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Agenda Item

8-1

Committee: International Accounting Education Standards Board

Meeting Location: Istanbul

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CONVERGENCE OF INTERNATIONAL EDUCATION STANDARDS

ISSUES PAPER AND QUESTIONS FOR IAESB DISCUSSION

Introduction

This Issues Paper provides the IAESB with information on approaches to, and progress made, by IFAC's standard-setting boards towards achieving IFAC's strategic objective of actively encouraging convergence of professional standards; particularly auditing, assurance, ethical, educational and financial reporting standards.

What is Convergence?

In its widest sense convergence refers to the process of making the professional standards used in different jurisdictions more similar to each other. Convergence is a process, not a single event. The objective of convergence is to make trade in services and the movement of capital between jurisdictions easier by removing or minimizing the costs associated with jurisdictions having different standards and different methods for measuring compliance with those standards.

This objective can be achieved in different ways. For some professional standards the convergence will involve the adoption by different jurisdictions of the same international standards. For other professional standards, convergence may focus on achieving recognition that the outcomes of national standards are equivalent to each other and/or equivalent to international standards.

International Auditing and Assurance Standards Board (IAASB)

The IAASB is promoting convergence by encouraging countries to use the IAASB's standards rather than national standards.

The IAASB recognizes that to encourage acceptance of International Standards of Auditing (ISAs), they must be developed by a rigorous and comprehensive due process which is recognized and accepted by stakeholders. As well, the IAASB is developing strong relationships with its stakeholders to ensure appropriate communication and enhanced mutual understanding. To achieve this, the IAASB:

- Works closely with the Public Interest Oversight Board to address public interest issues;
- In 2005, finalized revised due process and working procedures to make the activities of the IAASB more transparent;
- Maintains contact with a broad range of international stakeholders including the European Commission, IOSCO, and the Basel Committee on Banking Supervision;
- Hosts meetings with the most active national standards setters ;and
- Attends meetings of the EU national auditing standards setters hosted by FEE.

At its meeting in July 2006 the IAASB approved a policy position entitled “*Modifications to International Standards of the International Auditing and Assurance Standards Board (IAASB) - A Guide for National Standard Setters Who Adopt IAASB’s International Standards But Find It Necessary to Make Limited Modifications*”. The approval of this policy represents another important step towards the convergence of auditing standards.

This policy position sets out the IAASB’s views on what modifications a national standard setter that adopts the IAASB’s International Standards as the international standards may make to the ISAs while still asserting that the resulting national standards conform to the international standards.

International Ethics Standards Board for Accountants (IESBA)

The IESBA has discussed convergence at two meetings. At these meetings, the IESBA discussed the many challenges that relate to convergence and the Code of Ethics for Professional Accountants. These challenges include:

- In many cases, a member body is not responsible for all parts of the Code – for example, in many jurisdictions, responsibility for establishing auditor independence requirements rests with regulators; and
- For those parts of the Code where the member body does have responsibility, the structure and wording of the member body equivalent of the Code might differ from the Code itself. These differences might be necessary for the member body’s disciplinary process.

The IESBA will resume its discussion of this important matter at its first meeting in 2007. The IESBA also plans to discuss this matter at the first Ethics National Standard Setters meeting which will be held in 2007.

International Accounting Education Standards Board (IAESB)

The IAESB briefly discussed convergence and what it means for education standards at its recent meeting in Santiago, Chile, in the context of the development of the IAESB’s strategic plan for the period 2007-2009. “Convergence,” in terms of International Education Standards (IESs), would help member bodies to ensure that professional accountants achieved and maintained a specified level of competency.

In developing its revised strategic plan and future work program, the IAESB was considering projects in the area of benchmarking, to determine to what extent convergence had taken place to date, and to provide a basis for future work to promote compliance with and convergence to IESs.

IFAC Wide Issues in Promoting Convergence

In addition to the work of the individual IFAC standard-setting boards, work on promoting convergence, achieving our objectives in regard to convergence also requires a number of issues to be addressed by IFAC as a whole.

Common Definitions

One of the difficulties in discussing convergence and in determining how convergence can best occur is that there is currently no agreement as to the precise meaning of the terms that are being discussed. In debating convergence, terms such as convergence, harmonization, adoption, incorporation, equivalence and mutual recognition are used, but within the profession and the international regulatory community we do not have agreement as to what the exact meaning of these terms are in the context of accountancy. This lack of definitions was one of the issues highlighted in the 2004 Report by Peter Wong *“Challenges and Successes In Implementing International Standards: Achieving Convergence To IFRSs and ISAs”*.

