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Agenda Item

6

Committee International Ethics Standards Board for Accountants

Meeting Location: Hilton, Arc de Triomphe, Paris

Meeting Date: June 23-24, 2010

Definition of Professional Accountant

Objectives of Agenda Item

1. To receive a report on an IFAC Task Force that is considering changes to the definition of “professional accountant”; and
2. To provide any views to the IESBA representative on the Task Force.

Background

IFAC has constituted a Task Force with the objective to develop a common definition of the term *professional accountant* that can be used throughout IFAC and by IFAC’s independent standard-setting boards. The Task Force includes representatives from the PIACs and also from IFAC’s Committees. Bob Rutherford is the IESBA representative. The working presumption of the Task Force is that any definition intended to be used within the standards would need to be subjected to the normal due process of each board. Therefore, further consideration will need to be given to the timing of this process and how comments can be reconciled between the boards.

The Task Force has met once, for an hour and a half by conference call on May 19th. The purpose of the call was to discuss a preliminary issues paper.

Issues

Definition as Used in the Code

The Code contains the following definition of a professional accountant:

An individual who is a member of an IFAC member body.

The preface to the Code states “This Code of Ethics for Professional Accountants (IESBA Code) establishes ethical requirements for professional accountants”. The requirements in Part A of the Code are directed to professional accountants and the requirements in Parts B and C to “professional accountants in public practice” and “professional accountants in business” respectively. These are defined as:

Professional accountant in public practice – A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.

Professional accountant in business – A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.

The term “professional accountant” also appears in the IAASB and IAESB glossaries of terms.

Concerns Raised

Issues concerning the definition have been identified through the IFAC Member Body Compliance Program and by the IAESB in the recent revision of the IAESB’s *Framework for International Education Standards for Professional Accountants* (the Framework). In summary the concerns expressed have been as follows:

- The current definition does not convey an understanding of the roles and functions of a *professional accountant* and therefore does not assist in the public’s understanding of the term. It is a definition for use within the context of specific IFAC standards and does not stand alone outside the context of those documents;
- In some jurisdictions, the accountants are not necessarily a member of an IFAC member body. For example the United States, there are approximately 600,000 certified public accountants (CPAs). Of these CPAs, approximately 350,000 are not members of the American Institute of Certified Public Accountants (AICPA), which is the IFAC member body in the US. CPAs are licensed in the US through each individual state’s board of accounting, and such boards are not IFAC member bodies.
- Respondents to an IAESB (Education Board) exposure draft, which contained the definition of professional accountant expressed the following concerns:
 - The definition of a professional accountant is circular and confusing.
 - The definition does not convey an understanding of the practice of activity, the variety of accounting roles, nor does it delineate the competence and functions that are demonstrated by a professional accountant.
 - The definition does not give an understanding of the breadth of membership in IFAC member bodies
- IFAC’s Professional Accountants in Business Committee has been reviewing the definition as part of its strategic initiative. The Chair of that Committee has noted “...in many places the phrase *professional accountant*, which should be overarching, is understood through custom and practice to apply to the auditing side of the profession...As well as working in different spheres of the economy, accountants also work in different specialties. One might also note that it is

- possible to work perfectly professionally in areas of lesser expertise, as technicians.”
- From a legal and regulatory perspective, the current definition does not acknowledge that professional standards are *adopted and enforced* at the national/regional/state level through many different professional and regulatory arrangements. In many jurisdictions, membership in IFAC member bodies is not mandated by law or regulation. From this perspective, the current definition could be understood to limit the applicability of the standards, when in fact, international standards legally apply and are relevant to individuals beyond the membership of a professional accountancy organizations through many different legitimate national/regional/state legal and regulatory mechanisms

Issues Paper and Conference Call

Prior to the conference call in May 2010, Task Force members were asked to provide a written response to an issues paper that had been developed. The questions in the issues paper focused on:

- Whether the definition of professional accountant should be broadly defined or whether the definition should be limited to members of IFAC member bodies;
- If two separate definitions should be develop for professional accountant and accounting technician; and
- What elements should be included in a revised definition of professional accountant.

