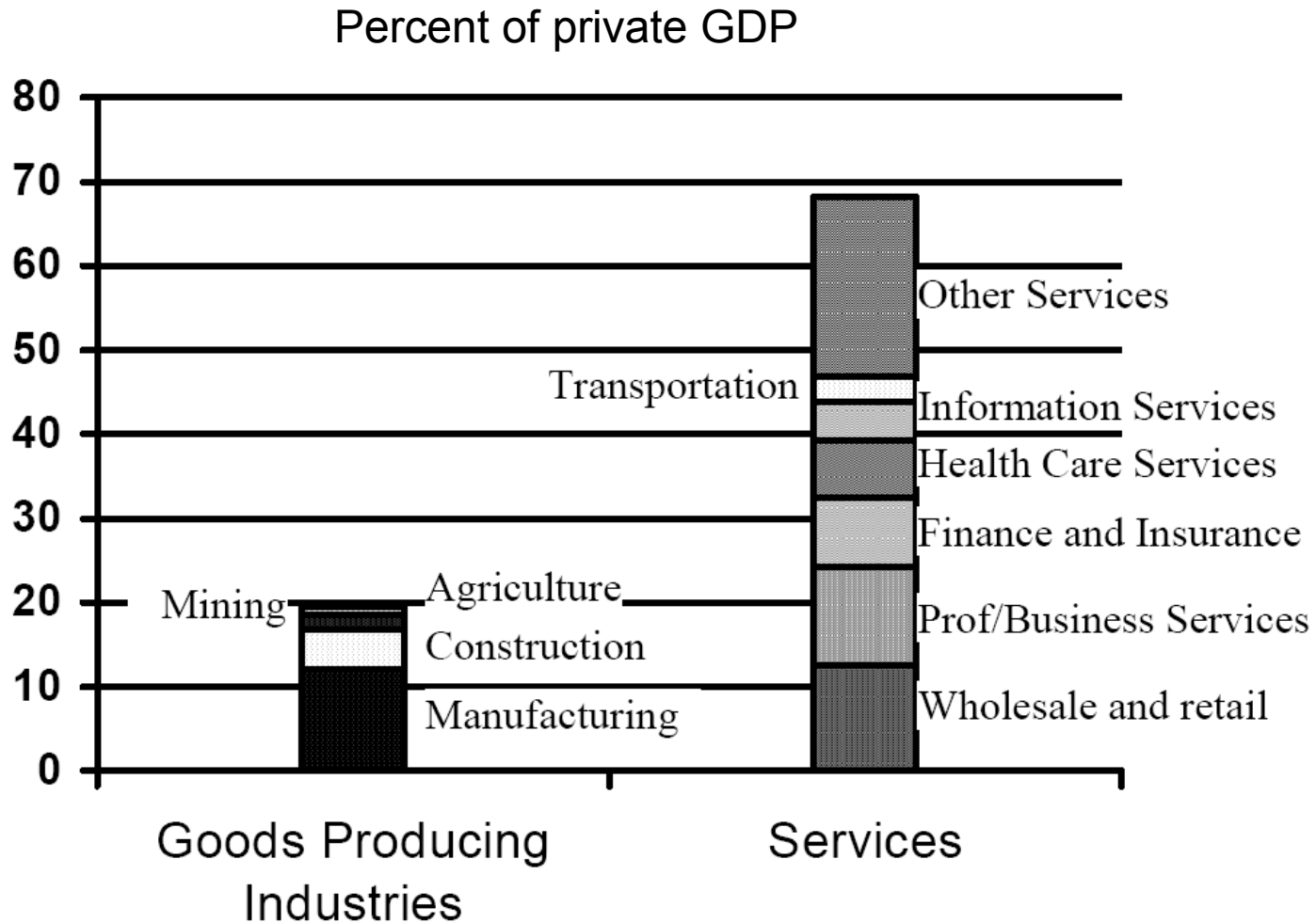

Trade Agreements and the Accounting Profession

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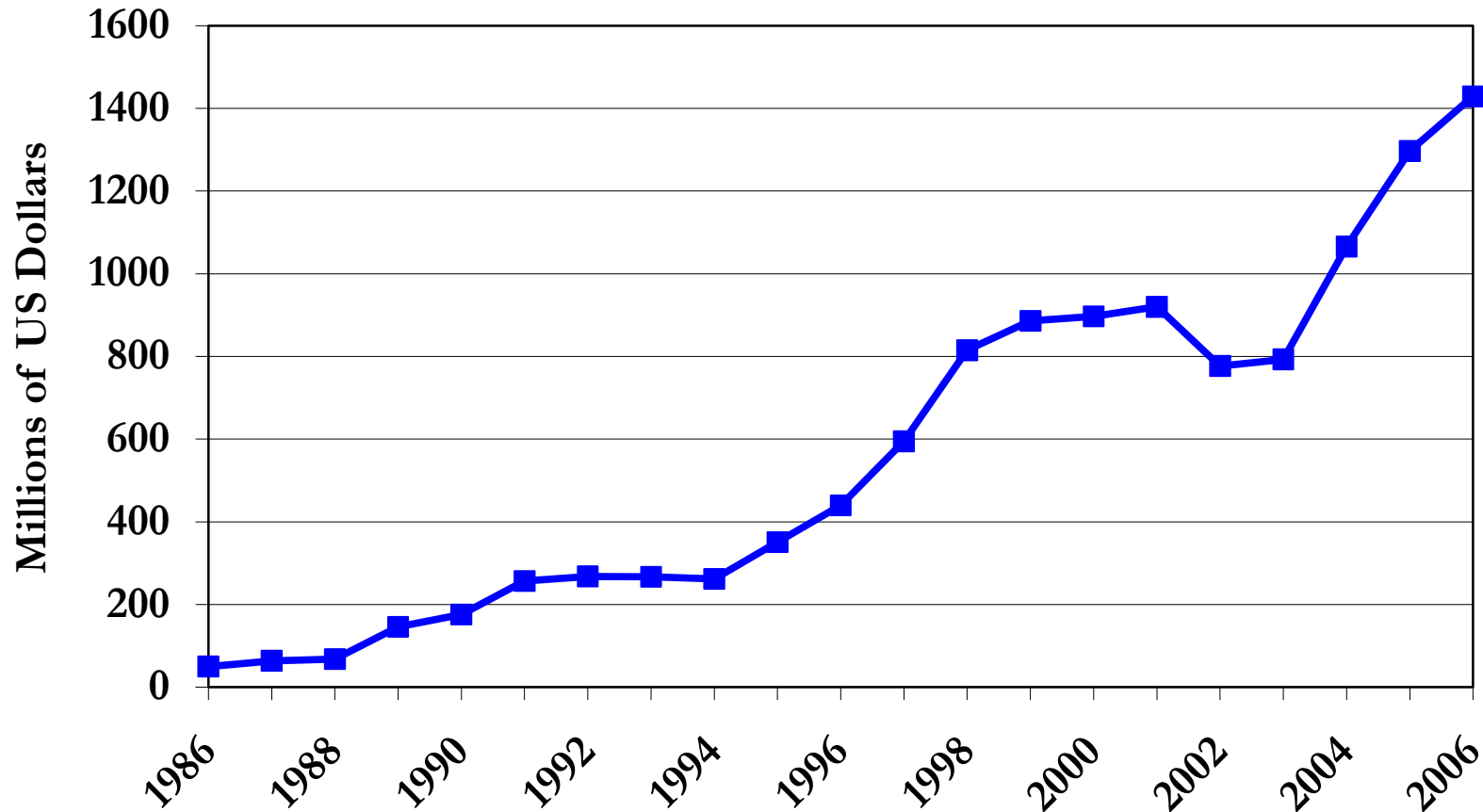
The U.S. economy



Services trade growing rapidly

- ❑ US largest services trading country in the world
 - ❑ US services exports (2008):
 - ❑ \$549 billion cross-border, surplus of \$144 billion, fifth straight year of increasing surplus
 - ❑ \$806 billion affiliate sales, surplus of \$140 billion
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“Accounting, Auditing, and Bookkeeping” total U.S. cross-border trade



Accounting and global trade

- ❑ Greater mobility of people, capital, and information makes “trade” in professional services ever more possible.
 - ❑ Creates demand for greater professional mobility: common standards, recognition, substantial equivalency, etc. . .
 - ❑ What is the relationship between these forces, regulation of the professions, and the international rules-based trading system?
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The rules-based trading system