The lack of agreed definitions poses risks to the process and achievement of convergence as it leads to confusion about exactly what convergence is and what convergence means. Without clear definitions it will not be possible to measure IFAC’s achievement of its objective of convergence.

Clear definitions would help to focus the international and national debate on convergence, highlight where agreement and disagreement exist and clearly defining the desired endpoint(s) and the process to get there. The need for clear definitions is important across all of IFAC’s activities, and IFAC is in the best position to take responsibility for this work.

An opportunity exists for IFAC to demonstrate thought leadership in this area and to develop definitions for the common terms used, such as convergence, adoption, incorporation and conformity. This process could begin with the development of draft definitions through internal debate and discussion. The draft definitions could then be exposed for a wider, public debate through a consultation paper.

The Use of Names

As jurisdictions have moved to use IFRS and ISAs they have also used or refer to the names of the international standards. For example the UK uses the phrase “ISAs (England and Wales)” and, in the European Union, reference is made to “IFRS adopted for use in the EU.” The use of names in this way raises the risk of confusion. For example what is the difference between “ISAs (England and Wales)” and the ISAs promulgated by the IAASB? How important are these differences? Are the ISAs more or less restrictive than those issued by England and Wales? Have England and Wales elected not to adopt certain ISAs? In addition, if there is a significant audit failure in a jurisdiction that is using some but not all of the ISAs or some version of the ISAs this may jeopardize the perceived quality of ISAs. The IASB faces the same problem in regard to the use of the term “IFRS.”

The policy position adopted by the IAASB goes some way to addressing this problem for ISAs, by determining what modifications to ISAs are acceptable. However, this policy does not address when jurisdictions are allowed to use the term “ISAs.”

Who uses IAASB and other IFAC Pronouncements?

A survey conducted in 1998 has shown that more than 70 jurisdictions around the world have either adopted or incorporated ISAs in their national standards, or have announced a policy intention to do so. Going forward, it is important that IFAC obtains more recent information in this regard, including a more precise understanding of how international standards (including the *Code of Ethics* and IESs are being adopted or incorporated into national standards.

Analyzing the answers from the questionnaire of Part 2 of the Compliance Program will help IFAC to better understand who is using international standards and how they are using international standards. The questionnaire is based, however, on self assessment. Over time, it may be necessary to consider opportunities and approaches to independently verify adoption and incorporation of IFAC's standards.

Conclusion

Achieving convergence is an important strategic objective for IFAC. While IFAC's standard-setting boards are making progress towards achieving this objective there are a number of issues that need to be addressed at the IFAC level as well. These include the development of definitions, the use of names and verifying which jurisdictions are using international standards. Working with the profession, national standards setters and the international regulatory community on these broader issues, IFAC will continue to advance the objective of convergence.

QUESTIONS FOR IAESB DISCUSSION

The IAESB is asked to consider the issues raised above, and the specific questions set out below, in determining its approach towards convergence. In particular, the IAESB is asked to consider:

- (a) What do we mean by “convergence” in terms of the IESs and other IAESB pronouncements? And
- (b) What are the implications for the IAESB’s future work program?

The IAESB’s discussions of potential projects in the areas of benchmarking of IESs, at its previous meeting in July 2006, are relevant to the current discussion of convergence. One objective of a benchmarking project, which provides additional, specific guidance for IFAC member bodies implementing IESs, could well be to provide indicators for the measurement of compliance with/adoption of IESs, which will have the further outcome of encouraging convergence with IESs.

Specific Questions

- In the context of the IESs, does convergence imply (a) convergence of educational inputs, (b) convergence of educational processes, (c) convergence of educational outcomes, or (d) all of these? What are the implications for the IESs themselves, and for the development of future guidance?
- What should/can the IAESB and others do to make clear to stakeholders what we mean by “convergence?”
- What are the ways in which the IAESB and/or other bodies (e.g. the Compliance Advisory Panel) can measure the extent of implementation of IESs? What are some of the quantitative and qualitative measures that might be used?
- Is there sufficient information contained in the IESs at present to allow for the measurement of implementation? If not, what else is needed, and how can this best be provided?