

A Question of Standards: Accounting in the 21st Century

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With David Hume

Centre for Collaborative Government

Foreword from CGA-Canada's Guy Legault

CGA-Canada is proud to be associated with the publication of this paper by the Centre for Collaborative Government. The commissioning of this paper is evidence of our commitment to making a considered contribution to emergent public-policy issues.

We are appreciative that the Centre, under the leadership of Don Lenihan, has agreed to take on this project. The contents of the paper are the product of a consultation process—one that might be described as a “virtual round table” in which a group of diverse and distinguished Canadians came to grips with the matters at hand through a series of conference calls and one-on-one interviews. The issues are difficult, often sensitive ones for the accounting profession, the financial community and the public at large. The people who gave their time and expertise to the project addressed the issues with vigour and conviction, and we are grateful for their contribution.

Accounting standards for the 21st century are no longer simply a matter of arcane rules for accountants in the preparation of financial information for their clients. In the wake of a series of high-profile corporate scandals that have occurred in the United States, financial reporting standards have become a matter of significant interest to national governments around the globe. The selection of financial reporting standards has significant public-policy implications for an economy through the standards' ability to influence that economy.

Consequently, policy makers and stakeholders have a responsibility to examine accounting standards setting in Canada as part of an overall assessment of contemporary corporate-governance practices. This paper is intended as a useful contribution to that ongoing assessment.

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Preface

During the summer of 2002, the Certified General Accountants of Canada asked the Centre for Collaborative Government to convene a discussion group of individuals from a variety of backgrounds to provide advice and input into the development of a paper on the future of accounting standards setting in Canada, in the wake of the Enron and WorldCom scandals. The group included politicians, public servants, and prominent members of the business and accounting communities, as well as an International Accounting Standards Board trustee and the Chair of the Canadian Accounting Standards Board.

This paper represents the author's effort to synthesize a range of views and comments gathered through group sessions and one-on-one interviews. For logistical reasons, the entire group of participants was not able to meet at once. Consequently, views expressed in the conference calls did not benefit from the full complement of expertise within the group. In addition, the use of one-on-one interviews means that some references to "the group" are sometimes an aggregate of views expressed in the interviews and interpreted by the author. Nevertheless, my hope is that the paper will provide some fundamental points of reference for further discussion among all concerned parties.

The primary goal of the paper is to provoke public debate about the future of accounting standards setting in Canada, especially as regards the possible loss of public trust following the recent accounting scandals in the United States. It has sought to report on and contribute to the broad lines of the stakeholder debate, while connecting the issues around setting accounting standards to other issues relevant to the Canadian policy community of politicians, journalists, think tanks and public servants. It has not sought to draw any major conclusions about the state-of-the art in Canada.

While benefiting greatly from the observations of participants in the discussion group, responsibility for this paper and the views expressed here is the author's alone, and should not be attributed to individual members of the discussion group or to their organizations.

DGL

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Setting accounting standards and practices is a notoriously dry, technical and complicated process. It is not the stuff of inspired policy debate. Until recently, it marched quietly along the margins of public policy here in Canada and elsewhere. Recent events involving Enron, WorldCom and other corporations have changed all that. As stock markets fall and apparently invincible economies stumble, it seems increasingly clear that the regulatory infrastructure of western economies depends, ultimately and finally, on trust.

Investors, board members and other users of financial reports rightly expect that the information they receive will be accurate, complete and as accessible as possible. The standards that guide reporting set the terms of a critical trust relationship.

Financial reporting is a case in point. It is the principal means by which investors and public companies communicate. It is also a crucial tool of governance for boards of directors. Investors, board members and other users of financial reports rightly expect that the information they receive will be accurate, complete and as accessible as possible. The standards that guide reporting set the terms of a critical trust relationship.

Not surprisingly, then, in the wake of Enron and WorldCom, accounting standards and practices have become the objects of intense public scrutiny, as everyone asks: How could something this bad have happened?

Some argue that the scandals have exposed the weaknesses in the U.S. system. They say that the U.S. Generally Accepted Accounting Principles (GAAP) is too dependent on narrow rules. It allows clever accountants to misrepresent financial data and to mislead shareholders.

Others disagree. According to them, the system is basically sound. The problem is a few “bad apples” that are making the whole barrel smell. In this view, the real issues are not around rules and standards but ethics and corporate governance. Defenders of U.S. GAAP maintain that no system of accounting can prevent abuse. What is needed, they conclude, is more aggressive oversight and stiffer penalties for the violators.

And, indeed, action aimed at restoring the trust of the investment community and boards of directors is being taken. In the U.S., for example, the *Sarbanes-Oxley Act* of 2002 suggests broad support for swift justice and firm retribution for those who violate accounting rules.¹

Canada has also had difficulties with corporate misdoings.² The Canadian Institute of Chartered Accountants (CICA), the Canadian Securities Administrators, and the Office of the Superintendent of Financial Institutions have worked together to install a new public committee to oversee the practices of auditors of public companies.³

Although such measures go some distance toward reassuring investors, they may not be enough to fully repair the damage. What else can be done to help rebuild public confidence?

¹ For more information, see “Congress’ Crackdown” from The Economist Global Agenda, July 26, 2002. Also available online at http://www.economist.com/agenda/displaystory.cfm?story_id=1257787.

² See Brian Milner, “Taking Stock” in the Report On Business, *The Globe and Mail*, Sept. 30th 2002, page B2.

³ For more information, see the Canadian Public Accountability Board Web site at <http://www.cpab-ccrc.ca/-/index.html>.

1.2 The Project

In June of 2002, the Centre for Collaborative Government and the Certified General Accountants of Canada assembled a discussion group to explore some key issues around standard setting in Canada and advise the development of a discussion paper that would help the broader policy community understand what the recent events in the U.S. mean for the future of accounting standards in Canada. Fifteen individuals from a variety of professional backgrounds participated, including politicians, business people, academics, accounting professionals, individuals from two of the national accounting associations in Canada, and Chair of the Canadian Accounting Standards Board.

Although some members of the discussion group had strong views on the soundness of U.S. GAAP, it was agreed that a full assessment was too ambitious for this project. Instead, the author sought to encourage the group to think strategically about some of the issues, raising and debating questions about how Canadians should respond to the current situation:

- What does it mean for the evolution of the Canadian system?
- What can be done to secure and advance Canadians' interests?
- What can be done to assure Canadians of the soundness of Canadian practices?

It works toward defining a common Canadian vision of the goals of financial reporting for the future, clarifying the course such a vision might set for Canadian businesses, governments and the profession itself.

This paper is based on these discussions. It works toward defining a common Canadian vision of the goals of financial reporting for the future, clarifying the course such a vision might set for Canadian businesses, governments and the profession itself, and beginning to identify the kind of vessel that may be needed to navigate the uncertain waters between here and there.

Notwithstanding such goals, the paper does not pretend to be more than a starting point for further discussion. In particular, it aims at bringing relevant parties closer together on what, for some, has been a point of disagreement about the appropriate direction for standard setting in the future. Its goal is to frame in the space for a more productive debate over some of the issues and options facing financial reporting and those who rely on it for a variety of purposes.

