

Public Trust Initiatives

General

1. What are “public trust” initiatives and why is the Canadian CA profession making changes in this area?

Public trust initiatives are the activities and programs that support core CA values and maintain the CA commitment to protect the public interest, which is the cornerstone of our profession. Public trust was identified as an area for action in the strategic plan adopted by the CA profession in 2004. The Council of Senior Executives established a Public Trust Task Force, which has initially identified continuing professional development (CPD), professional liability insurance (PLI) limits and practice inspection/review as three priority areas for review and change. Proposals have been developed for CPD and PLI, and work is ongoing in the area of practice inspection/review.

2. Why have continuing professional development (CPD) and professional liability insurance (PLI) limits been selected for review and change?

There was an immediate need to review CPD standards because the International Federation of Accountants (IFAC) adopted a new CPD standard that took effect on January 1, 2006. As an IFAC member with influence on the global scene, the Canadian CA profession must meet or exceed international standards, where applicable.

Most professional and personal liability insurance coverage already exceeds the current minimums, and other accounting bodies have introduced higher limits, so it is appropriate and necessary that the CA profession increase PLI limits. As well, the number and dollar value of claims are increasing.

It is also important that CPD and PLI requirements be harmonized across the country as much as possible, so that all CAs are meeting – and are seen to be meeting – the same high standard in these areas. In today’s global environment, marked by increased scrutiny, rapid change, intense competition and enhanced oversight, raising the bar for CPD and PLI will confirm the quality and consistency of the CA brand and will signal the profession’s ongoing commitment to protect the public interest.

3. Our standards are already high – why are changes needed?

While standards are high, they vary across the country. Uniform and harmonized standards will confirm the quality and consistency of the CA brand.

While some Canadian jurisdictions meet the IFAC CPD standard, others do not. As a member of IFAC, it is important that the Canadian profession meet or exceed international standards, where applicable.

Other accounting bodies have higher PLI limits than the CA profession, so it is appropriate that we raise our limits on a national basis. As well, the reality is that many CAs already carry insurance beyond the current limits.

Proactively raising CPD and PLI requirements will demonstrate the CA profession's ongoing commitment to protect the public interest.

4. Why do standards need to be the same across the country?

Most jurisdictions already have minimum CPD standards and mandatory PLI limits, but they vary from jurisdiction to jurisdiction. It is important that these requirements be uniform in their application and harmonized as much as possible, in order to demonstrate the quality and consistency of the CA brand and to protect the public interest.

It is also important to note that the administration of the standards does not have to be identical across all jurisdictions. For example, different jurisdictions may have different CPD reporting cycles and different implementation dates.

5. How much will the changes cost?

If the minimum CPD requirements in your jurisdiction are already the same as the IFAC standard there will be no cost increase associated with the changes. It is anticipated that the majority of Canadian CAs already meet or exceed the IFAC standard of 120 hours of CPD over three years. If the requirements are different, you, your firm or your employer may incur increased costs to meet the new requirements and to report compliance. We anticipate that these increases would be minimal.

Regarding the new PLI limits, many members in small, medium and large firms already carry coverage at or above the new levels, so their costs won't increase. While the new minimum limit quadruples existing coverage in many jurisdictions, base premium costs for minimum coverage are expected to increase by no more than \$36 per month.

Uniform national CPD and PLI standards should also reduce the cost of compliance by cross-border firms and employers and should help reduce Institutes/Ordre operating costs.

6. What happens if I don't comply with the new CPD requirements?

Currently, in most jurisdictions, failure to report CPD results or to comply with minimum CPD requirements usually ultimately results in expulsion from membership. That will not change. It

should be noted that, in most jurisdictions, PICAs/Ordre work extensively with members to remedy any deficiencies before there is any referral to the disciplinary process.

7. Why are these changes being brought forward now?

The IFAC standard for CPD took effect January 1, 2006, so the Canadian CA profession must move to adopt it as soon as possible. Even with adoption by the Canadian CA profession anticipated in 2006, the recommended deadline to implement the new standard is not until January 1, 2008. The exact timing of the adoption of the new standard would be determined by each PICA/Ordre.

Because most professional and personal liability insurance coverage already exceeds the current minimums, and because other accounting bodies have introduced higher limits, it is necessary to introduce new minimum PLI limits for the CA profession as soon as possible, in order to protect the public interest.

The current minimum PLI requirements have not changed since they were first introduced. In some provinces this goes back to the mid-1980's. In the meantime, the cost of doing business and the level of claims sought and settled has increased significantly.

8. Isn't this just an over-reaction to the problems in the U.S.?

While it is true that the accounting profession has been under unprecedented scrutiny over the past number of years due to Enron and other corporate failures, the need to increase minimum CPD and PLI requirements is driven by a number of factors, including globalization, rapid change, competition and enhanced oversight. But, first and foremost, the CA profession must meet – and be seen to meet – the highest standards in order to protect the public interest. National harmonized CPD and PLI standards are an important part of the profession's ongoing commitment in this regard.

One of the main reasons that CPD changes are being proposed is to ensure that the Canadian CA profession meets the IFAC standard. In order to remain in a position of influence on a global scale, the Canadian CA profession must be an international player. The profession cannot claim to be heard or compete globally if its standards are lower than those imposed by its partners in IFAC.

Changes are being proposed to PLI limits because most professional and personal liability insurance already exceeds the current minimum and other accounting bodies have introduced higher limits. It should also be pointed out that claims over \$250,000 have doubled since 1999-2000, with more than half of the number and dollar value of claims relating to tax issues.

