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Submission to the Competition Policy Review Panel

By

The Association of Chartered Certified Accountants (ACCA)

A. INTRODUCTION

As a global professional services organization with an active Canadian presence, ACCA is particularly interested in the Panel's focus on how to best position Canada to be a "world-leading location for talent..." At the same time, ACCA is also interested in the Panel's focus on improving competition and the global competitiveness of large and small Canadian companies. These two themes are very closely interrelated.

This submission will suggest policies to improve the country's ability to attract talented individuals and contribute to the competitiveness of Canadian businesses. Specifically, our interest deals with reducing the barriers to the international mobility of accounting professionals and their ability to practise in Canada.

Accounting is among the professional services that are at the heart of a knowledge-based economy. Countries that have acted to remove unnecessary limitations that inhibit competition in professional services have benefited by creating a more competitive domestic marketplace and preparing domestic professional service providers to compete internationally.

B. BACKGROUND

1. Accounting is a Global Profession

In the last twenty years many businesses, and other organisations, have become global in their focus and operations. So too has the accounting profession. As clients increasingly demanded continuity of service quality as they expanded beyond their home borders, the larger accounting firms in many countries expanded to become global entities themselves.

Supervisory and regulatory organisations followed suit. For example, the International Federation of Accountants is a relatively new global body which sets standards for accountants. Most accounting organizations are members, including the main bodies in Canada. In order to facilitate common understanding and comparisons of international financial performance, many countries have adopted International Financial Reporting Standards (IFRS) produced by the International Accounting Standards Board. Canada plans to implement IFRS in 2011.

Professional accountants now often work in a milieu which requires an understanding of the business environment and standards in several countries. Many countries produce highly qualified accounting graduates who will work in multiple countries as a normal part of their career. Mobility is the key to ensuring that business have access to the best professional accounting resources

2. About ACCA

ACCA is the largest international accountancy body in the world. It was founded in London (U.K.) more than a century ago. Today it has 130,000 members and 296,000 students in 170 countries. Currently, approximately 25% of members are in public practice (i.e. providing audit and assurance services). Over the last 100 years, ACCA has become widely known and respected for its accounting qualification which it makes available in countries across Europe, Asia, Africa and the Caribbean. In a number of countries, ACCA is the only professional accounting qualification available.

ACCA is incorporated by Royal Charter and is recognized in the U.K. as a "qualifying body" and a "supervisory body" under the UK Companies Act 1989. As such, ACCA's qualified members may practise public accounting. In its capacity as a "Recognized Supervisory Body for Statutory Auditors", ACCA maintains and enforces rules as to the eligibility, supervision, discipline and monitoring of persons seeking appointment as company auditors.

ACCA is also listed in the European Union's Mutual Recognition Directive as being equivalent to the other statutorily recognized auditing bodies in the EU, e.g. the Institute of Chartered Accountants of England and Wales. This means that ACCA members, who are EU citizens, and who wish to practise elsewhere in the EU, will be authorised to do so on successful completion of an aptitude test in tax and law of the other EU country. The ACCA qualification is recognized in many other jurisdictions outside of the EU, e.g. Singapore and Australia.

Additional information about ACCA's global operations, educational syllabus and services to members are available at www.accaglobal.com.

3. ACCA in Canada

There have been active ACCA members in Canada since the 1970s. ACCA Canada is a federally incorporated company managed by a Board of three Directors appointed by ACCA's global Governing Council. (Canada is represented on this Council by one of ACCA Canada's senior members who was elected to that position by the membership around the world.)

The ACCA Canada national office in Toronto was opened in 1996 and is part of ACCA's extensive network of nearly 80 staffed offices and other centres around the world. There are currently nearly 1,800 ACCA members and students in Canada, an increase of 25% over the past four years. Of these, over 1,200 live in Ontario.

Most ACCA members have immigrated to Canada from China, Hong Kong, Malaysia, Singapore, India, Pakistan, the Caribbean, Central & Eastern Europe, the United Kingdom, Ireland and many countries in Africa.

Typically, members have completed their ACCA qualification overseas and have immigrated to Canada to continue their careers in accounting. Similarly, most students start their ACCA qualification abroad and complete it on a program of self-study after arriving in Canada.

