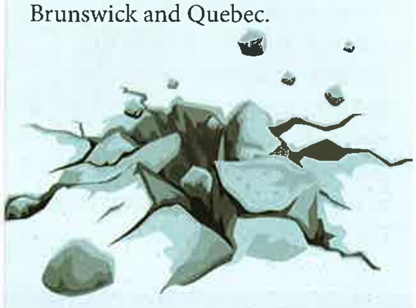
Does fracking cause earthquakes?

The average number of M-3 and greater earthquakes in the US midcontinent increased starting in 2001, culminating in a sixfold increase over 20th century levels in 2011, according to a recent paper by the US Geological Survey (USGS). However, the question remains is this increase natural or man-made—a result of drilling for oil and gas?

A study by the USGS linked about 50 earthquakes in Oklahoma to fracking.

"Our analysis showed that shortly after hydraulic fracturing began, small earthquakes started occurring, and more than 50 were identified, of which 43 were large enough to be located. Most of these earthquakes occurred within a 24-hour period after hydraulic fracturing operations had ceased," stated the report.

Meanwhile in Canada, the federal Natural Resources Department launched a four-year study in April. With the aid of industry regulators and universities, it will seek to unearth if there is a link between fracking and quakes in BC, New Brunswick and Quebec.



THINKSTOCK

FEI CANADA ANNOUNCES DISTINGUISHED SERVICE AWARD WINNER

DR. T. ROSS ARCHIBALD is the recipient of Financial Executives International (FEI) Canada's 2012 Frank S. Capon Distinguished Service Award. One of his most notable contributions was the development of six pension research studies that brought recognition to the FEI Canada brand. He was recognized for his long-standing contributions to FEI Canada and the financial community at FEI Canada's annual conference, held in St. John's, NL, from June 6-8.

"Canadian CFOs continue to be more positive overall than US CFOs, but the gap is narrowing quickly. This increased optimism appears to be leading to greater prospects for increased investment by North American companies, particularly in mergers and acquisitions."

Trevor Nakka
co-leader, Deloitte Canada's CFO program

"Business owners recognize the more talent on the team, the greater the competitive edge, and in today's economy everyone is looking for that edge."

Dennis Fortnum
Canadian managing partner, KPMG Enterprise

The World Resources Institute and founding partners Goldman Sachs and GE have launched the Water Risk Atlas, a publicly available online mapping tool populated with proprietary data on local-level stresses to water availability. The tool is designed to allow companies to analyze and manage water-related risks and opportunities in the context of specific ecological and social impacts at local and regional levels.

RISK REPORT

HOW IS YOUR CEO'S MARRIAGE DOING?

Is your company in a risk-averse industry where your shareholders value the stability of the stock price? Or does your company thrive on risk-taking and large expenditures to get ahead in the market? If the former, then your CEO is likely older and has been married to his high-school sweetheart for a number of years. If it's the latter, then you are likely led by a younger, unattached captain of industry who has a focus on personal status. These are some of the findings in the recent study, *Status, Marriage, and Managers' Attitudes to Risk*, by Nikolai L. Roussanov and Pavel G. Savor of The Wharton School at the University of Pensylvania. The authors found that companies run by single CEOs "exhibit higher levels of stock return volatility and pursue more aggressive investment policies than otherwise comparable firms," including higher investments in "capital expenditures, as well as R&D spending and acquisitions, which are commonly associated with risk-taking."

Revenue pressure undermining compliance commitments

AN INCREASING NUMBER OF SENIOR EXECUTIVES polled at leading companies around the world are willing to make cash payments to win or retain business, says a recent study by Ernst & Young. According to E&Y's 2012 Global Fraud Survey, *Growing Beyond: a place for integrity*, 15% of respondents (of 1,700 polled, including CFOs and heads of legal, compliance and internal audit) said they would make such payments, up from 9% in 2010.

For a growing number of executives, the pressure to meet revenue growth targets is undermining their commitment to compliance with policies and the law, says E&Y. Over a third of the respondents believe corruption is widespread in their country and this is perceived to be significantly higher in rapid-growth markets (e.g., Brazil - 84%, Indonesia - 72%, Turkey - 52%). Financial statement fraud remains an important risk across many jurisdictions. Indeed, 15% of respondents in Far East Asia think that financial performance misstatement can be justified.

Of the 400 CFOs surveyed, 15% said they would be willing to make cash payments to win business and 4% said they would be willing to misstate financial performance. This represents a huge risk to their businesses and their boards, given CFOs' responsibilities.

> "Companies caught in the wake of today's tightened credit market must look further afield for financing opportunities that enable them to grow their company and push our economy forward."
>
> **Michael Conway**
> chief executive and national president, FEI Canada

RISK, MARKET TURMOIL EXPECTED TO ADD PRESSURE FOR AUDIT COMMITTEES

Canadian financial executives (CFOs) believe greater concern around risk management will increase demands on audit committees in the next 24 months, resulting in heightened pressures on company CFOs. Participants in a new research study by the Canadian Financial Executives Research Foundation (CFERF), point to the turmoil in the capital and debt markets to explain this renewed emphasis on risk management. (For more on the study, turn to page 37 for a new column from FEI, Executive Interest.)

MICHAEL CONWAY, FCA, ICD.D, is national president and chief executive of Financial Executives International Canada (FEI Canada).

