

Meeting: IESBA

Meeting Location: Hilton New York, New York, USA

Meeting Date: October 17-19, 2011

Professional Accountant

Objectives of this Agenda

1. Review the conclusions of the “Definition of a Professional Accountant Working Group of the IESBA” (the Working Group).
2. Review the comments submitted by other IFAC boards and committees on the Staff Consultation Paper and proposed definition of “Professional Accountant.”
3. Review the proposed changes of the Working Group to the proposed definitions of a “Professional Accountant” and “Accountancy.”

Background

In March 2010, IFAC formed a Task Force comprised of a volunteer and a staff member from each of the Boards and Committees (the “Task Force”). The Task Force proposed a new definition of a “professional accountant”, which was presented to the IESBA Board meeting in New Delhi. As a result, a Working Group¹ was formed by the IESBA to review and consider possible changes to the Task Force’s proposed definition of a professional accountant and to consider the impact of proposed changes from the current definition on the IESBA Code. The Working Group met on April 4-5, 2011 in New York and conducted a teleconference on May 17, 2011.

Due to time constraints, the IESBA was unable to consider the Working Group’s proposed definitions at the Warsaw meeting. Subsequent to that meeting, the Working Group was provided with comments on the Staff Consultation Paper and proposed definitions submitted by other IFAC Committees and Boards. On September 23, 2011, the Working Group met via teleconference to consider those comments and determine whether they warranted further revisions to the proposed definitions.

¹ Bob Rutherford (Chair), Jim Gaa, Peter Hughes, Jorgen Holmquist, and Sandrine Van Bellinghen

Scope Issue: Inclusion of Professional Accountants Who Are Not Members of an IFAC Member Body

The current definition of a professional accountant in the IESBA's Code of Ethics for Professional Accountants (the Code) is as follows:

Professional accountant – an individual who is a member of an IFAC member body

The definition above currently scopes in only those professional accountants who are members of member bodies of IFAC. The proposed definition of a professional accountant as drafted by the Task Force is as follows:

The term professional accountant describes a person who has expertise in the field of accountancy, achieved through formal education and practical experience, and who:

- *Demonstrates and maintains competence;*
- *Complies with a code of ethics;*
- *Is held to a high professional standard; and,*
- *Is subject to enforcement by a professional accountancy organization or other regulatory mechanism*

The definition above would include professional accountants who are not members of an IFAC member body. Therefore, a professional accountant who is not a member of an IFAC member body but who complies with the requirements of the definition could be considered a professional accountant. The Working Group discussed the implications of scoping in such professional accountants and discussed who they believed should be covered by this definition.

The Working Group noted that if the definition scopes in professional accountants who are not members of IFAC member bodies, it could be confusing in that the Code may appear to apply to those professional accountants since the definition would be included in the Code. Therefore, there may be confusion concerning who is subject to the Code. However, the Working Group agreed that if professional accountants who were not members of an IFAC member body were to be scoped into the definition and voluntarily complied with the Code, it would raise the bar for ethical standards for such professional accountants, and thus, it was a positive step for the public interest. By scoping in professional accountants who are not members of an IFAC member body, it may promote the use of the Code to a broader population of professional accountants. With such consideration, the Working Group concluded that the definition should be broader than just professional accountants that are members of an IFAC member body and the IESBA's Code could set a high level of ethical standards for all professional accountants.

Action requested:

The Board is asked to provide feedback concerning the Working Group's conclusion to scope in professional accountants who may not be members of an IFAC member body.

Suggested Changes to the Definition

The Working Group considered the Task Force's proposed definition and generally agreed with the first sentence due to the following factors examined:

- While having the term “accountancy” in the definition appears to create a circular reference, the Working Group agreed that if accountancy is defined in the Code, the term “professional accountant” would build upon the term “accountancy.”
- The term “formal education” was questioned during the discussions. However, the Working Group noted that “formal education” is defined in the IAESB's International Education Standards (IESs)² and therefore agreed the use of the term was appropriate for purposes of the definition.
- The requirement of “formal education and practical experience” may scope out some accountants who do not obtain “practical experience” due to the fact that their accountancy body may not require it. The Working Group considered whether the “and” should be changed to “or.” However, the IESs require that professional accountants obtain a formal education *and* obtain practical experience. Therefore, it was agreed the use of “and” was appropriate in order to be consistent with the IESs.

The Working Group did have some proposed changes to the Task Force's definition and is recommending the following definition of professional accountant:

Professional Accountant - A person who has expertise in the field of accountancy, achieved through formal education and practical experience and maintained through continuous learning and development; is held to high professional standards equivalent to the IESBA Code of Ethics for Professional Accountants and IAESB International Education Standards, and whose compliance with such standards is subject to enforcement by a professional accountancy organization or regulatory mechanism.