A new source of members for ACCA is the Mutual Recognition Agreement which was signed with Certified General Accountants (CGA)-Canada in December 2006. Under this agreement, members of each body can apply for membership in the other after completing a short local tax and law course and meeting some administrative requirements. ACCA membership provides CGA members with greater international mobility than their designation alone provides. With their ACCA designation, these new members can visit or move to 170 countries outside of Canada and be able to practise their profession.

4. The Supply of Accountants in Canada

According to a recent study published by the Canadian Competition Bureau,¹ there are approximately 191,200 financial auditors and accountants in Canada. Of these, 77 percent resided in Ontario, Quebec and British Columbia.

¹ *Self-Regulated Professions, Balancing Competition and Regulation*, Competition Bureau, 2007 (<http://www.competitionbureau.gc.ca/epic/site/cb-bc.nsf/en/02523e.html>).

There is a distinction to make between public accountants and other types of accountants. In general, public accountants perform independent audits or reviews of organizations' financial statements to ensure they are correct, fair, complete and reasonable, so that a third party will be able to rely on them. These services contrast with those accounting services which are internal to an organization, such as compilations, cost accounting, financial reporting, and internal audit.

While there are generally no legal restrictions on who may practise accounting in Canada, all provinces regulate the provision of public accounting services. While there are numerous accounting designations worldwide, only three are recognized by provincial and territorial statutes in Canada. Provincial and territorial laws give these professional bodies the power to govern the profession in their respective jurisdictions.

Most accountants in Canada are members of one of these three designated professional accounting bodies:

- The Canadian Institute of Chartered Accountants, together with its provincial and territorial CA organizations, represents approximately 72,000 CAs and 10,000 students in Canada and Bermuda. Approximately 40 percent of their members work as public accountants;
- National and provincial Certified General Accountants (CGA) organizations represent approximately 68,000 CGA members and students in Canada, Bermuda, the Caribbean, Hong Kong and China;
- The Certified Management Accountants of Canada (CMA) represents approximately 38,000 CMAs and 10,000 students in Canada and around the world.

Although CGAs and CMAs have historically not been allowed to offer public accounting services in every province, there are now more than 3,500 CGAs and 1,000 CMAs licensed to practise public accounting in some provinces, principally in British Columbia and Alberta.

Although the ACCA qualification is recognized in many major countries and financial centres around the world (including as a qualification for public accounting), it is not recognized in any legislation in Canada, nor are any of its members authorized to practise public accounting anywhere in Canada.

5. Public Accounting Regulatory Reform

Historically, the practice of public accounting has been limited to members of the provincial Institutes of Chartered Accountants. Such restrictions on access to the public accounting profession across Canada have led to labour mobility issues recognized by the Canadian Internal Trade Secretariat established under the Agreement on Internal Trade. Two separate dispute resolution panels have ruled that the more restrictive access rules in Ontario and Quebec, which limit public accounting to CAs, are inconsistent with the Agreement on Internal Trade and cannot be justified on the basis of a legitimate public interest objective.²

The Internal Trade Secretariat concluded that the recognition process “does not provide a genuine avenue by which non-CA public accountants from other jurisdictions within Canada can have their qualifications objectively assessed against the standards for licensing in Ontario”.³ The Secretariat also concluded that the CA-dominated licensing body in Ontario did not allow for objective assessment of non-CA qualifications.⁴

As a result, over the last decade, the CA monopoly over public accounting has been loosened in all provinces except Ontario and Quebec. In provinces like B.C., Alberta, Manitoba and New Brunswick, provincial legislation has been modified to allow non-CAs to practise public accounting if they belong to one of the two competing accounting designations (CGAs and CMAs) recognized and protected by statutes. However, the reality is that the greatest demand for public accounting services in Canada is in Ontario and Quebec.

Quebec has begun the process of changing its legislation in response to the AIT rulings, but progress has been slow. Bill 46 (an Act to amend the Quebec Chartered Accountants Act), in its current form, will allow both the CGAs and CMAs to provide public accounting services. But the law requires both bodies to submit their licensing requirements to the Quebec CA Institute before they can be enacted. In essence, these bodies will still be subservient to the Quebec CAs in some important respects. It is expected that this law

² See: *Report of the Article 1716 Panel Concerning a Dispute Between the Certified General Accountants Association of Manitoba and Ontario Regarding the Public Accountancy Act (R.S.O., 1990, Chapter P-37) and Regulations* (October 5, 2001), and *Report of the Article 1716 Panel Concerning a Dispute Between the Certified General Accountants Association of New Brunswick with Quebec Regarding Quebec's Measures Restricting Access to the Practice of Public Accounting* (August 19, 2005).