In effect, the discussion has two major parts. The first considers the Canadian debate over moving to globalized standards in light of the current scandals. The overall result is that *Canadians need to balance two competing factors: a commitment to contribute to the development of a reliable system of international accounting standards, and recognition of Canada's critical dependence on access to capital markets in the United States.*

The second part invites readers to consider how Canadians should respond. It contains the results of a thought experiment in which some discussion group members were *asked to speculate on and discuss what a Canadian accounting standard-setting body should look like in the 21st century.* The discussion sets out a number of principles and capacities suggested during the interviews and conference calls. Taken together they provide the outline of an organization that could be used as a point of reference and comparison with the existing standard setter.

2.1 Competing reasons for choosing

Accounting standards in Canada are currently set and applied to the public, private, and not-for-profit sectors. Standards for the public sector are set by the Public Sector Accounting Standards Board (PSAB), while the Accounting Standards Board (AcSB) is responsible for establishing standards of accounting and reporting by Canadian companies and not-for-profit organizations. All Canadian companies and not-for-profits are required to adhere to these rules by the *Canada Business Corporations Act* as well as by provincial legislation.⁴ PSAB's authority is not formally written into law, however the public sector receives these as recommendations, and in most cases use its standards as a matter of convention.

As the world moves from a collection of domestic economies to a single, integrated global market, steps must be taken to ensure that financial information is easily convertible.

As the world moves from a collection of domestic economies to a single, integrated global market, steps must be taken to ensure that financial information is easily convertible. Translating it back and forth between various reporting systems based upon different standards can be costly and time consuming. Moreover, standards are often so different that it may be impossible to know for sure how the conversion should be done.

Participants in our discussion group told us that within Canada there is now general agreement that dealing with so many systems imposes higher and higher costs on business. The general view in the business community is that some sort of international accounting standards will be needed in the future. This view is also widely accepted beyond our borders.

Some in Canada have argued that the solution is to use the international accounting standards set by the International Accounting Standards Board (IASB). They claim that it incorporates 'the best of the best.'

For example, the Certified General Accountants of Canada has argued for IASB on the grounds that it uses a *principles-based* approach in setting its GAAP. CGA-Canada contends that so-called *rules-based* systems foster a 'rule-book mentality' that is not conducive to good accounting. They encourage avoidance rather than transparency: if a rule says "Above 20% an item must be shown," a company that prefers not to show the item aims at 19.9%. Some advocates of principles-based systems push the argument even further, saying that such a system's standards would have made it far more difficult to use the accounting practices behind the recent U.S. scandals. Others disagree, arguing that a principles-based system would have made little difference. The scandals appear to be more a result of corruption or weak corporate governance that would not be resolved by a shift to principles over rules.

Advocates of principles-based accounting standards continue to argue that rules do not foster a culture of responsibility while principles do.

Nevertheless, the advocates of principles-based accounting standards continue to argue that rules do not foster a culture of responsibility while principles do. In the long run, contends CGA-Canada, a principles-based system also provides a more flexible and better basis for integration into the global economy and for working with a wide range of international partners.

Although there was some uncertainty among our participants as to exactly where Canadian GAAP sits on the spectrum of rules vs. principles (see 3.4 below), one participant with extensive experience in the field reported that expert opinion in Canada and abroad is that it is very close to IASB.

Advocates of a U.S.-type system have argued for its superiority in a variety of ways, including the claim that Canadian GAAP and IASB standards are sometimes "too vague." After Enron, WorldCom

⁴ Public-sector accounting standards for federal, provincial, and territorial levels of government, government organizations, organizations jointly owned or controlled by two or more governments, and school boards are administered by the Public Sector Accounting Board.

and the rest, however, such arguments are under pressure: it is hard to assert without apology that the system that produced such spectacular failures should be held up as a standard for the global village. They worry that Americans have shown no real inclination to adopt IASB standards. If Canada were to do so anyway, it would drift even further away from the U.S. GAAP. As a result, access by Canadian companies to U.S. capital markets could be impeded. This, they conclude, is too great a price to pay for IASB standards—a point with which most of our participants seemed to agree.

Adopting U.S. standards brings us into closer alignment with the Americans and will strengthen our business relationships.

For example, in a recent presentation before the Standing Senate Committee on Banking, Trade and Commerce looking into the impact of the scandals, Thomas Caldwell of Caldwell Securities made the case this way: “It is good to line up with the U.S., as America always sees ‘different’ from them as ‘inferior’ to them.” He warned committee members that if Canadians choose a system that Americans regard as unrecognizable, they would simply ignore us. Preserving our special relationship, he urged, is a primary concern. Adopting U.S. standards brings us into closer alignment with the Americans and will strengthen our business relationships.

Further, critics of IASB have argued that it suffers from a lack of meaningful enforcement mechanisms or other quality-control devices that will ensure consistent, high-quality interpretation and application of its standards.

Notwithstanding this debate, it should be noted that IASB and FASB are in many respects flexible organizations that are in a state of considerable change. Indeed, both have undergone a number of changes during the time in which this paper was written.

2.2 Principles vs. Rules

Insofar as the debate turns on a difference of opinion regarding rules and principles based systems, something should be said about that difference.

A rule is a statement to guide behaviour that can be acted on without further interpretation or contextualization.

A rule is a statement to guide behaviour that can be acted on without further interpretation or contextualization. For example, the instruction “Take off your hat in church,” is a rule. Assuming that we know what counts as a church and a hat, there is no further need for interpretation. The rule is always and everywhere the same.

By contrast, principles are more general and require interpretation. Before such a principle can guide behaviour, it must be contextualized—an uncertain business, at best.

By contrast, *principles* are more general and require interpretation. The old broker’s adage “Buy low, sell high,” is an example. It purports to tell us how to make money in the stock market. But the instruction is incomplete. In order to apply it successfully, we need further information. ‘Low’ is a relative term so that what counts as ‘low’ in one situation may not be in another. Before such a principle can guide behaviour, it must be *contextualized*—an uncertain business, at best. The devil, it seems, is in the details.

Presumably, the attraction of a rules-based system lies in its clarity and conceptual simplicity. Either a rule is followed, or it is not. A rules-based system’s weakness lies in its inability to reflect nuance or be flexible according to circumstances. By contrast, principles can be interpreted differently in different situations. But doing so requires *judgement*, which can be controversial.

It is worth noting that most legal systems rely heavily on principles-based approaches. Rule-based approaches to law are universally acknowledged as too blunt an instrument for justice. Circumstances and motive are thus integral concepts in all modern systems of justice. It is an open question how far the analogy between the practice of law and the practice of accounting should be carried. But, at least in our discussion group, the general view seemed to be that both principles and rules are needed.

Before we assembled the discussion group, our preliminary discussions and early research suggested that the key strategic issue facing the Canadian accounting profession concerns the choice over models for international standards.

If the idea of moving to international standards had broad support among participants, there was uncertainty about the right model. Some seemed to favour the U.S. GAAP, while others seem to favour adopting IASB standards.

