

## Tidying up for summer

**A**s we sidle into summer it's a good time to tidy-up some miscellaneous items that have been left dangling over the past few weeks.

Accounting differences between Canada and the U.S.A. have long complicated comparisons of reported financial results. Generally Accepted Accounting Principles – GAAP Accounting – north and south of the border have many differences.

Most are miniscule, but in aggregate they can create faulty impressions.

With global investment markets now dominating portfolios, the addition of British, European, and Asian methods of reporting add further problems and distortions for investors, analysts, and accountants alike.

In order to bring worldwide financial reporting into closer harmony it is intended to scrap GAAP in favour of an as-yet untested method to be known as International Financial Reporting Standards (IFRS).

It is the view of many analysts and accountants that IFRS is fraught with more bunkers and hazards than Bethpage Black.

It is founded on a market-based philosophy that gives corporate management relatively wide latitude on what and how reports will be prepared for shareholders and investors.

Given the current regulatory environment, the implementation of IFRS will post significant challenges to regulators, by creating opportunities for manipulation.

In the view of L. S. Rosen, Chair, Accounting Standards Board, " the gravity of the situation is not yet being fully understood".

He fears Ponzi schemes – think Madoff and Stanford – could flourish, and income-trust-like pyramid scenarios might return.

Many of the causes of the current worldwide recession are accounting related. It is hoped that care be taken before the financial world rushes headlong into an accounting disaster

Dangler number two relates to the appointment of a single securities regulator for all of Canada, as announced this week by the Minister of Finance .

In the past we have chided the powers-that-be for persisting with different rules in all provinces.

Now we're not so sure that one body can oversee the diverse array of investment vehicles that has come to the fore since the millennium.

Stocks, bonds, and registered brokers should be manageable by a single entity, but when ETFs, multitudinous derivatives, and sophisticated hedgers are tossed into the mix the challenge increases exponentially.

Even the Toronto CFA Society is less than wildly positive on the installation of a single regulator. Its conclusion, however, is "we can no longer afford to have continued negativity towards our ability to regulate our markets and questions about our integrity".

Another dangler relates specifically to potential market action between Canada Day and Labour Day this year.

Traditionally there is a bit of summer hiatus through July and August. In 2008 the S&P/TSX Index dipped from 14,467 to 13,771, but then it collapsed steadily to just below 8,000 in March of this year.

The subsequent recovery into the 10,000 region has energized the investment bunny.

It has given rise to thoughts of another 500 or so points being recovered before frost tinges Muskoka's leaves with red, and has led a number of observers to forecast an 11,000 reading for the index before year end.

The bulk of optimism stems from an improved outlook for many major commodities, headed by crude oil and copper.

The Loonie could also play a prominent role in bolstering the index, especially if the greenback continues to weaken.

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