department of Accounting and Finance, University of Glasgow, Scotland. «Valuation implications of pharmaceutical companies regulatory approval notifications issued by US Food and Drugs Administration and the European Medicines Agency. »
3. Professor Noel Hyndman, School of Management and Economics, Queen's University Belfast, N. Ireland, UK. «Governance and Charities: An Exploration of Key Themes and the Development of a Research Agenda. »



The ARC welcomed the guests from CGA Ontario:(left to right) Paul Faulkner, member of CGA-ARC's advisory committee; Lilian Goh, Past Chair, CGA Ottawa Chapter, member of CGA-ARC's advisory committee; Daniel Zéghal, Executive Director CGA-Accounting Research Centre; Nevert Zarekh, Vice-President of CGA Ontario, Student Services, and Roger Keen, President of CGA Ontario Research Committee.

OTHER NEWS

1. Professor Daniel Zéghal named to "100 CGA's who have made a difference"

In honor of the 100th anniversary of the founding of the CGA designation in 1908, CGA-Canada launched an international search for 100 CGAs who have made an outstanding contribution to their designation, their communities and the lives of others.

Professor Daniel Zéghal was selected for having contributed to the excellent reputation of the profession and having given his time, energy and commitment to benefit the community at large

the members of the Advisory Board of the CGA-ARC. They also met with Laura Evans who gave them the tour of the Demarais building and showed them the Telfer facilities.

3. Announcement of a new Website

CGA Accounting Research Centre (CGA-ARC) at the Telfer School of Management, University of Ottawa has a new website <http://www.cga-arc.com/>

On this website you will find information about CGA-ARC and its activities, about the people involved and its members, about the upcoming annual conference as well as other events.

2. Keeping in Touch with CGA Ontario

On December 12th, the Business Development Manager of CGA, Tanya Dafnes, presented an information session for the Accounting Faculty at Telfer on the CGA program and funding opportunities from CGA Ontario.

On December 16, Nevert Zarekh, Vice-President of CGA Ontario, Student Services and Roger Keen President of CGA Ontario Research Committee visited the Telfer School of management and the CGA-ARC. During the visit, Dr. Daniel Zéghal made a presentation about the CGA-ARC activities and achievements. The two guests met with



Tanya Dafnes, Business Development Manager of CGA, presented an information session for the Accounting Faculty at Telfer School of Management, University of Ottawa.

FOR MORE INFORMATION

To learn more about the CGA-ARC
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www.cga-arc.com

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