If the idea of moving to international standards had broad support among participants, there was uncertainty about the right model. Some seemed to favour the U.S. GAAP, while others seem to favour adopting IASB standards. Judging from early exchanges between participants, we expected them to line up behind the issues in ways quite similar to what we thought was the broader public debate under way.

By way of background, section 3.1 provides information on the history, structure and crossovers current in the IASB and FASB. Following that is a synopsis of what we heard in our first discussion group meeting and round of interviews. It reflects the various ways that some of our participants viewed the issues. The discussion seemed to us to shed interesting light on the current state of the public debate over accounting standards in Canada.

3.1 FASB and IASB—History and Structure

Since 1973, FASB has been the independent organization that establishes accounting standards enforced by the U.S. Securities Exchange Commission (SEC).⁵ It uses an open, ‘due process’ model that allows for public input, and aims to ensure a balanced approach to standards setting. Board members of FASB are required to sever all ties to the organizations they served prior to joining FASB. The board is advised on technical matters by the Financial Accounting Standards Advisory Council (FASAC), and is funded, overseen and appointed by Trustees from the Financial Accounting Foundation (FAF) that represents stakeholders in the financial profession. According to its Web site, more than half the funding for FASB is contributed to FAF by the accounting profession, while the remainder of the contributions come from industry and the financial community.⁶

The International Accounting Standards Board (IASB) was established in January 2001 to replace its predecessor international standard setter, the International Accounting Standards Committee (IASC). IASC was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland and the United States of America, with representatives of these organizations constituting the Board of IASC at that time.⁷

The new structure shares characteristics with FASB. There is a board of trustees—an independent, mostly full-time standard-setting board with liaisons to the German, French, American, British, Canadian, Japanese, Australian and New Zealand standard setters, as well as an advisory council. Like FASB, IASB follows a ‘due process’ model, and its meetings to discuss technical issues are

⁵ The SEC is actually the body with the legislative authority to establish financial reporting and accounting standards for publicly held companies. Throughout its history, however, SEC has relied on the private sector to fulfill this function to the extent that it demonstrates its ability to fulfill its responsibilities in the public interest.

⁶ Financial information retrieved from FASB’s Web site, <http://www.fasb.org/facts/index.shtml>. All Web-based information cited in this paper was retrieved during September and October 2002. Web-based citations may not remain current.

⁷ This information on the history of IASB and FASB is used with thanks to April Mackenzie, FCA, for her paper, “Report to Certified General Accountants Association of Canada on Accounting Standard Setting Structures,” an unpublished report to CGA-Canada, August 2002.

open to the public. IASB is overseen and funded by the IASC Foundation, represented by the Trustees. Over fifty percent of funding for the IASC Foundation comes from companies, while approximately a third comes from accounting firms, with the balance split between governments, central banks, international organizations and associations.⁸

There is a significant amount of institutional crossover between FASB and IASB. IASB has a liaison to the U.S. standard setter. Further, FASB has publicly stated that it favours the development of international standards in accounting.

There is a significant amount of institutional crossover between FASB and IASB. IASB has a liaison to the U.S. standard setter. Further, FASB has publicly stated that it favours the development of international standards in accounting, and has included this in its mission statement, presumably indicating the seriousness of its commitment. Finally, the boards have publicly agreed on the need to produce common, high-quality standards across international capital markets and are holding meetings aimed at making progress toward this goal.⁹ However, despite efforts by IASB, the American authorities at SEC have yet to determine international accounting standards as set by IASB as suitable for U.S. markets without their reconciliation to U.S. GAAP.¹⁰

3.2 The Argument in Support of IASB

Some participants in our first discussion-group meeting and our first round of interviews seemed to think that the scandals in the U.S. show FASB's rules-based system to be deficient. Under such a rules-based system, we were told, 'creative' accounting can happen more easily, leading eventually to false reporting. In this view, IASB's principles-based approach is more flexible in its application and enforcement—it is analogous to law in this regard—and so would likely head off auditors who obey the letter but abuse the spirit of accounting standards. Moreover, a move to more 'subjective' standards (i.e., principles) would likely require a closer eye on practices to ensure that they are effective and appropriate. As a result, there is a larger role for oversight in principles-based systems. It should be noted, however that consistent global enforcement of IASB standards is not a responsibility of IASB, and a mechanism to ensure such consistency does not exist currently.

Sovereignty and international perception were also a concern. As Canadians, said one participant, we need to be able to control standards that affect our country's markets. If we adopt FASB, we will lose this control. Any suggestions that the Americans will allow us to have an influence or say in their system are too optimistic. By contrast, he felt that IASB's organization is more likely to allow a Canadian voice to be heard in the standards setting process. Further, if we move to U.S. FASB rules, and the rest of the world sees these rules as flawed, we will have trouble with access to international capital. We need to weigh carefully how close we want to be to the Americans at this time.

A number of participants suggested that the writing on the wall seems to be that IASB and international accounting standards are the way of the future.

Finally, a number of participants suggested that the writing on the wall seems to be that IASB and international accounting standards are the way of the future. Even the Americans will eventually join with it, since international standards will help international business be done more easily and more cheaply. In a global economy, international accounting standards developed in consultation with all concerned jurisdictions will be the only fair and reasonable way to proceed.

⁸ For further details see 'IASC Foundations Financial Information' found in the 'About Us' area of IASB's Web site, <http://www.iasb.co.uk>.

⁹ See, for example, their joint press release available at <http://www.fasb.org/news/nr091702.shtml> and more recently at <http://www.fasb.org/news/nr102902.shtml>.

¹⁰ A recent speech given by former SEC Chairman Harvey Pitt to the Conference of the Institute of Chartered Accountants of England and Wales in Brussels, Belgium on October 10, 2002 (see <http://www.sec.gov/news/speech/spch589.htm>) suggests movement in SEC's position: "If, by 2005, there has been sufficient progress in the improvement and short-term convergence of accounting standards, in the development of a process and structure for consistent interpretation and application of IAS, and in the enhancement of financial reporting infrastructure, then it may be appropriate for us to reconsider the need for foreign private issuers from EU member countries to continue to reconcile from IAS to U.S. GAAP."

3.3 The Argument in Support of FASB

The U.S. is Canada's biggest trading partner and the largest capital market in the world. Canadians simply cannot afford to alienate themselves.

At the same time, a significant number of our participants seemed poised to line up on the other side of the argument. From Canada's perspective, they said, we must consider the effect that a move to international standards would have on our economy. Though perhaps a noble goal, any discussion about such a move is academic if the U.S. does not co-operate. The U.S. is Canada's biggest trading partner and the largest capital market in the world. Canadians simply cannot afford to alienate themselves. They would lose access to vital capital sources and business opportunities.¹¹

In regard to the U.S. accounting scandals, it was argued that the FASB system is not at fault. The root causes of the scandals are multifaceted and require multifaceted solutions. Indeed one participant argued forcefully that the scandals had little to do with accounting standards, and were really about audit and corporate-governance failures. It was said, however, that rules make certain that everyone is held to the same standard. This ensures that investors can easily compare financial statements, and companies can compare themselves with one another. The same standard also increases the credibility of financial statements, since everyone has a clear sense of the uniformity of reporting.

