



Federation of European Accountants
Fédération des Experts comptables Européens

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Ref.: QMA/PRJ/PWE/MBR

Dear Mr McPeak,

Re: FEE Comments on the IAESB Exposure Draft on the Proposed IES 2 – Initial Professional Development - Technical Competence (Revised)

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Proposed IES 2 Initial Professional Development - Technical Competence (Revised).

FEE supports the IAESB's project to improve the clarity of its standards. The revision is the opportunity to introduce improvements, in particular we commend IAESB for having adopted a learning outcomes approach rather than prescribing knowledge content as indicated in the extant IES 2.

However, IES 2 shows a lack of an overall concept, it should also provide principles and objectives of initial professional development to help IFAC member bodies structuring their education programmes.

Responses to questions

Question 1: Do the 11 competence areas listed in Paragraph 7 of the proposed IES 2 (Revised) capture the breadth of areas over which aspiring professional accountants need to acquire technical competence? If not, what do you suggest?

Overall, the 11 competence areas cover the appropriate subjects regarding IPD of accountants.

It might be worth considering whether the law of insolvency and similar procedures as well as social security law and employment law should also be included. On EU level, these subjects need to be covered in the education of statutory auditors.

The sequence of the competence areas should be reviewed and a restructuring should be considered so that the sequence reflects the necessary education steps.

Question 2: Do the learning outcomes listed in Paragraph 7 of the proposed IES 2 (Revised) capture adequately the minimum levels of proficiency to be achieved by an aspiring professional accountant by the end of IPD? If not, what changes do you suggest?

a) Learning outcomes

The learning outcomes are described rather detailed, which might be conducive for a certain harmonisation of education and can certainly be helpful as background material. However, considering the large differences in national requirements regarding accounting education across the EU, they could be too detailed to be translated into national requirements.

Therefore, it could be considered to keep the learning outcomes more general and to move the detailed descriptions from the “Requirements” part of the standard into the “Explanatory Materials”, using them as examples.

As mentioned above, the sequence of the competence areas should be reviewed and a restructuring should be considered so that the sequence reflects the necessary education steps. This applies also to the learning outcomes.

The description of learning outcomes often contains verbs like “explain” or “describe”. We are not convinced that these verbs appropriately describe the desired results and suggest to reconsider the wording in this regard.

Regarding *Table A - Learning Outcomes for Technical Competence* we have the following suggestions (only the learning outcomes where we suggest amendments or additional learning outcomes are listed below):

(a) Financial accounting and reporting

(i) Apply accounting **law, standards and** principles to transactions and other events

(ii) Apply IFRS or other relevant standards to a ~~range of~~ transactions and other events

(vi) Interpret specialized **non-financial** reports, **e.g. including** sustainability reports and ~~integrated reports~~

(b) Management accounting

(ii) Analyze and integrate **management accounting** financial and nonfinancial data to **prepare** ~~provide~~ relevant information for managerial decision making

~~(iii) Prepare reports to support managerial~~ decision making, including reports that focus on planning and budgeting, cost management, quality control, performance measurement, and benchmarking

(iv) ~~Compare and~~ Evaluate the performance of products and business segments **to be able to identify action that needs to be taken**

(c) Finance and financial management

(i) **Understand and** compare the various sources of finance available to an organization, including banking finance, financial instruments, and different capital markets

(v) Evaluate compliance with governance

(vi) Apply appropriate capital budgeting techniques to the evaluation of capital investment decisions

(d) Taxation

(i) Explain **Apply** domestic taxation **law** compliance and filing requirements

(iii) Analyze **Identify** the taxation issues associated with ~~non-complex~~ international transactions

(iv) Explain the difference between tax planning, tax avoidance, and tax evasion

~~(v)~~ **(iv)** Identify when it is appropriate to refer matters to taxation specialists

~~(e)~~ **(f) Audit and assurance**

~~(i)~~ **(ii)** Analyze the risk profile of an entity to identify the components of audit risk

~~(ii)~~ **(i)** Describe **Understand** the objectives of an audit of financial statements **and work according to them**

(iii) Describe **Understand and perform** the activities involved in ~~performing~~ an audit of financial statements

~~(f)~~ (e) Governance, risk management and internal control

(i) ~~Explain~~ **Understand and integrate** the principles of good governance, internal control including the rights and responsibilities of owners, **investors and those charged with governance**, and the role of stakeholders in governance, disclosure, and transparency requirements

(iv) Analyze the components of internal control **related to financial reporting**

(g) Business laws and regulations

(i) ~~Explain~~ **Understand and apply** the laws and regulations that are relevant to the environment in which professional accountants operate

(ii) ~~Explain~~ **Analyze the impact of** different legal forms of businesses and the legislation and regulations that govern each form

(h) Information technology

(i) ~~Describe~~ **Use** the basic hardware and software components of information systems

(iv) ~~Explain~~ **Understand and use** the components of an information systems continuity plan

(i) Business and organizational environment

(i) ~~Describe~~ **Analyze** the environment in which an environment organization operates, including the main economic, legal, political, social, technical, international, and cultural forces and their influences and values

(iii) ~~Explain~~ **Analyze** the impact of legal, political, cultural, and technological contexts on the processes of internationalization of an organization

(j) Economics

(i) ~~Describe~~ **Understand** the fundamental principles of microeconomics and macroeconomics

(iii) ~~Explain~~ **Analyze** the competitive environment facing organizations under different types of market structures, including competitive markets, monopoly, monopolistic competition, and oligopoly

(k) Business management

(i) ~~Explain~~ **Analyze the impact of** the various ways that organizations may be designed and structured

(ii) ~~Explain~~ **Analyze** the purpose and importance of functional areas, such as human resource management, project management, procurement, technology management, and marketing

(iii) ~~Explain~~ **Analyze** the external and internal factors that may influence the formulation of an organization's strategy

b) Levels of proficiency

Overall, we question whether IES 2 should prescribe any level of proficiency. As the competence areas are comprehensive and if the learning outcomes are described clear enough but not too detailed (see above), the level of proficiency could after all be subject to the assessment system that is used on national level.