In developing this definition, the Working Group considered each of the bullet points in the Task Force's proposed definition. The first bullet point states that the professional accountant must “demonstrate and maintain competence.” The first sentence of the Task Force's proposed definition states that a professional accountant has “expertise in the

² Defined as “the non-workplace based component of an accounting education program.”

field of accountancy, achieved through formal education...” The Working Group agreed that a professional accountant “maintains competence” through continuing professional development. Accordingly, if the words “and maintained through continuous learning and development” were inserted into this sentence, the first bullet point of the Task Force’s definition would no longer be needed in that “expertise” can be viewed as being equivalent to “competence.” By removing the bullet point, the definition is more concise. The Working Group selected the phrase “continuous learning and development” after considering the definition of “continuing professional development” as defined in the IES’s, which states: *Learning and development that maintains and develops capabilities to enable professional accountants to perform their roles competently.*

The Working Group noted that the professional accountant must “comply with a code of ethics” as noted in the second bullet point of the Task Force’s proposed definition, and is held to a “high professional standard” as noted in the third bullet point. In order to ensure that professional accountants who may not be members of a member body of IFAC that are scoped in by the definition are following a robust code of ethics and are truly held to a “high professional standard,” the Working Group agreed to include in the definition that the professional accountant is held to, “high professional standards equivalent to the IESBA Code of Ethics for Professional Accountants and IAESB International Education Standards³...” This statement covers the points made in the second and third bullet points of the Task Force’s proposed definition and therefore, the Working Group recommends these bullet points be deleted. By referencing the IESBA Code, the definition would exclude professional accountants who are members of a professional accountancy organization whose code of ethics is not as robust as the IESBA Code.

The Working Group also changed the language of the fourth bullet point of the Task Force’s proposed definition to state that “compliance” with the standards is subject to “enforcement.” As read, the Task Force’s proposed definition states that the professional accountant is subject to enforcement. The Working Group agreed that a professional accountant may be subject to *discipline*, but it is the professional accountant’s compliance with standards that is subject to enforcement. It should be noted that there was a minority view within the Working Group that the professional accountant’s compliance with standards being subject to discipline should not be included within the definition due to the fact that it could scope out too many potential professional accountants who wish to identify with and use the Code. Overall, the Working Group believed that being subject to enforcement is an important issue when complying with standards and is in the public interest.

³ The Board should note that the IAESB is in the process of revising all of its current standards to be more “outcomes and competence” based and less prescriptive in terms of bright line and rule based requirements. Accordingly, any revisions to the IESs could impact the definition of professional accountant. It is recommended, therefore, that the activities of the IAESB with respect to such revisions be monitored.

The Working Group concluded that it is important to understand and compare who may be scoped in to the current definition of a professional accountant as opposed to the Working Group's proposed definition. Therefore, Staff created a table summarizing the scope of each definition as set forth in Agenda Paper 9-A. It should be noted that the table is not all inclusive of every member body of IFAC, however, was used as an illustrative comparison for the Working Group.

Action requested:

The Board is asked to provide feedback on the Working Group's proposed changes to the Task Force's definition.

The Board is asked to provide feedback concerning the definition of a professional accountant specifically with regard to the professional accountant's compliance with standards being subject to enforcement.

The Board is asked to comment on the table included in Agenda Paper 9-A.

Scope Issue: Potential Scoping Out of Members of IFAC Member Bodies

The Working Group considered feedback from the Board concerning the potential for professional accountants that are currently scoped in by the Code's current definition to be scoped out of the newly proposed definition and therefore, not be subject to the Code due to the fact that they do not meet the criteria or attempt to exclude themselves from the definition. For example, a professional accountant who is currently a member of an IFAC member body who does not obtain "practical experience" because their accountancy body may not have such a requirement would no longer be considered a professional accountant under the new definition. Concern was expressed that professional accountants that are currently scoped in may justify not being subject to the Code due to the fact that they may not meet one of the specified criteria within the proposed definition. Based on this, the Working Group also considered including the phrase "...is a member of an IFAC member body..." to the proposed definition above to ensure certain professional accountants scoped in under the current definition are not scoped out under the newly proposed definition:

Professional Accountant – An individual who i) is a member of an IFAC member body or ii) has expertise in the field of accountancy, achieved through formal education and practical experience and maintained through continuous learning and development; is held to high professional standards equivalent to the IESBA Code of Ethics for Professional Accountants and IAESB International Education Standards; and whose compliance with such standards is subject to enforcement by a professional accountancy organization or regulatory system.