3.4 Assessing the Arguments from the Discussion Group

The synopsis of arguments in the last two subsections suggests that our discussion group divided along a principles-vs.-rules fault line. In fact, it did not. Although some participants leaned toward the U.S. GAAP and rules-based systems, they had serious doubts about having Canadians simply adopt that system—especially in light of the recent scandals. On the other hand, those who favoured IASB and principles-based systems were alive to the risks that it raises regarding access to American capital markets. For the most part, they agreed that it was an unacceptable price to impose on Canadian businesses.

In the course of the interviews, it became clear that the disagreement over models was not as deep as we thought.

In the course of the interviews, it became clear that the disagreement over models was not as deep as we thought. On one hand, no one told us that the distinction between rules and principles was unimportant. And once the question had been cast as a simple choice between principles and rules, or between IASB and FASB, most felt compelled to take a side. On the other hand, what looked like a fundamental difference of opinion began to look decidedly less so as the debate over principles- and rules-based models progressed.

The more we talked with participants about this, the more points of convergence we found between the two sides. Most were more than willing to move to what might be called the 'middle ground' when the opportunity presented itself. We can summarize the discussion as follows:

- Many participants either insisted or agreed that *every system combines rules and principles*. No system is simply one or the other. It is always a question of degree rather than of kind. Perhaps IASB is more principles-based, but U.S. GAAP also has principles and IASB has rules. There is a tendency to speak as though the debate over U.S. GAAP vs. IASB is one of kind rather than one of degree. This can mislead.
- *Systems change over time*. They can evolve in different directions. Perhaps a strategic focus for Canadians should be on convincing FASB to make U.S. GAAP more principles-based by contrasting it with IASB?

¹¹ It is relevant to note that the Canadian Securities Administrators have proposed that Canadian publicly traded companies listed on a U.S. exchange be allowed to file financial statements in accordance with U.S. GAAP, provided that for a two-year period after starting to use U.S. GAAP their statements will have a reconciliation to Canadian GAAP.

- *Participants had contrasting views of Canadian GAAP.* Some thought it was mainly a principles-based system, while others thought that it was more rules-based. In good Canadian fashion, one participant even told us that it was halfway between a rules-based and principles-based set of standards.
- When we asked participants what was wrong with the Canadian system, everyone seemed to think that it was a pretty good one, though concerns were raised about its transparency and inclusivity. Indeed, no one thought that it had failed to serve Canadians well. Moreover, we heard from most that Canadians do not need to revise their system. The real issue is about *how to deal with standard setting in the future*. Canadians need to ensure that the new standards they adopt are contributing to some kind of convergence around international standards.
- On the issue of how fast Canadians should move to international accounting standards, there was almost universal agreement that *it will be an ongoing process*. Canadian policy makers should distinguish between short- and longer-term goals that need to be achieved.
- With very few exceptions, the group thought that, *over the long-term, the work of IASB and FASB will likely tend to converge*. The result might be a kind of ‘third option,’ which is really the best of the best.
- Although there was much concern over the prospect of losing access to American capital markets, most felt that there is *no reason to conclude that Canadians must simply do whatever the U.S. does*. Canadians have major investments in other parts of the world as well. These will only grow as time passes. Canadians should remain fully engaged in and supportive of the work of IASB, at the same time that they monitor developments in the U.S. and remain engaged on that front. In short, they must strike a workable balance between the two systems. There is no contradiction here. Canadian foreign policy has always worked to maintain a balance between bilateralism and multilateralism.
- In trying to strike this balance, Canadians should work to play the role of ‘honest broker’ by trying to influence IASB and FASB to work together in the interest of arriving at a single, international system at the earliest date possible.

3.5 Preliminary Conclusions Based on the Author’s Observations

Although the distinction between rules and principles is surely important, as the interviews progressed it was hard, as the paper’s author, to avoid the conclusion that there has been a tendency to overplay its importance in public debate.

It is a simpler and more exciting story than one in which divisions between the sides are less clear, the issues more complex, and the debate takes place in the ‘grey’ zones.

This seems especially true in the media. In preparing to write this paper, the author reviewed many newspaper and magazine articles where the issues were portrayed as a struggle between two models or a choice between two extremes. When questioned about this, one participant explained the situation this way: in his view, journalists prefer to tell a story in which the two sides are sharply divided. It is a simpler and more exciting story than one in which divisions between the sides are less clear, the issues more complex, and the debate takes place in the ‘grey’ zones. Casting the issues as black and white has the virtues of clarity, simplicity and drama, he concluded, but it also tends to polarize debate in a way that does not serve the interests of good public-policy.

As the interviews progressed, a second conclusion seemed to present itself to the author: the talk one now hears *of moving to international standards should not be taken to imply the need for a*

major overhaul of the existing system. “Why would we re-invent the wheel?” wondered one participant. The discussions seemed to lead to the conclusion that Canada’s move to international standards will likely be incremental. It is a long-term goal. A wholesale change now would only confuse markets and investors.

If the world of accounting is changing, in Canada it will be a process of evolution rather than revolution.

At the same time, most participants certainly agreed with the view that the path leading from many different systems to a single, universal one is the right way to go. They also agreed that the journey will be a long one, with many twists and turns along the way. Virtually everyone thought that a ‘big bang’ in accounting is unlikely. Canada is not going to move suddenly to a new, universal standard, whether IASB, U.S. GAAP or something else. If the world of accounting is changing, in Canada it will be a process of evolution rather than revolution.

Ultimately, most participants seemed to accept that the right strategy for Canadian policy-makers and standard-setters to follow is to retain some measure of independence from the decisions of IASB and FASB, steering a middle course, sometimes in one direction, sometimes in the other, as we move forward.

If there was an overarching conclusion from all this, it seemed to be that *Canadians need a strategic approach to change*—a vision to guide them along the path. The challenge this presented for the project was how to begin to define it.

4.1 The Need to Ensure Public Trust

Whatever the final verdict on the soundness of U.S. GAAP, it is now quite clear that public confidence in the integrity of U.S. financial reporting has been shaken. Most in the discussion group thought that there were major implications for Canadian businesses and investors. Thus the point was made repeatedly that the policy community should be doing what it can to strengthen public confidence in Canadian practices.

Almost from the outset, participants agreed that, although a good accounting system must include standards—rules and principles derived from high levels of expertise—it *operates on trust*. Trust is the oil that makes the machine run smoothly. If the confidence of investors has been undermined, expert advice, testimony or debate may not be enough to save it.

As one participant put it: “Ensuring public trust will require more than a ‘communications’ strategy based on the testimony of experts. It is not enough that good standards are being set and are working; they must be seen to be such.”

“What can be done to help Canadians see that good standards are being set and are working?” participants wondered. After all, accounting is a highly technical business. Most investors have neither the time nor the inclination to learn more than the rudiments of the craft.

The public needs a sense that leaders in the field and governments have a common vision of how the accounting system should evolve in a rapidly changing world.