The following context was provided on behalf of IESBA:

“Before responding to the questions, it may be useful to provide some additional context as to how the definition of professional accountant is currently used in the Code. The Code defines a professional accountant as “an individual who is a member of an IFAC member body.” As noted in Part 4 of Appendix A to the paper this definition is broken into two further definitions - professional accountant in business and professional accountant in public practice. The Code comprises three parts: Part A addresses all professional accountants, Part B professional accountants in public practice and Part C professional accountants in business. The requirements in the Code are directed to professional accountants. If the Task Force recommends that definition of professional accountant be expanded, the IESBA will need to consider what implications this would have on the Code. The options would include:

- Adopting the expanded definition. Given this would expand the requirements in the Code to a larger population of individuals, it would seem this would necessitate board deliberation to determine whether that would be appropriate for all the Code's provisions. Clearly exposure of the Code would be required.
- Retaining the existing approach that the requirements apply to individuals who are members of IFAC member bodies. This approach would seem to require only a wording change (replacing the term “professional accountant” with another term) and may not require exposure.

In considering whether an expanded definition might be appropriate for the Code, the IESBA would likely consider the fact that the Code is based on a conceptual framework and a professional accountant is required to use professional judgment in applying the framework. The professional accountant is required to identify threats to compliance with defined fundamental principles, evaluate the significance of identified threats and apply safeguards to eliminate the threats or reduce them to an acceptable level. Adoption of a broader definition for purposes of the Code would have the potential of weakening the Code if individuals subject to it are not capable of making the significant judgments it requires. Thus, the IESBA would need to be satisfied that individuals who would be covered by any expanded definition would possess the skills, training, and experience necessary to exercise professional judgment in applying the conceptual framework approach.”

The IESBA responses to these questions expressed the overall concern that if the definition of a professional accountant were expanded, it should capture only those individuals who possess the requisite skills, training, and experience to make the judgments necessary in applying the Code. To do otherwise could potentially weaken the Code.

The appendix to this paper provides the questions provided to the Task Force and a summary of the responses received.

The conference call discussion focussed predominantly on responses to the first question.

The preliminary definition discussed by the Task Force, which will be refined further in response to comments received from the Task Force was as follows:

“An accountant is an individual who has expertise in accounting, auditing, finance or tax which will normally include one or both of the following:

- The measurement, recognition, preparation, validation, summarization, analysis, and disclosure of financial and, where applicable, nonfinancial information, or
- Auditing of and provision of assurance and advisory services on financial information and, where applicable, nonfinancial information.

A professional could be considered an individual engaged in an occupation that meets both of the following:

- Held to a high ethical standard
 - Acts with integrity and in the public interest.
 - Agrees to rules of conduct and possesses the requisite skills, training, and experience to make the judgments necessary in applying those rules of conduct.
 - Subject to enforcement by membership in a professional (in our case, accountancy) organization or through another regulatory mechanism

recognized within its jurisdiction as upholding defined high standards of performance.

- Requiring specialized knowledge in a widely-recognized body of learning
 - Obtained through formal education programs and practical experience requirements.
 - Demonstrated level of competence by assessment.
 - Uses professional judgment based on principles and operates with a degree of autonomy.
 - Kept current through continuing education/continuing professional development.

A professional accountant may also hold a certification or license, or may have some widely recognized authorization or qualification to deliver specified accountancy services.”

Next Steps

The goal of the Task Force is to have a draft definition developed by the end of June. In July a second issues paper would be developed which would present a draft definition agreed by the Task Force and provide background on the Task Force’s discussions. The second discussion paper would be used to present to the IFAC Boards and Committee for feedback. It is hoped that this would take place in the second half of 2010, with the view to obtaining all the Board and Committee feedback by the end of the year.

Action requested

IESBA members are asked to consider the starting definition of professional accountant and provide views to the IESBA member of the IFAC Task Force.

Material Presented

Agenda Paper 6

This Agenda Paper

Appendix

Summary of Responses to Questions in Issues Paper

Q1. Does the Task Force agree that the definition of professional accountant should be broadly defined, or should such a definition be limited to members of IFAC member bodies?

