



Office of Trade Negotiations
Caribbean Community (CARICOM) Secretariat

... for trade matters.

Responding to Change:
Reshaping the Accounting Profession in the Caribbean

**IMPLICATIONS OF TRADE IN SERVICES NEGOTIATIONS FOR THE
ACCOUNTING PROFESSION - THE CSME, CARIFORUM-EC EPA, AND
CARICOM-CANADA NEGOTIATIONS**

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Presentation Outline

- Global Trade in Accountancy Services
- Classification of Accountancy Services for Negotiations
- CARICOM Network of Agreements on Trade in Services
- Review of the CARICOM, EU and Canadian Regime for the Sector & Relevant CARIFORUM-EC EPA Commitments
- Implications of the CSME, CARIFORUM-EC EPA and CARICOM-Canada Negotiations for the Accountancy Profession
- Recommendations for Reshaping the Accounting Profession in the Caribbean

Global Trade in Accountancy, Auditing, Bookkeeping & Tax Consulting Services

- Trade in the sector generally increasing with most countries surveyed by the WTO increasing exports in 2008 (24/34)
 - Significant growth in exports & imports of EU acceded States
- Top exporters 2008 (*relative to 2007*)– Netherlands US\$3.5 bil. (up 15%), U.K. \$2.55 bil. (down 5%), Luxembourg \$1.33 bil.(up 22%)
- Top importers 2008 (*relative to 2007*)– U.S.A. \$2.27 bil. (up 28%)
Russian Federation \$533 mil.(up 69%), Sweden \$377 mil. (down 9%)
- Jamaica 2007 Exports - \$0.2 million (same 2006) , Imports \$34.5 million (up from \$18.6 mil. 2006)

Source: World Trade Organisation 2010, from Members' Balance of Payment Data

Agreements on Trade in Services: Background

- Provisions cover Definitions, Objectives, Scope & Coverage, Exceptions, Market access, national treatment, Regulation, Cooperation, Future Liberalisation, Dispute Settlement, any built-in agenda
- Commitments on market access & national treatment listed in a schedule using specific classification for services activities e.g. UN CPC
- Positive list approach to listing commitments separates four modes of supply of services:
 - **Mode 1** Territory 1 Member → Territory another Member
 - **Mode 2** Territory 1 Member → Consumer another Member
 - **Mode 3** Service Supplier 1 Member → [any] Consumer through commercial presence in any other Member
 - **Mode 4** Natural Person Service Supplier 1 Member → Consumer of another Member in the Territory of any other Member
- * Modes based on location of delivery and receipt of service/service supplier

* *Bilaterals affirm WTO obligations and try to clarify/deepen commitments*

Classification of Accounting Services in Trade Negotiations

| UN CPC | | | Corresponding |
|--------|-------|--|---------------|
| Group | Class | Subclass Title | ISIC |
| 862 | | Accounting, auditing and book-keeping services | |
| | 8621 | Accounting and auditing services | |
| | | 86211 Financial auditing services | 7412 |
| | | 86212 Accounting review services | 7412 |
| | | 86213 Compilation of financial statements services | 7412 |
| | | 86219 Other accounting services | 7412 |
| 8622 | 86220 | Book-keeping services, except tax returns | 7412 |

CARICOM Network of Agreements on Trade in Services

- CARICOM Single Market & Economy
 - Professional Services Bills aimed at regulatory harmonisation
- CARIFORUM-EC EPA
 - Commitment to explore MRA negotiations
- World Trade Organisation (**General Agreement on Trade in Services**)
 - Work programme on professional services/domestic regulation
 - Process yielded the Guidelines for Mutual Recognition Agreements or Arrangements in the Accountancy Sector, May 1997; Disciplines on Domestic Regulation in the Accountancy Sector, December 1998
 - Canada's Proposal in **CARICOM-Canada** includes similar MRA guidelines
- Built-in agenda for Negotiations on Services:
 - CARICOM-Costa Rica/ SICA; CARICOM Cuba; CARICOM-Dominican Republic FTA **EPA Commitments to EC to apply intra-CARIFORUM 2 yrs after entry into force if agreement to give each other better treatment not reached*

Commitments on Trade in Services

BILATERAL ECONOMIC INTEGRATION (GATS Article V)

- Some WTO Members can grant each other better treatment in an economic integration agreement if there is *inter alia*:
 - substantial sectoral coverage, standstill and removal of discriminatory measures
 - notification of agreement and of any changes to WTO schedule to inform other Members with market interests

MOST FAVOURED NATIONAL (MFN) TREATMENT

- Extension of most favourable treatment of services & suppliers of any other Member/ nation to like services & services suppliers of a Member/ the other Party (WTO - automatic, EPA – linked to major trading economy & EC may/may not opt for better treatment)
- Some Members listed MFN exemptions in WTO