Based on the interviews and group discussions, it seems fair to say that most of our participants agreed that, first and foremost, the public needs a sense that leaders in the field and governments have a common vision of how the accounting system should evolve in a rapidly changing world. The public must be confident that they are steering a course toward the future that ensures accounting is trustworthy, accurate, and secure. But what sort of vision should the community unite around?

4.2 Elements of a Vision

We spent much time discussing this question. In the end, most of our participants agreed on the need for a simple account of how policy makers and experts see the future and Canada’s place in it. If they were able to agree on such a vision, it would send a clear message that would help ensure the confidence of investors and the general public. But what would it say? How would the story be told?

Ideally, a vision to guide the setting of accounting standards in Canada in the 21st century should reflect a common understanding of the overall situation, what leaders in the field want to achieve over the short, medium and long terms, and how they expect to do it.

Ideally, a vision to guide the setting of accounting standards in Canada in the 21st century should reflect a common understanding of the overall situation, what leaders in the field want to achieve over the short, medium and long terms, and how they expect to do it. The story around the vision should not be long or complex. The goals it identifies should be broad but clear.

The strong inclination for participants to seek middle ground suggested to the author that it might be possible to find the elements for such a vision within their comments. Indeed, these elements seemed to emerge from the interviews and discussions and can be summarized as follows.

Canadians need to balance two competing factors: a commitment to contribute to the development of a reliable system of international accounting standards, and recognition of Canada’s critical dependence on access to capital markets in the United States.

The current debate over principles and rules should not be seen as an either/or situation that forces Canadians to choose, once and for all, between IASB and FASB. They are free to adopt an incremental approach to the goal of achieving a system of international standards.

In typical Canadian fashion, Canada could adopt a middle-path approach.

This means that, in typical Canadian fashion, Canada could adopt a middle-path approach. On the one hand, it could work with and support both IASB and FASB in the quest for high-quality international standards. Sometimes it would follow IASB's lead, if it judged that a standard it was setting contributed to the overall evolution of the system and to a higher degree of excellence.

On the other hand, it could continue to protect Canadian interests when making this assessment, monitoring the needs of Canadian businesses—especially their access to capital markets—in order to ensure that the long-term commitment to convergence around international standards does not draw Canadians out of the American field of play, say, by skewing the choices too strongly toward IASB. It will also be important that Canada's choices do not dissuade investments in Canada from abroad. After all, the choice in adopting accounting standards is not just about trust or accuracy—it is also about the bottom-line cost of doing business.

Insofar as the elements of a vision are present here, the author had little difficulty getting most of the participants to support it. Indeed, once the debate over rules vs. principles had been addressed, for the most part, they seemed to explain their own views in language very much like this. As far as we could tell, *this really is their vision*.

It is one thing for policy makers to tell a story of how they think things should go. It is another for the stakeholders or the general public to believe that it is being acted on. Where public trust is concerned, perception is often as important as reality.

Some participants noted that the vision is not a new one and that it has been around for some time. In particular, it was pointed out that the vision and strategic direction of AcSB is consistent with the vision presented here. What was striking to us was just that so many participants felt comfortable with this vision, even though it departs from the more black-vs.-white tone of much of the public debate that now surrounds the issue—a tone many of them seemed at first to adopt. Nevertheless, whether the vision is old or new, using it to tell a story of Canada's strategic approach to future standard setting likely is not enough to address fully the issues around public trust. It is one thing for policy makers to tell a story of how they *think* things should go. It is another for the stakeholders or the general public to believe that *it is being acted on*. Where public trust is concerned, perception is often as important as reality.

Exploring this point in the interviews led to a discussion of what would be needed to make Canadians (and others) feel secure that standard setting in Canada would follow the right course. One participant suggested that stakeholders and the broader public must have confidence that the lead organization can and will fulfill these goals. Picking up on this, we asked a number of participants whether the existing standard setter is properly equipped and well positioned to realize the vision we were considering. Some seemed comfortable with the idea. Some had doubts. Their main concern was its ability to represent all stakeholders' interests fairly.

Why? What were they worried about? Are they right? Before summarizing what we heard, a brief sketch of the Canadian Accounting Standards Board (AcSB) should be given as a point of reference.

4.3 Overview of the Accounting Standards Board

Objectives

AcSB is responsible for setting standards of reporting and accounting for Canadian companies and not-for-profit organizations, which constitute Canadian Generally Accepted Accounting Principles, or Canadian GAAP. According to AcSB's Web site (www.AcSBCanada.org), its mission

is “to contribute to enhanced decision making by continuously improving the quality of financial and other information about organizational performance reported by Canadian entities.” The organization has several stated objectives:

- “Develop standards that improve the quality of information reported by Canadian entities with due consideration for the costs and the benefits to preparers and users.
- “Facilitate access by Canadian enterprises to US and global markets by eliminating, or minimizing, GAAP differences within North America and internationally, as appropriate.
- “Support its standard-setting activities by actively assisting implementation and providing timely guidance on emerging issues.
- “Continuously improve the process of standard setting.”

Structure

The maximum number of AcSB members is nine. The members of AcSB are largely volunteers from the academic, business and accounting communities, as well as other users of financial information, who serve staggered terms of three years each, with one term renewable if necessary. These members are chosen to ensure that their competencies balance out the knowledge of the Board. The Chair’s position is a full-time, paid position, and the Canadian Institute of Chartered Accountants’ Vice-President, Standards, Director, Accounting Standards, and the IASB Liaison Board member for Canada hold non-voting positions on the Board.

AcSB is overseen by the Accounting Standards Oversight Council (AcSOC), which appoints both its own members (through a special committee) and those of AcSB. Nominees for AcSOC are encouraged from within the accounting profession and professional organizations, as well as from finance, government, business, law, financial regulators and “others who can bring a broad perspective to accounting standards.”¹² AcSOC helps to set the strategic direction of AcSB, and informs AcSB of the diverse views represented on the Council. The meetings of AcSOC are open to the public, and it formally reports to the public once a year on the performance of AcSB.

Further, AcSB works closely with the Emerging Issues Committee (EIC), which aids AcSB in responding in a timely fashion to stakeholder issues that may not become apparent as quickly through traditional consultative measures. AcSB advises EIC on issues that may require action, as EIC advises AcSB.

International Activities

Recognizing Canada’s global business interests, AcSB has come out strongly in favour of the development of international accounting standards. It is also working to harmonize Canadian GAAP with international standards as well as U.S. GAAP. Their Web site states that:

In the absence of clearly demonstrated, unique Canadian circumstances, it is unlikely that AcSB will adopt a new accounting standard in Canada that differs from those of our international colleagues. Consequently, the activities of international groups such as the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) significantly affect Canadian standard setting.¹³

AcSB’s international activities are also bolstered by its liaison activities with IASB.¹⁴

¹² AcSOC Terms of Reference—AcSOC Selection Process Article 14. Also available at http://www.cica.ca/index.cfm/ci_id/8431/la_id/1.htm .

¹³ AcSB International Activities. Available at http://www.acsbcanada.org/index.cfm/ci_id/193/la_id/1.htm.

