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February 8, 2002

The Enron Situation

An open letter from
CICA President and CEO David W. Smith, FCA

Dear Colleagues:

Some of you have contacted the CICA or provincial institutes/ordre to express concern about the recent failure of Enron in the United States, and to ask us to comment on whether this situation could have implications for the accounting profession in Canada.

Without a doubt, the Enron failure is an extremely serious situation that has caused enormous hardship for thousands of people who have lost their jobs and their life savings. It is a very complex issue and because we have no other information about it aside from what has been publicly reported, we cannot comment on any of the specifics of that situation or the parties to it. What we can say, however, is that we are closely following the various investigations.

When something like this happens, everyone involved in our capital markets and financial reporting systems must do their utmost to get to the bottom of what occurred, learn from it and do whatever is necessary to prevent it from happening again. This process is already underway in the United States.

Here in Canada, our profession operates differently than it does in the United States. Our discipline and oversight regimes are significantly different and our practice inspection systems also differ from the American peer review process. Nonetheless, if change is needed in Canada, we have every confidence that we will be able to sit down together with the regulators and other stakeholders in the capital markets and get it done.

The CA profession takes its self-regulatory responsibilities very seriously, and will continue to work to strengthen the system. As members of the profession, you will be well aware that this process has been underway for some time, and that a number of steps have been taken in each province to strengthen the self-regulatory processes.

Let me give you a few examples. In many provinces there are now processes in place to initiate professional conduct investigations and discipline hearings prior to the completion of court cases or actions by regulators. Ontario, Alberta and New Brunswick allow their respective institutes of chartered accountants to discipline firms; and some provinces are considering similar changes. Provincial CA institutes/ordres continue to work with the regulators and governments in their respective provinces to modernize the self-regulatory system to protect the public interest.

It is our responsibility to set the standards for accounting and assurance, and we have taken a leadership role in moving to have financial statements reflect the true health of companies, and to make that information more understandable for retail investors and the public. In a fast-changing, complex world, historical accounting isn't good enough any more.

In the past year, we've put into place new standards on business combinations and stock options that would require those activities to be fairly and clearly reflected in financial statements. We've also approved a new standard on fraud that provides more guidance to auditors.

Moreover, this past December, we issued a 70-page draft document that would revolutionize Management's Discussion and Analysis (MD&A) in financial reports. This new guidance would transform MD&A into a more valuable resource for shareholders by providing a meaningful assessment of a company's performance, and future prospects - not just past data.

If you would like further information on how the profession is responding to this situation, we encourage you to go to any of our Web sites where there are some frequently asked questions and answers.

Ethics and integrity are central to our profession and we take very seriously the duties and ethics associated with providing assurance. Whatever the eventual outcome of the Enron situation and its potential impact on the profession, we will continue to strive, as we always have, to improve our standards and self-regulatory system to protect the public interest.

Sincerely,

A handwritten signature in black ink, appearing to read "David W. Smith". The signature is fluid and cursive, with the first name "David" being the most prominent.

David. W. Smith, FCA
President & CEO