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## Is International Reciprocity Possible?

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# **IS INTERNATIONAL RECIPROCITY POSSIBLE?**

By Abdel M. Agami, Old Dominion University and Karen T. Cascini, Sacred Heart University

The International Federation of Accountants (IFAC) recently issued two important documents related to professional accountancy qualifications: A Statement of Policy of Council entitled Recognition of Professional Accountancy Qualifications in June 1995 and an exposure draft entitled Prequalification Education, Assessment of Professional Competence and Experience Requirements of Professional Accountants in November 1995. The impetus for issuing these documents comes from the passage of the General Agreement on Trade in Services (GATS), a subsection of the 1986 Uruguay Round of the General Agreement on Trade and Tariffs (GATT). IFAC issued these two pronouncements, in part, as a way of assisting with the implementation of the provisions of GATS.

Broadly, GATS sets out a series of rules to ensure, from a regulatory standpoint, that foreign service firms and individuals are treated the same as domestic firms and individuals, and that discriminatory obstacles to market entry and practice by persons and firms from other countries are removed. To determine if international reciprocity is possible, we surveyed the professional accountancy qualifications in eight countries (Australia, Canada, France, Germany, Japan, New Zealand, the U.K., and the U.S.). The results of our survey are shown in the accompanying exhibit.

## **Findings and Results of Survey**

Even though there seems to be almost unanimous acceptance among countries that professional accountants must be educated, pass some professional examinations, and have some practical experience, the recipe for the quantity of each of the three ingredients varies from one country to another. Also the spiciness of each ingredient differs somewhat from one nation to another. While many countries require that candidates have a college degree, some still allow candidates to enter the accounting profession with no college degree. However, those countries require the candidate to acquire the needed education through specialized programs or by self-study and to pass a series of examinations. Also the number of years of practical experience required from candidates without a college degree are usually higher than those with college degrees.

## **Is International Reciprocity Possible?**

The answer would be yes if countries are really serious about free trade and removing obstacles that reduce the free movement of professionals across borders. Economic theory has demonstrated that everybody benefits from free trade. Under free trade, a product or a service is produced or rendered the most efficient way, sold at the lowest possible price or fee, and enjoyed by the largest number of consumers or clients. If countries are interested in facilitating the flow of professionals across borders, the criteria for certification, mutual recognition of certification of foreign professionals, and reciprocity should be, as pointed out in GATS' provisions, objective, transparent, applied consistently, impartial, fair, and reasonable. They should not be disguised as barriers to trade, discriminate against foreign professionals, and be more burdensome than necessary.

Every country should have the right to establish its own criteria for certification. A country is free to require applicants to possess sufficient education to provide competent advice to clients and to demonstrate familiarity with local laws and standards. It is not unreasonable for a country to require foreign professionals to pass a test dealing with local laws and standards that are different from those of the country the applicant came from. A country may also require the foreign professional to practice locally under the supervision of a local practitioner, at least for a reasonable period of time before he or she can practice independently. However, it would be unreasonable and discriminatory to require professionals to

be citizens of the country, permanent residents, or graduates from a domestic university. It is the content, quality, and substance of the education and the experience requirements that a country should be trying to assess.

Countries could achieve reciprocity several ways. A country could autonomously or unilaterally evaluate the certification criteria used by another country and, if it deems the foreign country's criteria for granting certification equals or exceeds its own, grant unconditional reciprocity to professionals from the foreign country. This approach is unlikely, as there are always some unique laws and standards in each country.

What is likely to happen is that a country might require professionals from a foreign country to prove their familiarity with local laws and standards by taking a test. Once the foreign professional passes this test, reciprocity is granted. The U.S./Canada Reciprocity Agreement is an example of this model. In the U.S., the AICPA offers a four-and-one-half-hour exam entitled Canadian Qualification Examination (CQEX) to Canadians who are Chartered Accountants in Canada. The exam is held twice a year, in May and in November. The first such exam was given in 1993. The exam covers the accounting topics for which U.S. accounting standards and laws differ from those of Canada. Similar agreements exist between the Institute of Chartered Accountants in England and Wales (ICAEW) and the chartered accountants institutes in Australia, Canada, Ireland, Scotland, and New Zealand. Candidates from Canada and New Zealand must pass examinations on local laws and taxation.

However, in most cases the process of reciprocity is time consuming, requiring--

- \* detailed evaluation of the education system in the country;
- \* assessing the criteria used for certification;
- \* collecting some evidence as to whether these criteria are adhered to in the country and implemented fairly;
- \* careful analysis of the professional exams given in the country; and
- \* whether the experience requirement provides applicants with well rounded experience.

Because of this problem, GATS has suggested that IFAC play an important role toward harmonizing the requirements for certification. In the U.S., the AICPA and the National Association of State Boards of Public Accounting established the International Qualification Appraisal Board (IQAB) to facilitate the implementation of GATS provisions related to the granting of reciprocity. IQAB has decided on the following criteria for reviewing credentials for reciprocity: 1) the foreign professional body should be a member of IFAC and 2) requirements for certification are substantially equivalent to those of the U.S. This action is likely to give IFAC some support and credibility in harmonizing certification criteria.