A majority of the task force members supported a broad definition of the term “professional accountant” that ideally could be widely understood and accepted. Respondents noted that the broad definition would be more meaningful, should include members of other suitable organizations other than IFAC member bodies (or individuals subject to qualification and oversight) and would avoid excluding many professional accountants in the public sector and in business. However, this did generate significant comments from several respondents who noted the following:

- It may be possible to broaden the definition, but fundamentally it should be based on the standards of IFAC. To do otherwise would lead to confusion and would not be helpful to the public interest or the public in general. There are many types of “accountants” in the world e.g. auditors, bank accountants and possibly even bank tellers. An expanded definition that encompasses all such individuals as “professional accountants” could be potentially misleading for the public by implying that the services that can be provided by all these individuals are comparable. The IESBA framework approach relies significantly on the professional accountant exercising judgment in considering the ethical requirements throughout the Code. Therefore if the definition of a professional accountant were expanded, it should capture only those individuals who possess the requisite skills, training, and experience to make the judgments necessary in applying the Code. To do otherwise could potentially weaken the Code, which I feel certain the IESBA would not be in favor of.
- I believe that it should be limited to members of IFAC member bodies and refer to others as “users,” noting that IFAC does not have the remit to legislate for non-members but can still encourage them to adopt, implement and use its standards. “Users” could be defined as could the attributes of “professionalism” and “professional requirements” that they and members should exhibit.
- ... a broader definition is worth exploring. But consider: is there a need to define? Or could an alternative be a description of general characteristics, especially the *professional* element, and an articulation of how each of IFAC’s service delivery units target major categories relative to the scope of their outputs.

Q2. Does the Task Force agree that two separate definitions for professional accountant and professional accounting technician should be developed?

A majority of the task force members supported the development of two separate definitions. However several respondents noted that they were flexible on this issue (for example, one respondent indicated that the respondent “...could be swayed on this if

arguments are put forward to justify just one broad definition and then ‘sub-definitions’ for the different types of professional accountant”. Other respondents noted that while they felt that developing two definitions is a good place to start, it may be difficult to do truly global definitions for both or it may be that the similarities will outweigh differences. Several respondents noted that a decision on this issue may be dependent on the outcome of the task force’s final approach to question one (that is, a broad global definition).

Respondents offered the following comments:

- There is also a category of accounting administrators (who have formal training and some form of certificate or diploma). They have an important role too, particularly in a development context. Open question: do we limit ourselves to thinking about professional accountants and accounting technicians (it might be worth getting wider views on this).
- ... whether a distinction needs to be made in IFAC definitions may depend on the answer to Q1. A broad definition (description) of accountant and professional, followed by professional accountant may well be sufficient without articulating at a global level a differentiation between a professional accounting technician and a professional accountant. From IAASB’s perspective, it would be appropriate to presume that an auditor would require the higher level of competence associated with a professional accountant. Therefore, for IAASB’s purposes alone, there isn’t a need for a definition that articulates an intermediate level of competence.
- To have these two separate definitions is a slippery slope as there are many other “accountants” in the world – for example, as noted above, bank accountants, maybe even bank tellers. Having the two such definitions would add unnecessary complexity to the standards. It would likely require significant change to the Code which would involve the need to issue an exposure draft.

Q3. What does the Task Force understand to be meant by the words “professional” and “accountant,” and are the characteristics listed in Issue 3 useful in developing a definition of professional accountant?

Most task force members expressed support for the characteristics of “professional” and “accountant” as outlined in the paper. However, respondents provided the following comments:

- ... some the elements in paragraph 31 of the issues paper are somewhat problematic. As presented, it presumes that an accountant will necessarily have both an acquired level of knowledge and competence in financial reporting, as well as in audit and assurance. That may no longer be the case. As noted above, in some jurisdictions, audit has become a specialism to be obtained after becoming a professional accountant – whether by virtue of tiered/tailored qualification requirements of the member body, or imposed externally by virtue of the fact that there are additional external qualification requirements to become an auditor imposed by legal or regulatory requirements. Taking that differentiation to a further extreme, respondents

to consultation drafts in the IAASB's assurance standards projects raise the question of whether "audit and assurance" expertise might be quite separable from subject matter expertise altogether. We may not be there yet, but it is nevertheless true that not every professional accountant may have expertise in audit and assurance, and not every assurance provider in practice today has expertise in financial reporting.