³ *Ibid.* at p. 17.

⁴ *Ibid.* at p. 18 (“As a matter of proper public administration, a licensing body that is to consider the competency of the members of several professional associations should not be dominated by one of the associations.”)

will be proclaimed in force sometime in 2008, almost two years after it was first introduced in the Quebec Assembly.

In Ontario, the Institute of Chartered Accountants of Ontario (ICAO) has enjoyed a monopoly position with respect to the education, licensing and practice of public accounting in Ontario since 1962. At that time, the regulatory framework for public accounting, first established in 1950, was modified to designate ICAO as the exclusive qualifying body for public accountants in Ontario. This regime was based on the recommendation of the then existing Public Accountants Council (PAC), which was dominated by CAs.

The monopoly over public accounting in Ontario has been the subject of policy review for many years. However, it was not until 2004 that legislation was finally introduced to reform the entry restrictions on public accounting. The Public Accounting Act, 2004 was inspired by two separate government-commissioned reports on the appropriate regulatory framework for the regulation of public accounting in Ontario.⁵ This Act authorized a new Public Accountants Council (on which the CAs are still over-represented) to set accounting standards for the province and authorize the licensing of public accountants. However, the Act only “designated” the same three accounting bodies as being eligible to apply for “authorized” status.

As of this date, three and a half years after the Act was passed, no accounting body, other than the ICAO, has been authorized by the PAC to practise public accounting. It is expected that CGA Ontario will receive its authorization from the PAC sometime in 2008. The CMAs have not yet begun the process of applying for “authorized” status.

The Act does have a provision to allow another professional accounting body, such as ACCA, to become “designated” in Ontario. The process involves applying to the Attorney General who, undoubtedly, would rely on the recommendations of the PAC in arriving at a decision. As the Competition Bureau stated in its recent report, “It remains to be seen whether adopting these (PAC Ontario) standards will fulfill the intent of the Public Accounting Act and abolish unnecessary barriers to entry for competing accounting designations.”

C. OUR SUBMISSIONS

⁵ See the Red Tape Commission Review of Public Accounting in Ontario (December 2001) and the April 1, 2003 report of Dean Ron Daniels, Faculty of Law, University of Toronto, to the Attorney-General of Ontario.

The heart of a healthy and growing economy is a vibrant financial services industry. An essential ingredient of that industry is the professional accountants who work for many accounting firms and businesses. It is these professionals who keep track of transactions, provide operational information to management, keep investors and lenders informed in a timely manner, and who allow risks to be assessed and managed by business executives.

Because of their central role, professional accountants are highly regulated, either through provincial statute or the rules of their respective professional bodies. This is as it should be for the protection of the public. However, in the last decade it has become increasingly recognized that many of these regulations have the effect of stifling competition in the accounting sector, impeding labour mobility, raising costs to businesses and reducing choice beyond what is necessary to assure the quality of service and the protection of the public.

In particular, if Canada aims to become a more preferred destination for divisional head offices or centres of excellence, then it should be more open to recognizing foreign professional credentials of all types. It should provide a regulatory landscape that does not place overly detailed, unnecessary or self-protectionary barriers which prevent highly qualified foreign professionals from entering Canada to provide their services. This is particularly true for accounting in the context of head office functions.

There are several aspects to achieving this:

1. Because global standards for training accountants are not uniform, it is recognized that there is a need for some restrictions on international mobility. Nevertheless, the obstacles for a legitimate international accountancy body to be recognized in Canada are still very high.

In order for ACCA to provide its members with the same employment or career opportunities as members of other accountancy bodies, it must become a recognized body. This would require a lengthy and very costly process of legislative changes in all provinces. In the absence of such recognition, our members are discouraged from immigrating to Canada, since they can choose many other countries where their credentials are recognized by the local regulators and they can find work commensurate with their training and education. Given the history of delay and the opposition to legislative changes by the provincial CA bodies, particularly in Ontario and Quebec, it is unrealistic to expect any substantial improvement in market access for our members in the foreseeable future. A significant change in attitude or public policy focus on this issue is required.

The mobility of professional accountants is severely hampered by provincial laws and regulations which have the effect not just of protecting the public

but also protecting the dominant provider of accounting services. These factors limit the supply of professional accountants in the country at a time when the demand for accountants is increasing globally. It also deprives Canadian businesses of specialized international accounting experience.

