

Summary of FEE Study Trans- national Organisations and Practices within the Accountancy Profession

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Objectives of the study

- Promote wider understanding of the accountancy profession's response to the internationalisation of business needs
 - Explain the "drivers": regulatory and legal context
 - Describe organisational models of main trans-national service providers
- Illustrate diversity / similarities in relation to structure, governance and operational arrangements of service providers
- Summarise views on impact of regulatory requirements, notably the network definition
- Provide stimulus for considering regulatory framework from European internal market and broader trans-national perspectives

Key findings and conclusions (1)

- The accountancy profession's trans-national evolution within Europe has been strongly moulded by a fragmented, jurisdiction-specific approach to regulation, and different legal systems and cultures
 - Rules on: ownership, qualification, registration, market access, service provision
- Unevenness of liability regimes and declining insurance: growing influence over time
- To date modest trans-national coordination of regulatory policy to allow for more integrated structures. The impact of relevant EU legislation is still to be seen at Member State level

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Key findings and conclusions (2)

- Three distinct structural models of trans-national organisation and practice:
 - i) an international association of independent firms coordinated by a separate legal entity
 - ii) an integrated international partnership (IIP)
 - iii) a national practice with subsidiaries in other jurisdictions
- International association model is most predominantly used by profession
- Other two models are of importance at current time and may grow in importance
- Interaction between models is evolving, especially between association and integrated international partnership models

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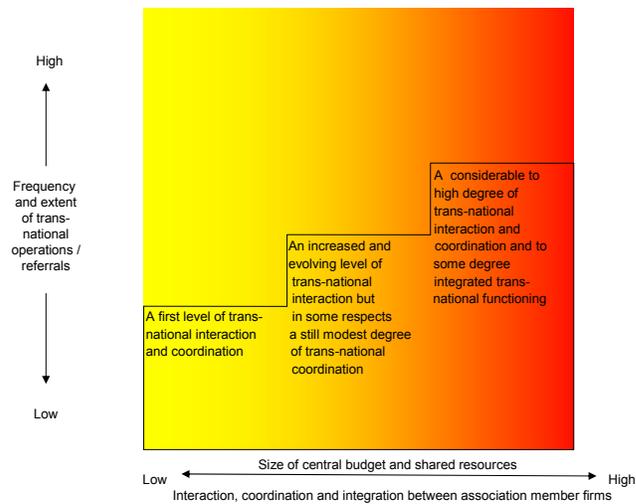
Key findings and conclusions (3)

International associations:

- Structural arrangements: very high degree of commonality
Key element: legally independent member firms servicing clients
- Governance / structures and operational arrangements: major differences
- Three discernible categories: tool to assist interpretation of findings (next slide)
- Variable degree of control arising from economic dependency of member firm

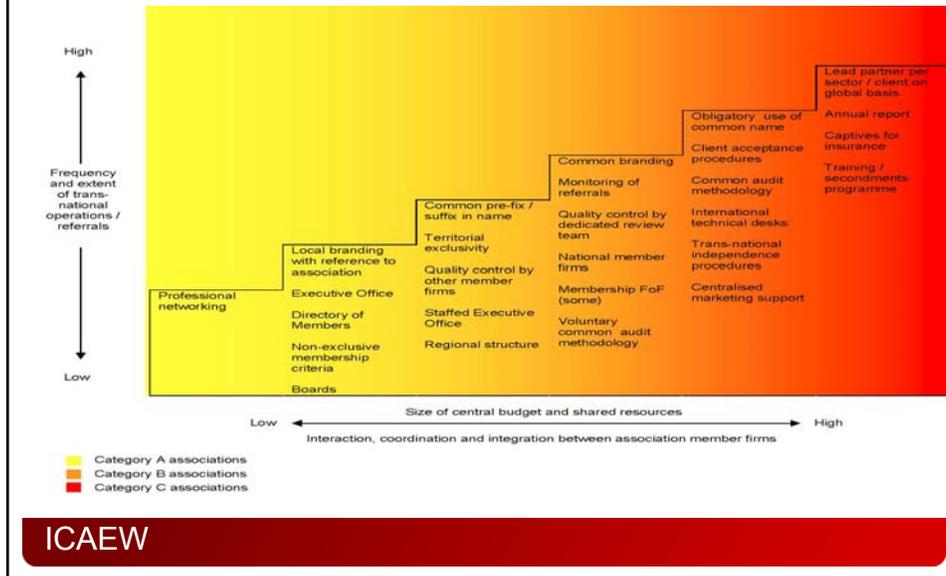
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Key Findings and Conclusions (4)



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Key Findings and Conclusions (5)



Key findings and conclusions (6)

Integrated International Partnership (IIP):

- One grouping as a whole describes itself as such – but model employed more extensively
- Key elements of the model are evolving within certain associations
- Model has many elements of cross-border “sharing” deriving from common ownership – but no sharing of legal liability
- Management and control appear more direct, particularly in comparison with A and B associations

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Key findings and conclusions (7)

National practice with subsidiaries:

- Least commonly used and most geographically limited
- Highest degree of management and control of all models
- Appears to be important model for providing non-statutory audit services
- Future evolution in light of revised Statutory Audit Directive and other EU Directives in Internal Market for services sphere?

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Network definition

- Overall high degree of awareness that “network” is now a legal definition
- C associations / IIP: recognition that network definition is applicable, but concerns over compliance costs due to independence gold plating
- B associations:
 - i) concerns over costs / benefit
 - ii) public interest relevance?
 - iii) unevenness of implementation
 - iv) liability
- But also some view benefits in terms of market perception
- A associations do not consider their organisations to be networks
 - in some cases operational coordination has been reduced to ensure that this is the case.
 - “network” removed from self-descriptions - “alliance”, “affiliation” and “association.”

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FEE Policy conclusions

- EC Auditor Liability recommendation is to be welcomed
- Member States should implement Statutory Audit Directive with trans-national organisations in mind
- Consistency in interpretation of network definition is critical: IFAC guidance
- Clarification of pending questions regarding Internal Market Directives could be highly relevant (FEE study November 2007): cross border provision of services, infrastructure

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Study Dissemination / follow-up

- Publication April 2008
- Presentation to European Group of Auditor Oversight Bodies (EAOB)
- Joint FEE/ICAEW Roundtable in London with European Commission
- ICAEW / UK Financial Reporting Council Audit Firms Working Group
- Developments within major players towards trans-national partnerships

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