Continuing Professional Development

1. What are the proposed new CPD minimum requirements?

The proposal is that each PICA/Ordre adopt a harmonized CPD standard that, at a minimum, meets the IFAC standard, which requires 120 hours of CPD over a three-year cycle, including at least 60 hours of verifiable study and at least 20 hours of study completed annually.

We believe that the majority of Canadian CAs already meet or exceed the IFAC standard of 120 hours of CPD over three years.

PICAs/Ordre can choose implementation dates that best suit their jurisdiction, and can opt to phase the new requirements in, where appropriate. The exact timing of the adoption of the new standard would be determined by each PICA/Ordre.

2. What qualifies as verifiable and unverifiable study?

Areas of study are not being mandated – members should complete study in areas that are relevant to their professional responsibilities and growth. PICAs/Ordre are being asked to work together to develop a harmonized list of examples of both verifiable and unverifiable study and to publish that information for members. Some examples of verifiable study might include:

- courses, conferences, seminars and in-house training;
- formal study, professional re-examination/testing;
- reading/research leading to presentations, reports and articles or for a specific application in a professional role;
- formal study and/or self-study leading to an examination or attainment of a designation, diploma or degree;
- participation on committees or boards that contributes to professional growth;
- publication of articles, papers or books;
- relevant teaching and speaking.

Examples of unverifiable study might include:

- on-the-job training;
- self-study that does not involve an examination or other objective certification of completion;
- reading of professional journals or magazines that is not part of research for a specific application in a professional role.

3. I'm a CA in industry and/or in a position that has nothing to do with my being a CA. Why must I complete CA CPD to keep my designation?

In these times of constant change, it is imperative that CAs remain knowledgeable and current in all areas in which they practise or work in order to best serve the interests of clients, employers and the general public.

CAs in all sectors hold positions of importance involving financial reporting, public accountability and maintaining the public trust. Employers hiring CAs in any sector rely, at least to some extent, on the designation as proof of professional competence.

Because all CAs carry the professional designation, any lack of competence or ethical behaviour has the same consequences to the reputation and standing of the profession, regardless of the sector or role in which they operate.

In short, all CAs are the brand of the profession and, accordingly, all CAs should be held to the same high standard in all of their professional activities. It should be a point of pride for each and every CA that each and every other CA is called upon to meet the same high standard.

CAs must remain at the top of the accounting profession and must also be seen to be at the top. If other professions, and particularly other accounting bodies, impose more rigorous universal PD requirements on their members, it challenges CAs to defend their standard. The CA standard must continue to be the gold standard.

4. I only practise part-time – why must I meet the same requirements as a full-time practitioner?

With the rapid pace of change that the profession is facing, all CAs who practise public accounting must remain knowledgeable and current, in order to continue to protect the public interest.

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5. I'm on medical leave – if I don't meet the new requirement will I be expelled from membership?

The new requirements permit PICAs/Ordre to exercise discretion to provide exemptions for members who merit special consideration, such as those on medical leave. PICAs/Ordre are being asked to share information about their exemption practices and to harmonize them as much as possible across the country.

Professional Liability Insurance

1. What are the proposed new minimum PLI limits?

PICAs/Ordre are being asked to increase the required minimum PLI limits as follows:

- \$1 million where one member practises public accounting;
- \$1.5 million where two or three members practise public accounting;
- \$2 million where four or more members practise public accounting.

2. How much will my premium go up?

Many members in small, medium and large firms, who already carry coverage at or above the proposed new levels, will be unaffected by the changes. It is anticipated that base premium costs for minimum coverage will increase by no more than \$36 per month. It should be noted that for a relatively small increase in premiums, the new minimum limit quadruples existing coverage in many jurisdictions.

3. I'm a part-time practitioner – why do I have to meet these new requirements?

It is important that all CAs in public practice carry the required minimum coverage, in order to protect the public interest. At present, based on AICA data, more than half the number and dollar value of claims relate to tax issues and close to 10 per cent of claims relate to non-review engagements, the main areas of practice for part-time practitioners.

4. Do CGAs and CMAs have higher minimum limits than what is being proposed for CAs?

The new minimum PLI per-claim limits proposed for Canadian CAs are in fact the same or higher than those of CGAs and CMAs. The maximum per-claim limit for CGAs and CMAs is \$1 million or less, regardless of the number of practitioners. The CA per-claim limit begins at \$1 million for one practitioner, rises to \$1.5 million for two or three practitioners and increases to \$2 million for four or more practitioners.

5. When would the new limits take effect?

Each PICA/Ordre will determine the effective date of the new PLI limits for all new policies and renewals.

6. I can't get discovery insurance from the AICA – will the proposed changes help me obtain it?

The proposed changes do not affect the availability of discovery insurance from the AICA for those who currently do not qualify for it.

The Association of Insured Chartered Accountants (AICA) underwriters provide free discovery insurance for sole practitioners carrying a limit of \$250,000, providing they have been insured continuously, claims-free, for at least three years, renewable annually. For a cost, it is also available to sole practitioners carrying a limit of \$1 million who meet the above conditions.

For 2007, the AICA is planning to negotiate the availability of discovery insurance policies for more than one year.

7. Will I have to buy my insurance from a specific carrier?

No, the proposed changes do not require members to buy their coverage from a specific carrier.

8. Aren't we just being penalized for the transgressions of the large auditing firms?

The minimum PLI limits are being increased to protect the public interest, to reflect the current coverage levels already carried by many members and because other accounting bodies have increased their minimum limits.

Based on AICA data, claims over \$250,000 have doubled since 1999-2000 and more than half the number and value of claims relate to tax issues. Close to 10 per cent of claims relate to non-review engagements, one-and-a-half times as many claims as review engagements.