The Working Group ultimately concluded that the definition above would create a conflict in that there may be certain associate member bodies of IFAC whose education standards may not be as robust as the IAESB Standards, yet are a member body of the IFAC. In particular, the Working Group reviewed the education requirements as noted on the web sites of the Association of Accounting Technicians (UK) and the Accounting Technicians Ireland. In addition, certain member bodies have affiliate memberships that allow for non-accountant and student members who do not meet the qualifications of a professional accountant and including them in the definition could be misleading to the public. The Working Group concluded that if the phrase "...is a member of an IFAC member body..." and the IAESB Standards are mentioned in the definition, there may be a contradiction, and the definition of "professional accountant" should be based on a high standard. However, the Working Group agreed that every member of an IFAC member body, regardless of whether or not they are considered a professional accountant, should be required to be in compliance with the Code but this could be addressed by IFAC separately from the definition of professional accountant. Therefore, the Working Group concluded that the definition sans the respective phrase should be proposed to the Task Force; however, the Working Group would like feedback from the Board concerning the matter.

Action requested:

The Board is asked to provide feedback about possibly including the phrase "...is a member of an IFAC member body..." within the definition of a professional accountant notwithstanding the potential for a contradiction within the definition.

Impact on Firms

The Working Group considered whether the proposed definition could have an impact on firms. While there may be a significant number of staff and partners working in accounting firms who would not meet the proposed definition of professional accountant (e.g., attorneys, consultants), the Working Group agreed that most of these individuals presumably are not members of IFAC member bodies and therefore, would not be captured under the existing definition of professional accountant. Furthermore, the Working Group did not believe it would be appropriate for such individuals to be captured under the revised definition. It was also noted that the definition of professional accountant in public practice is "*also used to refer to a firm of professional accountants in public practice*" and therefore, the firm would continue to be subject to the Code. Accordingly, the Working Group concluded that the impact on firms would be no different than what currently exists today.

Action requested:

The Board is asked to provide feedback on the Working Group's conclusion that the proposed definition would have no new impact on firms.

Defining the Term “Accountancy”

The Task Force proposed explanatory language for the term “accountancy.” The language is as follows:

Accountancy – A field of practice in which a professional accountant provides the measurement, recognition, preparation, analysis, and/or disclosure of financial and relevant nonfinancial information, or auditing of or provision of assurance and advisory services on financial information and, where applicable, nonfinancial information. Such information assists managers, investors, tax authorities, and other decision makers in resource-allocation decisions. The field of accountancy involves the study of accounting, auditing, finance, financial management, and/or tax.

The Working Group discussed the explanatory language and concluded that the term “accountancy” should be a defined term within the Code so that the users of the Code may find the term without having to search in other documents. The Working Group proposes the following edits to the definition:

- The sentence “Such information assists managers...” should be removed, as it provides little relevant information in defining the term;
- The definition should end with “...and tax” as opposed to “and/or tax”;
- The function “management consulting” should be added to the list of areas included in “accountancy” due to the fact that it is included in the definition of a “professional accountant in public practice” in the IESBA Code.
- The word “involves” should be changed to “includes” to ensure that the list is not read as being all inclusive.

Therefore, the Working Group proposes the following definition of accountancy:

Accountancy – A field of practice in which a professional accountant provides the measurement, recognition, preparation, analysis, and/or disclosure of financial and relevant nonfinancial information, or auditing of or provision of assurance and advisory services on financial information and, where applicable, nonfinancial information. The field of accountancy includes accounting, auditing, finance, management consulting, financial management and tax.

Action requested:

The Board is asked to provide feedback on the Working Group’s proposed definition of “Accountancy.”

Comments Submitted by Other IFAC Committees and Boards

A table summarizing the various comments received on the Staff Consultation Paper from other IFAC Committees/Boards and the Working Group’s response to such comments can be found at Agenda Paper 9-B.

Overall, the Working Group concluded that many of the comments submitted by other IFAC Committees and Boards have already been addressed in the Working Group’s proposed definitions. The Working Group does not believe any further revisions to the proposed definitions are necessary based on these comments.

Action requested:

The Board is asked to review the comments in the table included in Agenda Paper 9-B.

The Board is asked to provide feedback on the Working Group’s conclusion that no further revisions should be made to its proposed definitions of “Professional Accountant” and “Accountancy.”

Material Presented

Agenda Paper 9	This Agenda Paper
Agenda Paper 9-A	Table of individuals included/excluded in proposed definition
Agenda Paper 9-B	Comment summary
Agenda Paper 9-C	A Proposed Definition of Professional Accountant: A Staff Paper Prepared for Consultation