- Characteristics listed are useful, but long for a definition so will need work. In addition, a key characteristic is a responsibility to the public as well as to clients and/or employer. Also wonder if autonomy captures the concepts of objectivity/independence.
- Here is where it would be useful to add supplementary material to the more narrow definition of a professional accountant. Defining the term professional may be useful, while explaining the term accountant will be challenging.
- Re professional – are the 3 characteristics all required? This is unclear...
- Professional to me means similar to "board certified" in the medical field. Accountant to me refers to the measurement of financial information. I personally don't like the word accountant and wish perhaps we can come up with another term. Yes, section 3 is a good start. I would add something like – translates business activities of all kinds into financial and non-financial language for internal and external stakeholders to make informed decisions on....
- My understanding of the word "professional" as used by the general public (and the dictionary) extends way beyond the characteristics listed in Issue 3...We will inevitably face the problem that, for the general public, a "professional" is anyone who sells goods or services of one sort or another, whether or not there are any rules of behavior... However, I challenge whether the characteristics listed would embrace tax professionals. Tax professionals in some countries may well not have much, if any, knowledge of accounting per se.
- When discussing the expertise of an accountant, reference is made to measurement, presentation, etc. Each time, the term recognition is excluded. In my experience, more time is spent on the appropriateness of recognition and the judgments that are involved, than any other of the activities listed. This is the one area where, I believe, a professional accountant distinguishes he or her from other accountants and it is normally the quality of the training and education received that allow them to distinguish themselves. The other aspect that enables them to be distinguished, is their independence.

Q4. Are there any other elements of these definitions that should be included?

In general, respondents felt that the elements were fairly complete. The following suggestions were noted:

- The words independent and board certified come to mind.
- There is a difficult consideration for people who have qualified as accountants, work in a professional capacity (e.g. in senior management) but not directly in a finance or

accounting field. Are they still professional accountants? Even with CPD, people in this category would not necessarily be competent as professional accountants.

- It isn't clear that information may in some cases be nonfinancial (perhaps "economic information" would be better than "financial information" OR "financial information and relevant non-financial information"); also isn't clear that tax is included.
- The characteristics imply that the professional accountant must currently be holding their designation e.g. subject to rules of enforcement etc – what about someone who works for example in the public sector as an accountant using their specialized skills etc but gives up membership in the accountancy body? Strictly speaking they are no longer subject to rules etc but I have a hard time envisioning that they are not a professional accountant...I know this may seem a simplistic example but I am aware of this because often public sector will not pay professional dues for example and some people end up not paying their dues because they don't actually need to be a member of an accountancy body to do their jobs...it's kind of related to the issue raised in the paper about countries who don't have an accountancy body and whether people there could be professional accountants.
- Some jurisdictions have "inactive" members of professional organizations, and these probably should not be included in the definition (as long as they do not perform any professional activity).

Q5. Should the definition of the term professional accountant help to differentiate accounting professionals from other professionals such as actuaries and financial planners?

While there was slim majority of respondents who favored having a definition for a professional accountant that would assist in differentiating from other financial planners, other respondents felt this was not necessary. Respondents noted the following:

- Task is large enough without trying to use the definition of professional accountant to distinguish accountants from other financial professionals.
- I see dangers in pushing too far with differentiation. In some Countries, the range of activities of the accounting profession is very broad. To be able to travel across borders, any definition should be just as broad... Even for jurisdictions with a narrower range of activities, it is probably better to have a wider definition which leaves room for future developments.

Q6. Is the Task Force aware of any other uses of the term professional accountant, publications which address the definition of this term, or any other materials which may be useful for the Task Force's deliberations?

Many respondents did not have any additional information on the use of the term. However, the following respondents commented as shown:

- Has there been any attempt at a global definition for other professions.... I'm not sure whether there are any other examples of global standard setting....?
- The IAESB Framework Task Force reviewed many definitions and found none that were transferable - perhaps it is unwise to use other definitions as anything other than background. The most fruitful approach might be to first broadly define the terms: accounting, accountant, and then define the terms professional accountant and accounting technician. For example:

Accounting: the process of developing, recording, validating, interpreting and communicating information needed for economic decision-making

Accountant: one who performs accounting services such as recording financial transactions; preparing or auditing financial reports; preparing or auditing tax returns; (add other examples as desired)

- ...gathering information on activities allowed for or actually practiced by professional accountants in various jurisdictions might help better understand the scope of the profession . While reading the paper, I tried to focus on what I perceived as being key elements of the definition we are looking for. As far as the range of activities are concerned, I believe that these are:
 - Accounting
 - Auditing
 - Finance
 - Tax

As for the key elements behind the idea of profession that we might like to convey into the definition:

- Qualification (initial assessment)
- Continuing education
- Ethics
- Discipline and enforcement
- Judgment
- Independence