¹⁴ For further information on AcSB liaison activities, see http://www.acsbcanada.org/index.cfm/ci_id/951/la_id/1.htm.

Funding and Accountability

The Canadian Institute of Chartered Accountants (CICA) funds and operates AcSB. Currently, AcSB and EIC are accountable to AcSOC. AcSOC, in turn, is ultimately accountable to the Board of Directors of CICA to demonstrate that it has fulfilled its mandate for oversight. Neither AcSB, EIC or AcSOC report to CICA's Board of Directors on their standard-setting decisions.

4.4. The Issue of Independence

As noted in the last section, AcSB is operated and funded by CICA, the country's largest professional accounting organization. Several of our participants pointed out that AcSB is one of the only standard setters in the world that retains such attachments. They also reported that in other countries it is now widely accepted that an official standard setter should operate at arm's length from all professional organizations. One participant replied that, if 'arm's length' implies no attachments, this applies not only to professional organizations, but to all stakeholders. The significance of AcSB's 'attachment' to CICA was the subject of some concern and debate.

Although a majority of participants expressed concerns about the links between AcSB and CICA, a few others seemed inclined to treat such concerns as exaggerated, if not misplaced.

Although a majority of participants expressed concerns about the links between AcSB and CICA, a few others seemed inclined to treat such concerns as exaggerated, if not misplaced. They pointed out, for instance, that AcSOC, which oversees the work of AcSB, contains members from the business, legal, and governmental communities who are unattached to CICA. Critics replied, however, that AcSOC is funded by and ultimately reports to the Board of Directors of CICA. "How can such an arrangement allow for independence?" asked one.

Another participant took a different tack. He asked: "If the AcSB is functioning well—if there is no evidence that it has rendered bad judgements—why should we change it or create a new one?" The question provoked some searching discussion, the results of which could have far-reaching consequences. In the interviews and conference calls it led us to debate the importance of two basic principles. We can refer to them as the *transparency principle* and the *democracy principle*.

When standards are set to regulate practice in a field such as accounting, we turn to people with experience and expertise.

We began by asking some of the participants: "What should new accounting standards be based on?" Some replied that, when standards are set to regulate practice in a field such as accounting, we turn to people with experience and expertise. To no one's surprise, discussion of this point revealed that uncertainty over which of two competing standards is the best can often be resolved by a careful consideration of the facts. In short, good standard setting is based on *experience and expertise*.

Then we tried to push this conclusion to its limits by asking participants if they thought that high levels of experience and expertise could turn standard setting into a science. We found few takers. Why?

Everyone recognized that setting standards often involves judgements that are controversial, say, because they involve a balancing of values in ways that may serve one group's interests but disadvantage those of another. For example, a new standard may be partly based on controversial views about what the standard setters regard as fair, or what methods they judge would be the easiest or most inexpensive for users to apply.

There is often no single, right way of assessing the merits of such disagreements or of balancing the interests and values on which they rest.

Such decisions are often controversial because different people will have different views as to what is fair or what is costly to apply. There is often no single, right way of assessing the merits of such disagreements or of balancing the interests and values on which they rest. Different choices will lead to different outcomes. Different outcomes will affect different users in different ways.

The conclusion this seems to imply is: *Although standard setting should rely heavily on experience and expertise, it also requires judgement.* Sometimes the uncertainty behind such judgements can be eliminated by further information, experience or expertise. But often it cannot because it requires a balancing of values, interests or other concerns that go beyond expertise and experience. Choices must be made.

As more than one participant insisted, making choices under conditions of uncertainty and disagreement is an inevitable part of setting accounting standards. Because of this, it seems fair to conclude that no interested party should be in a position of privilege, such that they might influence the choices in ways that reflect controversial priorities. Having such influence risks skewing decisions in a direction that favours one group's interests over others. This is not only unfair to the others, but it also weakens the credibility and legitimacy of the standards.

Several of our participants viewed these discussions as providing a strong argument against AcSB's continuing attachment to CICA. They portrayed it as a vestige of the past that should be discarded. This was not said to impugn the integrity of the standard setter. The participants made a point of telling us that they believe that it acts with the best of intent and that it relies on a high degree of professionalism, expertise and experience. But they worried that the arrangements could compromise the appearance of impartiality and that, in any event, no matter how good the intentions may be, influence is likely to creep into decision making in subtle ways.

Good decision-making should respect differences of opinion by ensuring that everyone's interests are treated fairly and that no one is in a position to exert undue influence.

It is of the essence of democratic organizations that, where gaps in knowledge, evidence and expertise exist, good decision-making should respect differences of opinion by ensuring that everyone's interests are treated fairly and that no one is in a position to exert undue influence. We can call this the *democratic principle*. In the current context, most participants took it to imply that AcSB should operate at arm's length from any attachments to professional organizations or other interested stakeholders.

However, some participants wondered what 'arm's length' might mean. For example, one asked whether it meant that Board members could not belong to any professional accounting organization whatsoever. If so, this would go further than most countries have gone. Although the question was not directly posed to other participants, it seems unlikely that those who worried about AcSB's 'attachment' to CICA were suggesting that the changes should go this far. Their concerns seem to be focused on the fact that AcSB is funded by CICA, even though AcSB reports and is accountable to AcSOC.

However, one participant questioned whether the relationship between AcSB and CICA is the critical issue when considering the independence of the standard setter. He suggested that, if there is concern about a public perception of lack of independence, it is more likely to derive from the part-time nature of the Board-member appointment. Some may be concerned that the employment relationship of Board members call into question their ability to act objectively on controversial issues that affect significantly either their employer or clients of their employer.

Transparency assumed great importance in the eyes of some of our participants, who saw it as an essential part of the process of rebuilding public trust.

Finally, it was suggested by another participant that a standard setter such as AcSB might try to offset effects from such attachments to CICA through a system of 'checks and balances.' But this did little to satisfy the critics. They replied that it is important not only that the process is fair, but also that it is seen to be fair. In other words, attachments that give rise to even the appearance of undue influence should be removed. That is the simplest and most reliable solution. We can call this the *transparency principle*. In the aftermath of the U.S. scandals, it assumed great importance in the eyes of some of our participants, who saw it as an essential part of the process of rebuilding public trust.

Nevertheless, as the discussion above suggests, how the principle is to be applied raises a number of issues. If it was clear that some participants felt that the current relationship between AcSB and CICA must change, it was less than clear what sorts of attachments between a standard setter and other interested parties would be acceptable.

5.1 A Thought Experiment

We asked some participants to imagine that they were the appropriate minister of the Crown and that the Prime Minister had assigned them the task of making recommendations for standard setting in the 21st century.

Following the discussion on impartiality, we invited some of our participants to engage in a small thought experiment. Given the concerns raised, the author thought it would be useful to see what would emerge from an open-ended discussion about standard setting in the 21st century. In particular, we asked some participants to imagine that they were the appropriate minister of the Crown and that the Prime Minister had assigned them the task of making recommendations for standard setting in the 21st century. The discussion ranged across three levels: *mandate and mission*, *capacities* and models.