Commitments on Trade in Services :

Access to Markets for Services and Services Suppliers

MARKET ACCESS

- Limitations & conditions for market participation agreed & listed in Schedule (granted on MFN basis in the WTO)

Examples of limitations & conditions :

Mode 1 - requirement for local presence (Mode 3); nationality condition for representation before competent authorities and for performing audits provided for in specific laws

Mode 2 – auditor’s report must be prepared in conjunction with an auditor accredited to practice in the foreign consumer’s country of origin

Mode 3- numerical quotas, economic needs tests, residency/ nationality/ legal form/local equity requirement, limits on transaction value

Mode 4 – work permits, labour market test, quotas, for contractual services suppliers, employers must be member of the relevant professional body in the home country where such body exists.

Commitments on Trade in Services :

Treatment of Foreign Services and Services Suppliers

NATIONAL TREATMENT

- A Member/Party is obliged to grant treatment no less favourable than that accorded to its own like services & services suppliers (or in like circumstances) in respect of measures affecting the supply of services ... i.e. subject to scheduled limitations & conditions
- Formally identical or formally different treatment should not affect conditions of competition in favour of national services suppliers

Examples of limitations and conditions:

Mode 1 - higher tax rates for local services suppliers using services supplied cross-border; residency requirement for accreditation

Mode 2 – rare for this sector (e.g. discriminatory currency controls for visitors)

Mode 3 - joint venture / different capital/ local employment/ firm name requirements, residency requirements for managers

Mode 4 - nationality/residency/ licensing/ qualifications requirement

Implications of the CSME the Accountancy Sector

- Standstill for existing restrictions and programme of removal of restrictions to make trade easier in CARICOM
- Right of investment through establishment makes it easier to set up offices in other CARICOM States
- Free movement of persons allows services suppliers to carry out a range of functions and services in other Member States
- Professional Services Bill to improve regulation & regulatory harmonisation regionally
 - Seeks to regulate profession through regulatory framework and administrative body
 - Body to register and license professionals (mandatory), set related qualification requirements and procedures including appeals
 - Temporary licensing
 - Framework for Ethics

* *Legislation specific to Accounting not in place in all CARICOM States*

CF-EC Title II on Trade in Services, Investment and E-Commerce – Art. 60 Objectives, Scope and Coverage

- Affirm WTO commitments and goal of Title to facilitate regional integration & sustainable development
- Sets out arrangements for the progressive, reciprocal and asymmetric liberalisation of investment, trade in services, and for cooperation on e-commerce
 - Trade in services covers all modes of supply but these treated in specific chapters of Title II
- Parties retain right to regulate (**domestic regulations may not appear in Lists of Commitments*)
- Parties retain discretion over visa/ immigration policies
- Doesn't require privatisation & doesn't apply to subsidies or access to labour market

CARIFORUM-EC EPA Title II, Annex IV – Commitments on Accounting, Auditing & Bookkeeping Services

CARIFORUM (13 States) ¹

(CPC 8621 Accounting & Bookkeeping)

ATG, DMA, DOM, GRD, GUY, JAM, KNA, LCA, VCT, BRB (CPC 8621) BEL, TTO (CPC 86211, 86213 & 86220), SUR (except 86219)

Mode 1 & 2 – no MA reservations 9 States; no NT reservations 10 States. Unbound - Barbados, Grenada, St. Lucia, St. Vincent & Grens.

Mode 3 - no MA/NT limitations 8 States; MA: need to be ICAA Member- Antigua & Barbuda; MA/NT: Unbound – St. Kitts, Nevis, St Lucia; MA: future bound – Belize (NT Unbound), Dominica

Mode 4 - Unbound except as in horizontal 11 States; Belize- ENT CSS & IP; DR joint venture

European Union (27 States) ²

(CPC 86212 other than Auditing)

Mode 1 – Nationality requirement for some functions; Only 5 States closed (France, Hungary, Italy, Malta, Romania, Slovenia)

Mode 2 – open across the board

Mode 3 - Reservations in 3 States (Austria, Cyprus, Denmark) ENT and authorization required

Mode 4 - Key Personnel, Graduate Trainees & ICTs- few reservations ; CSS (WTO Plus) - EPA, 24 States committed the sector for CSS, 10 without reservations

WTO limited offers made for CSS in only 3 States (Cyprus, Latvia, Lithuania)

1 Does not include The Bahamas or Haiti

2 EC did not separate MA & NT reservations

CARIFORUM-EC EPA Title II, Annex IV – Commitments on Accounting, Auditing & Bookkeeping Services