Risk, CFOs and audit committees

A number of external pressures are raising expectations for audit committees

Heightened concerns around risk management are expected to affect audit committees over the next two years, according to Canadian financial executives, who also predict the rise in scrutiny will turn up the heat on CFOs.

According to *The CFO and the audit committee*, a recently released study by the Canadian Financial Executives Research Foundation (CFERF), the research arm of Financial Executives International Canada, and sponsored by KPMG LLP, 92% of respondents say greater concerns around risk management are expected to increase demands on the audit committee in the next 24 months, which will in turn translate into higher pressure on finance leaders.

Investors and Regulators

Evolving expectations of boards and their audit committee from external organizations are sparking more scrutiny on the part of audit committee members. Along with helping to restore confidence and stabilize the capital markets, audit committee members work to increase transparency for the benefit of investors analyzing financial statements. The board, the audit committee, senior management, the internal auditor, and the external auditor—all are seeing their roles evolve, as the bar for performance is raised by investors, securities regulators, compliance bodies, self-regulatory organizations and accounting standards setters. In particular, audit committee members are seeing an increase in director liability and more pressure from activist shareholders and other stakeholders.

The audit committee relies on the CFO for insight into the financial workings of the organization, to help them put financial results and risk assessments in context (what do the numbers mean, and why? Are these sales forecasts realistic?). The CFO also needs to translate technical information, such as the application of accounting principles, so that it can be digested by non-financial directors.

Risk: Who's Responsible?

While risk is often seen as an area under the realm of finance, it remains the responsibility of the entire board since it encompasses all aspects of a business. It includes, among others, security, environmental, political as well as financial risks.

Financial executives who responded to the research study survey were divided as to who has the ultimate responsibility for risk, which appears to land more often than not on the audit committees' table. But CFOs and governance experts at a CFERF roundtable agreed risk is a board responsibility. It may be that the complexities involved in risk management create some diversion to the audit committee. These complexities drive the board to rely on the audit committee to do the research, ask hard questions, make recommendations and report back to the board. Audit committee members typically have skill sets, including financial expertise, recognized by boards who delegate the detailed legwork aspects of overseeing enterprise risk management (ERM) to the audit committee.

Board Size

The size of the boards themselves is another factor that triggers delegation to various committees. According to one CFO at the roundtable discussing the relationship between chief financial officers and audit committees, the bigger the board gets, the more likely it is going to be relying on committees.

As another CFO and forum participant observed: "Our audit committee's view is that the committee's mandate with respect to enterprise risk management is to ensure that there are adequate processes in place to identify and report on risks to the board. The board's role is to understand the potential risks and the impact on the organization and to ensure that there are mitigating strategies in place where possible to minimize these risks."

The full research study can be found on the CFERF section of FEI Canada's website (www.feicanada.org).

Q&A POINT OF VIEW

Interview by: SUZANNE SHARMA

Gordon Maron

Executive vice president, PCL Construction Ltd., talks about diversification and human capital

1 FEI named you CFO of the Year in 2011. You have also been promoted to executive vice president at PCL. What keeps you up at night in your new role? Nothing. Nothing kept me up as CFO either. I don't think there are extreme challenges today for our CFO, or when I was CFO. There's always the challenge of building a strong organization and being prepared. I know there's a lot of noise being made about the financial crisis and economic downturn, but cycles come and go in business. You've got times of accelerating growth and you've got times of recession. You can't predict them, but you can build an organization that is prepared for market changes.

2 Can you describe the risk management strategy within PCL? There are various levels of risk in the business, but I break them into two components: operational risk and enterprise risk. Operational risk is a risk the company takes every day as part of its core competency, and enterprise risk is the outside influences that surprise an organization, which you have to be prepared for. From an operational risk perspective, our objective is to embrace risk, understand risk, build an organization to take risks we've got core competency in, and transfer risks we don't have core competency in.

3 What are the top 3 risks on your mind today? People, people and people. We're in an interesting period of time. We're going to see management teams that are populated substantially with baby boomers turnover in the next short number of years. Those people have to be replaced and the next generation has to be trained so a huge amount of energy has to go into selecting the right leaders and training them. Also, there's a shortage of skilled trades people. The same phenomenon is going on—baby boomer tradespeople are leaving in droves and there aren't enough young people to replace them. The solution is a combination of training young people interested in the business and finding immigrant workers to come in and fill that void. However, there's the issue of finding, recruiting and relocating them. And in spite of tough economic times there is still growth going on, so not only do we have to replace the people we had, but we also have to increase the workforce due to this growth.

4 What is PCL doing to manage these risks? We are focused on succession planning, resources and training. We're well positioned for what's coming. Succession planning is a regular issue that is addressed at the board level. We've had recruitment programs for a number of years.

5 What strategies are you undertaking to ensure profitability in today's market? The key is to build an organization that is prepared to operate in an uncertain environment. You have to be plugged into what's happening. We've made a concerted effort to meet with all the banks and pension funds, which now own the majority of all commercial real estate. Also, to cushion the blow of market cycles, every company should have diversity. Geographically we've got a good spread across Canada, the US and Australia. There are parts of our economic footprint right now that are struggling, for example, US commercial. I think if you look at Toronto or Ontario, you'll find the Public Private Partnership (P3) model is going to lose steam. There are a couple areas that we may move to—public transportation and roadways. There's an opportunity to leverage that, move skill sets and grow capability when this one tapers off.

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