First, we told them that they must write a *mandate*. More specifically, they must define the fundamental objectives or principles on which standard setting would be based. These should provide the standard-setting body with direction and a mission.

Second, we asked them to provide a sketch of a standard setter for the 21st century that would help us to see the *capacities* it would need to carry out the mandate.

Third, we said that they should provide some idea what the organization would look like, what kind of *structure* it would have.

What follows is the author's analysis based on a range of individual views expressed during the discussions.

5.2 Mandate and Mission

We have seen that setting accounting standards requires a significant amount of experience and expertise. Consistent with this, any proposed mandate for our standard setter must include a commitment that, as far as possible, decisions will be based on evidence:

- *Wherever possible, standard setting should be guided by expert knowledge that aims at maximizing accuracy, transparency and simplicity in financial reporting.*

Evidence-based decision-making is not enough to ensure good standard setting. A standard setter for the 21st century must also consider how its standards will impact the various organizations that use them, ranging from small businesses to large corporations. When it makes controversial choices—ones that go beyond experience and expertise—it must recognize this and strive to balance the competing interests of all stakeholders fairly. This commitment could be written into the mandate in the following way:

- *The Canadian standard setter should aim at the development of standard setting policies and practices that are fair and independent, serve the public interest, and in turn serve the interests of those who rely on and use them.*

The transparency principle underlines the importance of ensuring that the organization is designed in a way that not only achieves fairness and impartiality, but that is also seen to do so:

- *Standard setting should be based on structures and processes that demonstrate the organization's commitment to maximizing fairness and impartiality.*

Finally a standard setter for the 21st century should be instructed to promote *convergence or harmonization* of accounting standards internationally. However, there was some disagreement about how this was to be understood.

Some participants were content to explain the commitment to pursue international standards as an expression of Canada's 'national self-interest.' When pressed, the tendency was to define that term as an *aggregation and balancing* of various interests within Canada. This is a fairly conventional way of defining 'national interest' that is based on economic theory.

Some of our participants argued for a more engaged commitment to the goal of convergence by providing a different way of understanding the nature of the commitment.

But at least some of our participants argued for a more engaged commitment to the goal of convergence by providing a different way of understanding the nature of the commitment. They contend that countries such as Canada should no longer consider themselves as sovereign nation-states in the traditional sense. Instead, they are independent communities within a larger, global village. Perhaps the best way to see the force of this point is to explain it in terms of globalization.

The world today is a much more interdependent place than it was, say, twenty years ago. Information and communications technologies are changing more than the flow of information. They are changing the structure and basis of the traditional nation-state. Countries are not as self-contained as they used to be and, in this view, we should cease talking about them as though they are.

For example, the best way to explain Canadians' commitment to promoting international human rights is not in terms of a 'national interest,' but in terms of Canadians' views about the shared humanity of all peoples. Hence Canadians' recent criticism of the U.S. when it refused to support the creation of an international criminal court on the grounds that it would impinge on U.S. sovereignty. Many Canadians now want to argue that international justice for certain crimes transcends discussions of sovereignty or national interest.

In the view of the world as a global village, the world as a whole is regarded as having its own interests, standards and norms, which are in the process of emerging.

In the view of the world as a global village, the world as a whole is regarded as having its own interests, standards and norms, which are in the process of emerging. As a member in good standing, Canada should be committed to promoting their evolution and clarification. This is not just an expression of Canadians' national interest. Indeed, sometimes it may run counter to their national interest. When it does, Canadians may sometimes be called upon to sacrifice that interest to serve the interest of the larger global village, of which Canada is a member.

So, in this view, Canada's commitment to the creation of international standards in accounting should be treated as more than an expression of Canadians' aggregate self-interest or their desire to further their domestic interests at the international level. When their self-interest conflicts with that of the global village, the standard setter must consider the two separately, weigh and balance them. Sometimes, it may come down on the side of promoting international standards at the expense (at least in the short term) of Canadians' aggregate self-interest.

Though controversial among some of our participants, who felt such a commitment to international obligations outside of Canada's own national interest somewhat far-fetched, this view of Canadians' commitment to international standards gives rise to a fourth principle for the mandate for standard setting:

- *Canada is committed to fostering the development of a set of international accounting standards that maximizes accuracy, transparency and simplicity in financial reporting, while treating the interests of all the system's relevant users (countries) fairly and in a manner that is seen to be such.*

It is an open question whether these four principles are adequate to the task of providing a mandate and mission for a standard setter that reflects the vision discussed earlier in this paper.

5.4 Capacities

Metaphors such as ‘balancing’ and ‘weighing’ loom large in the last section. For those who have studied jurisprudence, such metaphors will be familiar. The courts are regularly called upon to weigh and balance competing interests, rights and claims—notwithstanding the fact that they are often presented with huge amounts of evidence, supported by seemingly endless streams of expert testimony. Justices are well aware that the practice of law is not a science, and that the skills needed by a jurist surpass even the most rigorous training in the rules of law.

An accounting standard-setter for the 21st century will need skills and capacities that go well beyond experience and expertise in accounting.

Standard setting is not jurisprudence, but there is a useful analogy. We can see from the four principles above and the comments around them that an accounting standard-setter for the 21st century will need skills and capacities that go well beyond experience and expertise in accounting. In addition to a high level of experience and expertise, participants identified at least five other very important and fundamental areas where considerable organizational capacity would be crucial, in order for the proposed organization to fulfill the mandate.

First, the standard-setter must be well equipped to *assess the interests of Canadian users of the system and to balance them*. This is not a small task. Obvious stakeholders here include investors of all sorts, small- and medium-size enterprises (SMEs), large corporations and a wide variety of professional associations. It should be noted again that this task requires a very different skills set from that needed to ensure that standards lead to accurate, simple and transparent financial reports.

Second, a standard setter for the 21st century must be well equipped to *assess the interests of the global village and to balance these against those of Canadians*. Although many of the skills needed for this will overlap with those needed for the last category, there are important differences. In particular, there must be a high level of expertise regarding the needs, aspirations and circumstances in which other countries operate.

Third, the standard setter must have a *capacity to operationalize the principles* in a manner that is seen to be impartial and fair. This implies a significant capacity for consultations in its decision-making processes.

Fourth, such a mandate will also require a capacity—and the credibility—to step out onto the international stage and *provide leadership* in playing the role of honest broker, say, between IASB and FASB.

Fifth, an authoritative body (such as the Securities Regulators or another regulatory body with appropriate powers) must have a capacity to review and pronounce on how standards are being used. A lesson of the recent scandals is that it is not enough for a standard-setting authority to set standards. There must also be a responsibility and a *capacity to review, comment on and enforce how standards are being used* in the community, to help guard against misunderstanding or abuse. It is an open question about exactly which, or what type of body would best meet this need.

5.5 A Learning Organization and a Centre of Excellence

Finally, as one participant noted, if the proposed standard-setting body is to fulfill its mandate, it needs at least one further capacity. But it is a capacity of a quite different sort. According to this participant, it is critical that the organization have *an ability to learn*. It must be what management experts now call a ‘learning organization.’