European Union (27) Auditing Services (CPC 86211 and 86212 other than accounting services)

- More restrictive regime than accounting ; WTO plus- all modes
- No offer in Mode 1 for 18 States; limited offers in 3 States (Austria, Sweden, Lithuania); no reservations in other States
- Mode 2 open for all EC States
- Mode 3 reservations in 10 States; mainly ownership & some nationality requirements & ENTs (Austria, Cyprus, Czech Republic, Denmark, Finland, Latvia, Lithuania, Sweden, Slovenia)
- Mode 4 – Key personnel & Graduate Trainees - Nationality and residency limitations in 7 States (Austria, Denmark, Spain, Finland, Greece, Italy, Sweden)

** Taxation Services generally open in US, Canada, EC Modes 1-3*

CARIFORUM-EC EPA Categories for Temporary Movement of Business Persons

| Category | Criteria | Stay Allowed in a year |
|--|--|---------------------------|
| (i) Key personnel, which includes: | | |
| Business visitors | Setting up a commercial presence, paid by source outside of the host territory. | 90 days per calendar year |
| Intra-corporate transfers - Managers - Specialists | Employed by a company in the sending country at least a year before entry to the host country to work within a partner company there. | Up to 3 years |
| (ii) Graduate trainees | University graduates, employed by a company for 1 year and entering the EU for career development or training in a branch/ parent company. | Up to 1 year |
| (iii) Business services sellers | Entering to negotiate a sale/ enter an agreement; get remuneration from outside of the EU and do not make direct sales. | 90 days per calendar year |
| (iv) Contractual Services Suppliers (CSS). | University graduates (except fashion models, chefs and entertainers) with 3 years experience, employed by a company of the sending country, without a presence in the other party; has a services contract with a client in the other party. | Up to 6 months |
| (v) Independent Professionals (IP) | Self-employed persons with a university degree or professional qualification and 6 years experience | Up to 6 months |
| (vi) Short Term Visitors for Business Purpose | Persons that are not selling services can enter either Party to perform a range of activities such as: marketing research, training, trade fairs and exhibitions, sales, purchasing | Up to 90 days |

CARIFORUM-EC EPA Title II – Investment Trade in Services & E-Commerce -Chapter , Chapter 5 Regulatory Framework

Section 5 Financial Services

- Scope & definitions of financial services
 - Based on GATs Fin Services Annex
 - Does not cover public retirement plans, statutory social security, central bank/monetary authority operations
- Carve Out for Prudential Regulation
- Transparency through info exchange on new measures (best endeavour)
- Data Processing allowed
- Commitment to “endeavour to facilitate the implementation and application in their territory of **internationally agreed standards** for regulation and supervision in the financial services sector

CARIFORUM-EC EPA Title II – Investment Trade in Services & E-Commerce -Chapter 7, Cooperation

Aim : Support CF to improve services supply capacity & Implementation

Cooperation with EU professional bodies

Market information and compliance with EU regulations and standards

Technology transfer & sustainable development for tourism

Focus on SMEs, MRAs and marketing tourism & cultural services

Assistance with environmental and quality standards

Cooperation on strengthening regulatory framework, incl. e-commerce

Investment promotion and joint venture initiatives

CARIFORUM-EC EPA Title II – Investment Trade in Services & E-Commerce -Chapter 5

- Mutual Recognition (Art.85)
 - Parties to jointly develop MRA recommendations to the CF-EC Trade and Development Committee
 - Parties to encourage prof. bodies to start negotiations within 3 yrs of entry into force of the agreement (architecture named as a priority)
 - Competent authorities to negotiate MRA is sufficient correspondence between regulations
 - Negotiations to be WTO (GATS Art. VII) compliant i.e. give other states chance to join if they want
- * *EC directives on mutual recognition of diplomas only apply to EC nationals, and the right to practise in one Member State does not grant the right to practise in another MemberState.*

Analysis of EU Regulatory Regimes for Selected Services (June 2009) – Selected Findings

Report covers Estonia, France, Germany, Italy, Malta, the Netherlands, Spain

- Differences in protection of the “Accountancy profession” in law e.g. in Estonia only “Auditors” protected in law, others more protected
- Differences in qualification requirements
 - Generally a Degree (Masters in Netherlands), experience and professional exam required
 - Differences in Experience/ Internship Requirements
- No system of accrediting courses available in most States
- Generally Membership in an Institute required
- Professional indemnity insurance generally required
- Quality assurance based on peer review in Malta

Analysis of EU Regulatory Regimes for Selected Services (June 2009) – Selected Findings

Opportunities for CARIFORUM vary by country covered in the following areas:

- Industry size**
- Industry competitiveness**
- Pricing opportunities**
- Quality related opportunities**
- Skill shortage opportunities**
- Niche Opportunities**
- Attitude towards joint ventures**
- Perception towards foreigners**
- Different Mode opportunities**

Analysis of Canada's Provincial Regulatory Regimes for Services: Implications for Effective Market Access (Aug. 2009)

- Accounting profession regulated in Canada (bookkeeping is not)
- Recognition & licensing managed at Provincial/territorial level
- International trade commitments on professional services also ratified at this level
- Limited internal recognition of prof. qualification e.g. Ontario CMA
- Self-regulatory role for professional bodies
- Professional training required for foreign trained CAs & public accountants
- Designations require citizenship, landed immigrant status or residency
- Misc. restrictions (CAs and/or CGA, CMA) in Alberta, British Columbia, New Brunswick, Ontario, Quebec
- IQAB (Int. Qualifications Board) negotiates MRAs with foreign accounting bodies – determines if qualifications processes “substantially equivalent
- MRA between ACCA & CGA –Canada signed 2007

****Study covers: Alberta, British Columbia, New Brunswick, Newfoundland, Nova Scotia, Ontario, Quebec***

Possible Scope of an MRA on Accounting, Auditing and Bookkeeping

- Participants/Parties – usually single negotiating entity for the sector
- Definitions e.g. Accredited Accounting Programme, Registered/Licensed Architect, registration, substantially equivalent academic formation, continued professional development, home/host/reciprocating jurisdiction
- Registration and Licensure practice
- Eligibility for Registration/Licensure in host jurisdiction
- Ratification and Implementation
- Discipline and enforcement
- Immigration and visa issues (usually limited commitment)
- Information exchange
- Dispute resolution
- Term of Agreement

Industry Action Required in Preparation for Negotiation of MRAs

- **Review Caribbean policies, laws and regulations for qualification, accreditation, licensing, continued education etc. for each sub-sector/service activity**
- **Determine areas of divergence across the Caribbean and initiate programme for convergence/equivalence**
- **Agree on appropriate definitions for Domestic Regulation based on Caribbean reality e.g. Licensing requirements, licensing procedures, qualification requirements, qualification procedures, mandatory standards**
- **Assess specific regulatory barriers for removal in EU & Canada market**
- **Increase interaction with industry counterparts in Europe and Canada**

Conclusions : Implications of the CSME, CARIFORUM-EC EPA and CARICOM-Canada Negotiations for the Accounting Profession in the Caribbean

- **Trade in accounting services and transnational partnerships in the sector are growing**
- **Trade agreements can be used to create new market opportunities and create common regulatory framework**
- **Some trade agreements provide for technical cooperation and development assistance**
- **Associations play an important role in managing change by:**
 - **Protecting the quality of service in a more liberal market through regulation**
 - **Creating new markets & initiating partnerships for Members**
 - **Developing the profession & industry to increase competitiveness**
 - **Influencing trade agenda & implementing trade commitments**
 - **Negotiating MRAs to increase effective market**

Recommendations for Reshaping the Accounting Profession in the Caribbean

- **Define the scope of the sector & improve data collection for decision making**
- **Prepare position papers to inform policymaking**
- **Improve institutional organisation, representation & advocacy**
- **Improve knowledge of partner countries & services they demand**
- **Develop growth strategies (linked to raising standard of practice regionally)**
- **Develop strategies for using trade and cooperation commitments in agreements to achieve growth**
- **Monitor, evaluate, influence & participate in institutions created to implement agreement e.g. EPA Trade & Development Committee**
- **Assess real impact of the agreement regularly through improved research**
- **For MRAs, create formal relationships with non-ICAC Members (Suriname, Dominican Republic) for negotiations with 3rd parties**
- **For MRAs increase cooperation with counterpart entities at country & provincial levels ... business interest in MRA? Regulatory convergence?**

USEFUL LINKS

- **Office of Trade Negotiations, CARICOM Secretariat - www.crnm.org**
- **United Nations Central Product Classification (UN CPC) - <http://unstats.un.org>**
- **Text of Trade Agreements of American States www.sice.oas.org**
- **WTO Services Gateway - http://www.wto.org/english/tratop_e/serv_e/serv_e.htm**
- **Canada DFAIT <http://www.dfait-maeci.gc.ca/international/index.aspx>**
- **Dominican Republic Chamber of Commerce - <http://www.camarasantodomingo.org.do/>**
- **European Commission - <http://ec.europa.eu/trade/>**
- **MERCOSUR - <http://www.mercosur.int/msweb/Portal%20Intermediario/>**
- **United States Trade Representative - www.ustr.gov**
- **United States International Trade Commission - www.usitc.gov**