Regarding (g) Business laws and regulations, we seriously doubt that "foundation" level is sufficient for the learning outcomes and suggest that (i) should be "advanced" level and (ii) and (iii) should be intermediate level.

Questions 3: Does the Appendix provide adequate clarification to assist in the interpretation of the learning outcomes that are listed in Paragraph 7 of the proposed IES 2 (Revised)? If not, what changes do you suggest?

Although we are not convinced that IES should prescribe proficiency levels at all (see response to question 2 above), the descriptions in Appendix 1 generally appear to be reasonably detailed.

The term "Intermediate" as such is not self-explanatory and might be difficult to translate, even with the description in Appendix 1. If proficiency levels are described, it might be more appropriate to derive them from existing education frameworks, like for example the European Qualifications Framework¹, which also refers to learning outcomes².

As far as the description of "Mastery" level is concerned, it is unclear, why the "Indicative verbs include all those listed for Foundation, Intermediate and Advanced levels", but do not provide any additional verb for the mastery level. This implies that the Mastery level cannot be described with appropriate verbs, so that there is after all no difference to the "Advanced" level, which is confusing.

Since none of the learning outcomes are classified at Mastery level, this level is superfluous and we suggest deleting it from the Appendix.

Question 4: Overall, are the Requirements paragraphs 7, 8, and 9 of the proposed IES 2 (Revised) appropriate for ensuring that aspiring professional accountants achieve the appropriate level of technical competence by the end of IPD? If not, what changes do you suggest?

Generally yes, with the modifications suggested above in the responses to questions 1 and 2.

¹ http://ec.europa.eu/education/lifelong-learning-policy/doc/eqf/brochexp_en.pdf

² http://ec.europa.eu/education/lifelong-learning-policy/doc/eqf/note4_en.pdf

Question 5: Do you anticipate any impact or implications for your organization, or organizations with which you are familiar, in implementing the new requirements included in this proposed IES 2 (Revised)?

For statutory auditors in the European Union, the EU Statutory Audit Directive provides a harmonised framework for educational qualification requirements that has to be applied by the stakeholders involved in education of statutory auditors.

IES might help these stakeholders (IFAC member bodies, government authorities or educational organisations that might have shared responsibilities, see also the response to question 8) as background material for interpreting and implementing these requirements, but EU law as implemented into national law would prevail.

In addition, the Statutory Audit Directive is currently under review, which might have an impact on the responsibilities of IFAC member bodies in the EU.

For accountants providing services other than statutory audit, there is no EU law in place and national requirements regarding educational qualification vary broadly. Therefore, the proposed IES 2 might have implications on IFAC member bodies in the EU.

Question 6: Is the objective to be achieved by a member body, stated in the proposed revised IES 2, appropriate?

Paragraph 6 states that “*The objective of an IFAC member body is to provide aspiring professional accountants with the technical competence required to perform a role of a professional accountant.*”, which is not appropriate for the following two reasons:

Paragraph 6 should state the objective of the standard, not the objective of an IFAC member body. The objective of a professional institute is governed by the legal framework in its country and by its statutes, not by education standards.

Furthermore, education is not in all countries carried out by IFAC member bodies. In some countries, IFAC member bodies have shared responsibilities in education with government authorities or educational organisations and in other countries IFAC member bodies are not at all involved in education.

IFAC member bodies can only use their best endeavours (see IFAC SMO 2) to ensure that aspiring professional accountants are equipped with the technical competence required to perform a role of a professional accountant.

The same applies to the second sentence of paragraph 2, which should not state that “IFAC member bodies *have responsibility* for ensuring that IPD meets the requirements of this IES.”

We appreciate that A2 of the Explanatory Materials refers to the fact that professional accounting education programs may consist of formal education delivered by universities, other higher education providers, IFAC member bodies, employers and workplace training.

It is however unclear, how far the IFAC member bodies could or would have to monitor the part of education which is placed under the responsibility of others.

Question 7: Have the criteria identified by the IAESB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in implementation by member bodies?

The requirements are specified in paragraphs 7 to 9 and appear to be comprehensive and detailed enough to promote consistency in implementation by member bodies. As outlined above in the responses to questions 1 and 2, they might even be too detailed to be adapted to national requirements.

Question 8: Are there any terms within the proposed IES 2 (Revised) which require further clarification? If so, please explain the nature of the deficiencies.

The third sentence of paragraph 2 says “In addition, this IES will be helpful to educational organisations, employers, regulators, government authorities, and any other stakeholders who support learning and development of professional values, ethics, and attitudes of aspiring professional accountants.” We question whether this standard is relevant for such large range of stakeholders. IAESB needs to avoid drafting standards which would go beyond its responsibility.

Therefore, we suggest to amend the sentence as follows: “However, this IES *might* be helpful to ...”

Considering the overall concept of the IES and the consistency within this concept, we wonder whether the assessment of technical competence (paragraph 9 and A13 to A14), would not be better placed in IES 6 which is specifically dedicated to the assessment of professional competences.

For further information on this letter, please contact Ms Petra Weymüller from the FEE Secretariat (email: petra.weymuller@fee.be, Tel.: +32 2 285 40 75).

Yours sincerely,



Philip Johnson
President