

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNS/PROF/W/2

2 October 1990

Special Distribution

Group of Negotiations on Services

Original: English

Working Group on Professional Services

COMMUNICATION FROM THE UNITED STATES

Annex on Professional Accounting Services

The attached communication is circulated at the request of the Delegation of the United States to the members of the Working Group on Professional Services.

GATT SECRETARIAT

UR-90-0562

ANNEX ON PROFESSIONAL ACCOUNTING SERVICES

Explanatory Note

This proposed annex specifies the application of the general framework principles on mutual recognition and the use of international standards to the accounting profession. This explanatory note briefly describes the provisions on accountancy and addresses several issues in relation to them.

Benefits

This annex is consistent with the purpose and spirit of a multilateral framework on trade in services, both with respect to trade liberalization and the development of developing countries.

The provisions on mutual recognition will facilitate the movement of professional accountants and the practice of accountancy across borders by removing artificial or unnecessary licensing requirements and focusing the credentialing process strictly on material qualifications. They do so in a manner, moreover, that respects every signatory's right to regulate and provides the flexibility to accommodate varying regulatory regimes.

The provisions on international accounting standards likewise facilitate factor mobility by reducing the cost of capital and lowering barriers to capital formation and movement. Furthermore, international accounting standards will provide a common financial language to underpin world trade and improve the transparency of financial reporting by transnational corporations.

Summary Description

The proposed provisions have two basic purposes. First, they set out guidelines and procedures for facilitating the cross-border provision of accounting services through the mutual recognition of professional qualifications and competence. The intent is to strip away requirements for the practice of accountancy that do not relate to professional competence and the ability to provide the needed services. Qualifying examinations for a professional accountant from one country to practice in another, thus, would focus only on material differences in practice requirements. This annex includes procedures for sorting out these material differences in a way that assures transparency and openness to all parties, but provides the flexibility necessary to accommodate the varying requirements among countries.

Second, the provisions recognize the work of the International Accounting Standards Committee and encourage the wider use of international standards as the basis of a common language for financial reporting. In particular, the provisions would have signatories accept financial statements prepared on the basis of international accounting standards for regulatory purposes affecting transnational organizations. These standards

also would serve as the basis for resolving disputes involving accounting or reporting matters. Beyond this, signatories would be encouraged, but not required, to adopt that international standards for broader purposes.

International Accounting Standards Committee

The International Accounting Standards Committee (IASC) is associated with the International Federation of Accountants (IFAC), which represents 104 professional accounting bodies from 78 countries. The IASC thus far has developed 26 international accounting standards for financial reporting, and has launched an intensive program to revise these and issue others by year end 1992. To date, representatives of 36 countries have participated in drafting the standards, and all professional bodies in the 78 countries counted in IFAC membership have had the opportunity to comment on them. In addition, the IASC consults with a wide range of organizations representing preparers and users of financial statements. These include the International Chamber of Commerce, the International Confederation of Free Trade Unions, the International Banking Association, the International Bar Association, the International Organization of Securities Commissions, the IBRD/IFC, the OECD, UNCTC, and regional professional accounting associations in Africa, the Americas, Asia and the Pacific, and Europe.

Questions About Form

Two issues might be raised with respect to the form of commitments on mutual recognition and international standards of accountancy: whether these matters are adequately addressed by the framework principles themselves, making additional provisions unnecessary; and whether the proposals could be broadened to include other professional services.

The value of specific provisions on professional accountancy is that they provide clear guidance and impetus to making conceptual principles actually operational in a specific professional service.

Absent this prod, broad principles theoretically applicable to accounting (or for that matter other professions) are not likely to be implemented, at least anytime soon. Similarly, attempting to broaden these ideas to other professions, that have not progressed as far in their thinking on these issues, would impose unnecessary delays on the accountancy profession which is ready to move forward on liberalization. This, of course, in no way precludes other professions from proposing their own ideas in the future.

PROFESSIONAL ACCOUNTING SERVICES

CHAPTER I

Article 1

Purposes

- 1.1. This annex elaborates upon the Agreement on Trade in Services (hereinafter referred to as the "Framework Agreement") as it applies to providers of professional accounting and related services and the regulation thereof.
- 1.2. The Parties recognize that differences in the qualifications and credentials required for certification or licensing to provide professional accounting services may inhibit the expansion of trade in such services. With a view toward the expansion of such trade, the Parties hereby endeavor to promote the mutual recognition of professional qualifications and credentials and the harmonization of requirements for certification or licensing to provide accounting services.
- 1.3. The Parties recognize that differences in the accounting standards used in the preparation of financial statements and for other purposes may act as barriers to trade and investment and as impediments to the free movement of factors of production of goods and services. With a view towards reducing these barriers and impediments, the Parties hereby endeavor to promote the development, recognition and use of international accounting standards for financial reporting.
- 1.4. Nothing in this annex is intended to limit the objectives of national laws and regulations concerning protection of the public interest with respect to accounting services.