- ❑ Multilateral agreements (WTO)
 - ❑ Regional agreements (NAFTA)
 - ❑ Bilateral agreements (Australia-U.S. FTA)
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The WTO

- ❑ WTO: Doha Development Agenda
 - ❑ 153 Members
 - ❑ Single undertaking: Agriculture, Goods, Services
 - ❑ 2001-?
 - ❑ The GATS
 - ❑ Market Access Negotiations
 - ❑ Working Party on Domestic Regulations
-

U.S. Free Trade Agreements

In Force		Pending Congressional Approval	Ongoing
Israel	Morocco	Colombia	Malaysia
NAFTA	CAFTA-DR	Panama	Trans-Pacific
Jordan	Bahrain	Korea	(NZ, Sing, Chile, Brunei)
Chile	Peru		
Singapore	Oman		
Australia			

What do trade agreements do?

- ❑ Commitments, or obligations, undertaken by sovereign states to honor common rules that:
 - ❑ Foster competition
 - ❑ Encourage fairness and nondiscrimination
 - ❑ Provide for the orderly settlement of disputes
 - ❑ Participation is voluntary
 - ❑ Incentive is to enjoy benefits from a rules-based trading system – if everybody plays fair, everybody wins
 - If you break the rules, you may lose some benefits
 - But you can't be worse off than the “state of nature”
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Key obligations

- ❑ Market Access: promotes competition
 - ❑ Nondiscrimination: levels the playing field
 - ❑ Most-Favored-Nation Treatment
 - ❑ National Treatment
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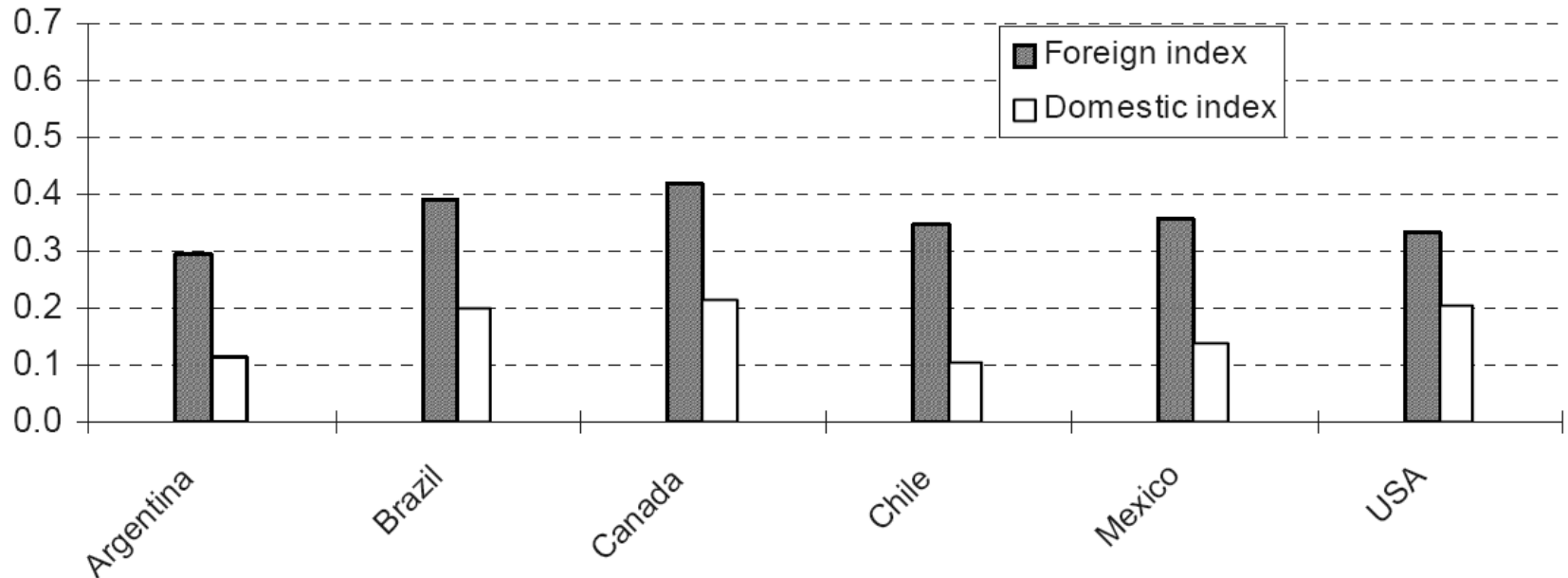
Common accounting MA and NT barriers