The Competition Bureau's recent report⁶ stresses the importance of having an ongoing assessment of foreign accounting designations with a view to increasing the number of recognized bodies. Furthermore, it recommends that all unjustified barriers to the accreditation process, including the residency requirement for public accountants, should be removed.

2. Even with the recent changes across the country, accounting standards are not uniform across the country. Neither are the provincial educational programs of the three recognized accounting bodies. The Competition Bureau's recent report notes that the CA's professional program requires a different time to complete (as much as a year's difference), depending on what province you live in. It also noted that the length of practical experience required by the CAs, CGAs and CMAs before graduation differs by as much as a year among regions. The Bureau advocates in its report that professional bodies should "benchmark professional education programs against those whose requirements which take the least time to complete."

It can be assumed that the more stringent requirements that exist in certain provinces exist for reasons other than the maintenance of service quality or public protection. These, and similar inequities, inhibit competition and the mobility of professional accountants within our country (whether they are indigenous or immigrants) without any discernable improvement in service quality or benefit to the public.

This is confirmed in the Bureau's report when it concludes: "Requirements that go beyond ensuring an acceptable level of quality may act as an unnecessary barrier to entry, thus potentially limiting the supply of accountants."

3. The adoption of very detailed and inflexible accounting standards, curricula, rules and procedures have the real potential to delay or effectively prohibit competitive entry into the public accounting profession in many provinces, particularly Ontario.

This assertion is supported by the Competition Bureau when it stated that: "The maintenance of high accounting standards does not require imposing one accounting body's detailed mandatory curriculum on others which

⁶ See note 1 above.

effectively excludes members of other designations from competing. Doing so would effectively limit competition from other designations.”

4. Preventing foreign trained professionals from participating fully in business robs Canadian companies of the benefits of valuable training and experience gained outside the country. Foreign trained professionals bring a multinational perspective and work experience to companies that cannot be duplicated by professionals who have never worked outside Canada.

A timely example of such lost opportunities relates to the current challenge of adopting International Financial Reporting Standards (IFRS). The Canadian regulators and the professional accounting organizations have agreed to move Canadian accounting standards away from Canadian Generally Accepted Accounting Principles to IFRS by 2011. Although these standards have been adopted by many European and Asian countries, only a handful of Canadian accountants have been trained in these standards at the current time.

ACCA, on the other hand, has been training its students around the world in IFRS for more than ten years. ACCA is a unique international body that is specifically designed for global professional mobility. Its syllabus is geared to international accounting standards that increasingly are the benchmark around the world. Unreasonably impeding ACCA members from practising public accounting in Canada will prevent Canadian businesses from fully benefiting from the international expertise associated with the ACCA designation. ACCA's familiarity and involvement with IFRS is a significant asset that would otherwise assist businesses and professionals alike as Canada transitions to IFRS over the next several years.

5. A jurisdiction like Canada that fails to recognize reasonably the credentials of foreign professionals will be significantly less attractive as a location for a global head office because of limited ability to move professionals in and out of the head office. If Canada wants to become a more preferred destination for divisional head offices or centres of excellence, then it should be more open to recognizing foreign credentials of all types and professional credentials in particular. It should allow individuals from other countries to enter Canada and be permitted to provide professional services for which they are qualified. This is particularly true for accounting services in the context of head office functions.

6. Greater recognition of foreign accounting credentials will also increase choices and reduce costs for accounting services for Canadian businesses (both large and small) and make them more competitive domestically and internationally. If other international accounting designations, such as ACCA, were recognized in Canada, the supply of professional accountants would

increase accordingly, with subsequent positive effects on choice and cost of services.

D. CONCLUSION

ACCA welcomes and supports the important contribution the Panel can make to improve the competitiveness and productivity of the Canadian economy. Most professional accounting jobs are all higher value jobs, with executive decision making components located at head offices or regional centres.

In order for Canada to be competitive and continue to attract well trained and experienced professional accountants who contribute to the country's financial services industry, Canada needs to be much more open to recognizing foreign professional accounting credentials, such as those of the ACCA. We believe that recognition of the benefits of this objective by the Panel in its report would be influential in shedding light on the issue and bringing about the required regulatory changes more quickly.

We hope this submission of the ACCA's point of view is helpful to your deliberations. We would be pleased to discuss any of the foregoing with the Panel if it would be helpful.