A learning organization differs from a conventional organization because it has what some call a ‘feedback loop’ built into it. This ensures that it receives an ongoing flow of information from

A learning organization differs from a conventional organization because it has what some call a 'feedback loop' built into it.

outside of the organization—feedback on how well it is performing and how successfully it is achieving its goals. Customers, clients or others who rely on the organization for a service supply the feedback. To truly be a *learning* organization, however, most experts agree that a feedback loop is not enough. Learning requires more than the right kind of design. It also requires the right kind of *culture*. In brief, the organization must be able to evaluate and use the information intelligently *to learn from its own experience and to improve what it does*. As a result, it should get progressively better at fulfilling its tasks. We should expect this of a body charged with setting official standards in an area that is undergoing great change.

One participant suggested that the goal of creating a learning organization should be taken one step further. He argued that a standard setter for the 21st century should also strive to be a *centre of excellence*. Such an organization has a capacity to gather information that reaches beyond feedback from the organization's clients. It also gathers information about similar organizations around the world. In other words, it has a *research capacity*, which it uses to actively identify 'best practices' from other countries. It then uses that knowledge to improve its own performance.

Moreover, the benefits of a standard setter that is also a centre of excellence go beyond improving its effectiveness in setting standards for Canadians. It could also become an international centre for learning, discussion and debate about global accounting standards. Not only would that help it provide Canadians with 'the best of the best' to improve their own standards, it would also give Canada a higher profile as a leader in the field and help legitimize its role as an 'honest broker' in the international community and a respected champion of quality global standards.

5.6 Possible Organizational Models

There is also the question of an appropriate organizational model for the standard setter. Participants raised and commented on a number of related issues, ranging from to whom it would report, to how it would be funded. There seem to be two basic models.

A 21st century standard setting body could be created by government but that it should operate at arm's length from it

Some thought that a 21st century standard setting body could be created by government but that it should operate at arm's length from it, as does the Canadian Radio and Telecommunications Commission. It would report directly to government, with joint responsibility shared between the federal and provincial levels.

However, others thought that this raised troubling jurisdictional questions. For example, how could provincial and federal governments share this role? Our participants worried that an attempt by the federal government to act unilaterally might create problems with the provinces and territories. One participant suggested that an alternative model might involve some kind of 'council' involving both levels of government and, possibly, stakeholders, such that a balance might be struck between all of their interests.

A second model involved the creation of a special not-for-profit corporation with a charter defining its purpose.

A second model involved the creation of a special not-for-profit corporation with a charter defining its purpose. Although government might initially create such an organization, it would not report to government but rather to a board of directors. The board would be appointed from among the stakeholders, including, perhaps, governments. The new air-traffic control system that was established in the 1990s through the creation of NavCan, a national not-for-profit air-traffic controller, is based on such a model.

Funding for either model might come from a variety of sources, including user fees, contributions by government and stakeholders, and the selling of publications and services through a centre of excellence.

A glance in this direction suggests that a complete list may be long.

Before closing, something should be said about the costs, opportunities and challenges related to standard setting in the 21st century as described above. Several examples were raised during the discussions. Some of them received more attention than others. A glance in this direction suggests that a complete list may be long. We can provide little more here than a starter set taken from our discussions with the group along with some of their comments.

Costs:

Transitional Issues and Annual Operating Costs

There will be costs associated with adjusting standard-setting, and—depending on its responsibilities, design and capacities—the costs could be considerable. However, the costs would likely be scalable with whatever relevant infrastructure is already in place. There would be further costs in the event that a fully stand-alone standard-setting organization that has full-time paid board members was considered necessary or desirable. Staffing issues are also significant, since full-time board members will require appropriate senior professional and administrative support.

Retraining

From the viewpoints of the accounting profession and business in general, a change in the status quo is usually accompanied by costs. Typically, these can include anything from new equipment to the retraining of staff. Any significant change in the mission and mandate of standard setting in the future could create such costs.

Opportunities:

A More Representative Body

To the extent that standard setting does not represent all stakeholders, standard setting in the 21st century should do so.

International Leadership

Canada could continue to take a leadership role and enhance its role as an honest broker in encouraging the development of global standards.

Lower Costs of Doing Business

Standards that balance the need to do business in the U.S. with other competing international interests will ultimately make it easier to do business in Canada.

Challenges:

The Needs of SMEs vs. the Needs of Big Business

One challenge for a new standard setter as it moved toward international standards would be to see that small- and medium-size enterprises (SMEs) that do not raise capital in public markets are not inappropriately burdened by requiring that they meet all the same reporting requirements as large corporations. Often this is expensive and unnecessary. We have been told, however, that provisions like section 1300 of the CICA Handbook on Differential Reporting (applicable to non-public companies) can be made to offset this risk. Under such provisions, each company would have to meet a set of reporting standards appropriate to its size, while still ensuring conformity with international standards. One participant noted that reaching global agreement on a meaningful differential reporting system will be far more difficult than dealing with it only in the Canadian context.

Conclusion

The Preface states that this paper does not aim at drawing major conclusions about the state of the art, but rather at providing a basis for a broader and more productive discussion of some key issues—especially around the restoration of public trust. The article sketches a vision for standard setting in the future, and some principles and capacities that might be part of a standard-setting organization that would be designed to realize it. The proposed model provides a basis for comparison and contrast with the Accounting Standards Board .

It is beyond the scope of this paper to assess how well the mandate and capacities of AcSB and those of standard setting in the 21st century would line up. It will be enough simply to pose the question. By way of a conclusion, then, let us suggest a few areas where further exploration and discussion may be needed.

The question of AcSB's relationship to CICA remains unresolved. There is tension and disagreement between key stakeholders here. At this time, such tensions may, in some minds, tend to further erode public trust.

There are other areas where the paper suggests that discussion is needed. For example, if in the 21st century an effective Canadian standard-setter is to act as an honest broker between, say, IASB and FASB, or to position itself internationally as a centre of expertise on standard setting, does AcSB have the right skills, resources and mandate needed to meet this objective? If not, what could be done to rectify this?

Questions should be also raised about AcSB's capacity to strike the right balance between Canadians' purported commitment to the view that Canada is a community within the global village, on one hand, and the interests of Canadian businesses and other users of the system, on the other. What sort of expertise would be needed to achieve this? What resources?

Before closing, it is worth noting again that the views in this paper should not be attributed to any specific member of the discussion group or their organization. The paper is the result of a process that included both one-on-one interviews and group sessions. It represents an effort to interpret and synthesize what we heard in those meetings. Although not all members of the group were available for the conference calls, we have tried to reflect the opinions and views we heard fairly.

Finally, let us repeat that this paper does not pronounce on the questions we have raised here. More modestly, it aims at providing a basis for a broader public debate of them. Moreover, it takes the view that such debate should not be confined to experts in the accounting field. The issues are not merely technical ones. Some bear a remarkable resemblance to those in other fields where globalization is having an impact on how standards are set and the role they play. The current debate over accounting standards should be seen as part of a larger public-policy debate over Canada's place in the global village. If the paper helps to make those links clearer and to spark debate around them, it has served its purpose.