- ❑ Limitations on the number of audits performed or size of firm
 - ❑ Nationality requirements
 - ❑ Limits on foreign ownership and investment
 - ❑ Restrictions on forms of incorporation for foreign firms
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U.S. discrimination relatively low

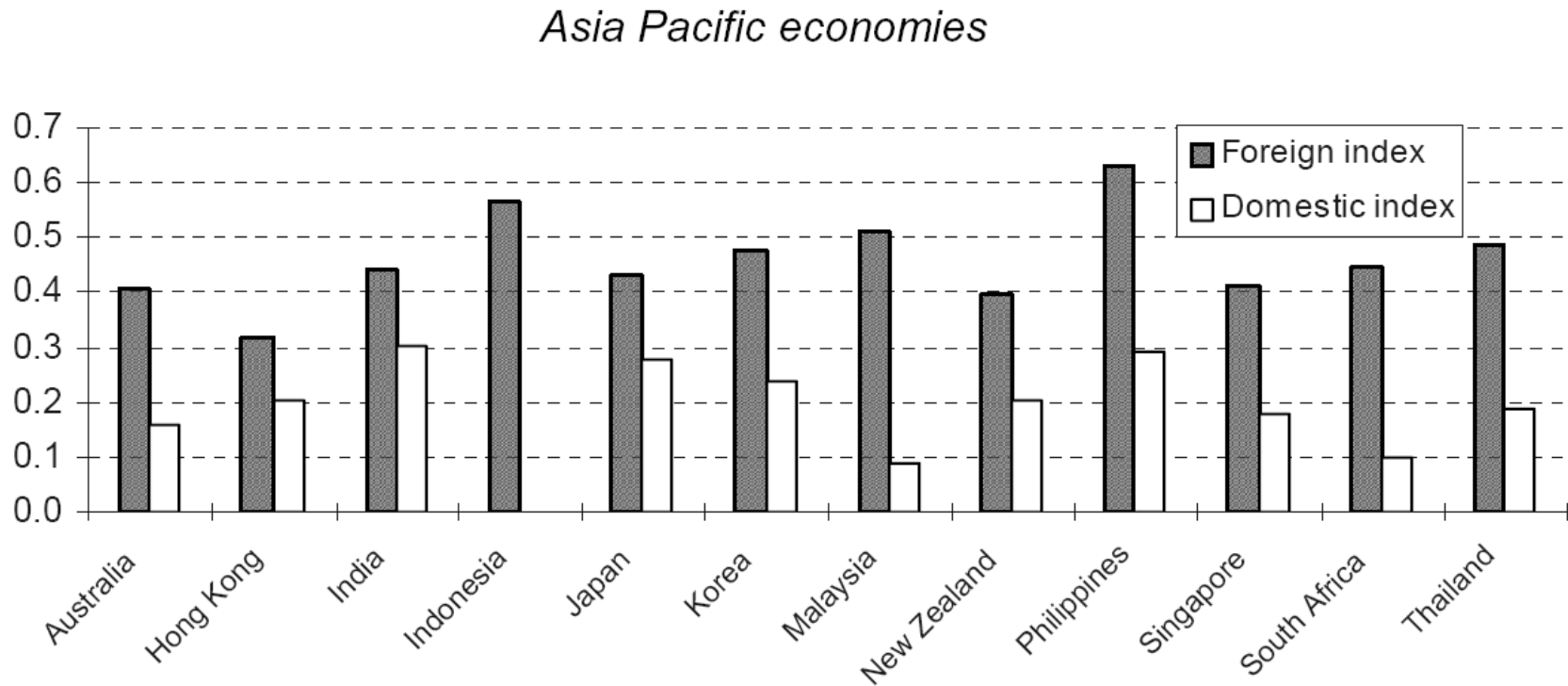
Restrictiveness Index for Accounting Services

Selected American economies



More discrimination in Asia

Figure 3.3 Restrictiveness index for accountancy services



Why take commitments?