CHAPTER II

Article 2

Scope and Coverage

This annex applies to:

- 2.1. All professional qualifications, titles, diplomas, licenses and other authorizations required of individuals or firms in order to provide accounting services;
- 2.2. All generally accepted or other accounting standards required for use in the preparation of financial statements;

- 2.3. All entities, public or private, granting authorizations to provide accounting services referred to in Article 2.1. or setting the accounting standards referred to in Article 2.2.; and
- 2.4. All Parties to the Framework Agreement.

CHAPTER III
[Mutual Recognition of Professional Qualifications]

Article 3

Mutual Recognition Agreements

- 3.1. Two or more Parties may enter into an agreement to facilitate trade in accounting services from one Party into the territory of another Party by providing for the mutual recognition of professional qualifications required to provide such services (hereinafter referred to as "Mutual Recognition Agreements").
- 3.2. All Mutual Recognition Agreements shall conform with minimum benchmark standards and conditions to be developed by the International Federation of Accountants.
- 3.3. All Mutual Recognition Agreements shall be open for participation by other Parties assuming the same obligations and conforming to the same standards.
- 3.4. Only Parties to a Mutual Recognition Agreement shall enjoy the rights and privileges thereunder.
- 3.5. All Mutual Recognition Agreements hereunder, including all terms and conditions therein, shall be reported to the GATS Secretariat and made available upon request to any other Party.

Article 4

Mutual Recognition Examinations

- 4.1. The Parties to a Mutual Recognition Agreement shall examine the professional qualifications required by the Parties in order to provide accounting services and identify the material differences among such qualifications with respect to theoretical knowledge, practical experience and other characteristics material to providing such services in conformity with national policy objectives.
- 4.2. Providers of accounting services of one Party to a Mutual Recognition Agreement shall be permitted to provide such services into or in the territory of another Party to the same Mutual Recognition Agreement upon successful completion of an examination concerning the material

differences in professional qualifications required by the Parties pursuant to Article 4.1. Such examinations shall be prepared by the Party granting authorization to provide accounting services, subject to approval by other Parties to the Mutual Recognition Agreement.

- 4.3. The Parties agree not to impose preconditions on the taking of examinations, such as residency requirements or specified educational and training courses, that are immaterial to the ability to provide accounting services.
- 4.4. The Parties agree to make publicly available full information concerning the subjects of examination, and to provide information on the results of examination to the candidates for mutual recognition.
- 4.5. The Parties agree to permit reexamination and to establish an appeals process to review complaints raised by candidates for mutual recognition.

Article 5

Harmonization of Professional Qualifications

The Parties agree to encourage entities, public and private, granting authorizations for the provision of accounting services to work multilaterally toward harmonization of professional qualifications and credentials to provide such services.

CHAPTER IV

[Development of Use of International Accounting Standards]

Article 6

Development of International Accounting Standards

The Parties acknowledge that the International Accounting Standards Committee, in cooperation with the International Federation of Accountants and appropriate regional and national professional and regulatory bodies, has developed international accounting standards for financial reporting and is endeavoring to make recommendations on the improvement of these standards through a comprehensive program to be completed by 31 December 1992. The Parties also acknowledge that the International Accounting Standards Committee intends to continue the development of international accounting standards to reduce further the barriers to trade and investment.

Article 7

Implementation of Improved International Accounting Standards

- 7.1. Upon receipt of the international accounting standards, and improvements thereupon, recommended by the International Accounting Standards Committee pursuant to Article 6, the Parties shall review such recommendations within 180 days of receipt.
- 7.1 a. Promptly after receipt, the Secretariat of the Agreement shall distribute copies of the IASC recommendations to the Parties for review with respect to provisions of the Framework Agreement.
- 7.1 b. Unless otherwise decided, the IASC recommendations shall be adopted as GATS recommended accounting standards.
- 7.1 c. Standards may be amended through the International Accounting Standards Committee and the procedures specified in paragraphs 7.1.a and b.
- 7.2. Upon completion of the review referred to Article 7.1., if such recommendations are consistent with the Framework Agreement and this annex, all Parties shall:
- a. Accept financial statements prepared on the basis of these international accounting standards filed by entities of another Party for all regulatory purposes requiring such statements;
 - b. Use such international accounting standards as the basis for resolving disputes between Parties concerning accounting and reporting matters; and
 - c. Encourage the broader adoption of such international accounting standards by appropriate national entities.
- 7.3. Parties shall be allowed a reasonable period of time to conform to the requirements of Article 7.2. not to exceed one year from the completion of the review referred to in Article 7.1.

CHAPTER V

[Regulatory Authority and Transparency]

Article 8

Regulatory Authority

Nothing in this annex shall be deemed to prejudice a Party's right to determine its own structure, including the participation of public or private entities, for the regulation of professional accounting services within its territory.

Article 9

Transparency

Whenever a Party permits self-regulation by the providers of professional accounting services or groups thereof, such providers or groups shall be subject to the transparency requirements of the Framework Agreement insofar as the rights and obligations of this annex are involved.