- ❑ Attract investment
 - ❑ Lock in reforms
 - ❑ So others will do the same
 - ❑ U.S. IQAB policy on requiring MRA partners to have accounting/auditing GATS commitments
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Other relevant GATS elements

- ❑ Domestic Regulation
 - ❑ Recognition
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Regulatory sensitivities

- ❑ “Liberalization” orientation of trade agreements interpreted as “deregulation”—not the same.
 - ❑ Suspicion of supranational regulatory authority, intent on regulatory harmonization.
 - ❑ Calmer after fifteen years, but WTO’s relationship to regulation still widely misunderstood.
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Domestic regulation

- ❑ Trade agreements recognize that regulations themselves may create an impediment to trade
 - ❑ Possible to create such a regulatory burden as to impede new entrants and effectively discriminate, particularly if policies are not transparent
 - ❑ But agreements also recognize that regulators must have discretion to determine the appropriate level of regulation
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Domestic regulation

- ❑ GATS seeks to strike a balance
 - ❑ Encourages transparency and objectivity
 - ❑ Calls for “adequate procedures” to verify competence of foreign professionals
 - ❑ Leaves open option to develop stronger disciplines if agreement can be reached
 - ❑ To date, disciplines adopted for one profession—accounting
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The accounting disciplines

- ❑ Broad consensus that more specific disciplines would serve the greater interests of the profession
 - ❑ Developed 1995-1998; adopted in 1998
 - ❑ Don't take effect until completion of Doha Round
 - ❑ Do not apply to countries that don't take commitments
 - ❑ Political “standstill” in effect
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General Provisions

- ❑ Members shall ensure that measures . . . relating to licensing requirements and procedures, technical standards and qualification requirements and procedures are not prepared, adopted or applied with a view to or with the effect of creating unnecessary barriers to trade in accountancy services. For this purpose, Members shall ensure that such measures are not more trade-restrictive than necessary to fulfil a legitimate objective. Legitimate objectives are, *inter alia*, the protection of consumers (which includes all users of accounting services and the public generally), the quality of the service, professional competence, and the integrity of the profession.
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Similar concept in FTAs

- . . . each Party shall endeavor to ensure, as appropriate for individual sectors, that such measures are:
 - (a) based on objective and transparent criteria, such as competence and the ability to supply the service; and
 - (b) in the case of licensing procedures, not in themselves a restriction on the supply of the service.
-

Recognition

- ❑ Trade agreements acknowledge that absence of international standards impedes trade
 - ❑ Difficult for professionals to operate internationally and for global companies to identify qualified employees
 - ❑ Also explicitly acknowledge that the substance of the standards is outside the scope of trade policy
 - ❑ International standards could be desirable, but trade agreements do not require the development or the adoption of such standards
 - ❑ Most they can do is encourage “relevant bodies to develop mutually acceptable standards.”
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Recognition

- ❑ FTAs go a little further than WTO on licensing and certification
 - ❑ Stronger encouragement of relevant bodies to develop mutually acceptable standards
 - ❑ Encouragement of work programs on temporary licensing
 - ❑ Some FTAs provide for a working group on recognition issues involving relevant professional bodies
 - ❑ USTR role is to facilitate interaction with regulatory bodies and private professional or accrediting organizations, but not to drive the process
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U.S. IQAB mutual recognition agreements

- ❑ U.S. recognition agreements help establish high-quality standards internationally
 - ❑ Helps US business interests in ensuring workforce quality overseas
 - ❑ Helps US demonstrate that government agreements are not the only or best way
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Conclusions

- ❑ Regulatory heterogeneity can be a barrier to trade—the need to comply with different sets of regulations in different markets can increase the costs of doing business.
 - ❑ However, heterogeneity exists for many legitimate reasons, especially in the professions—e.g. cultural differences, level of development—and not undesirable.
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Conclusions

- ❑ Trading system endorses each country's "right to regulate"—decentralization, not harmonization.
 - ❑ Goal: reduce adverse consequences for trade while allowing regulators the freedom to pursue different goals or levels of stringency.
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Conclusions

- ❑ Toolkit includes:
 - ❑ National Treatment
 - ❑ Transparency
 - ❑ Mutual recognition
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