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Dear Mark,

**Re.: Exposure Draft Proposed Revised International Education Standard
IES 1, Entry Requirements to Professional Accounting Education**

We would like to thank you for the opportunity to provide the International Accounting Education Standards Board (IAESB) with our comments on the Exposure Draft "Proposed Revised International Education Standard IES 1 "Entry Requirements to Professional Accounting Education" (hereinafter referred to as "the draft").

We support commencement of the clarity project for the International Education Standards (IESs) of the IAESB because it is important that the member bodies of IFAC have clarity as to what the purposes of the standards are through the expression of the objectives, what the requirements are with which member bodies must comply, and what represents additional guidance in the explanatory material beyond the specified requirements.

We have responded to the questions posed in the Explanatory Memorandum in Appendix 1 to this comment letter. Appendix 2 to this comment letter provides our detailed comments by paragraph.

We note that, unlike the previous exposure draft to IES 7, this exposure draft speaks of a "proposed *revised*" standard, as opposed to a "proposed *redrafted*"

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standard. Under the clarity conventions, a redraft implies taking the existing standard and redrafting it in clarity format without substantive changes, whereas a revision involves making substantive changes to the standard. Our comments in Appendices 1 and 2 are therefore made with a view to what appears to us to represent issues of concern, regardless of whether or not those matters are substantially changed in the draft compared to the original standard.

We are particularly concerned about two related issues: 1. the reference to “professional accounting education for accounting technicians” in paragraph A8 with the concomitant reference to having virtually no entry requirements and 2. the elimination of the requirement that candidates for entry have general education *at least equivalent to that* required for admission to a recognized university degree program *or its equivalent*.

We believe that, by definition, accounting technicians are not *professional accountants* (just as by analogy, there is a world of difference between paramedics and a medical doctors, and between paralegals and lawyers). This does not in any way denigrate the nature and role of accounting technicians. However, accounting technicians, by definition, do not have the professional competencies of professional accountants; if accounting technicians had the same professional competencies as professional accountants, accounting technicians would be professional accountants, rather than accounting technicians. This view is independent of IFAC's current consideration of whether a body of accounting technicians that has applied for full membership in IFAC should be such a member of IFAC. However, the IAESB should not be issuing standards with the objective of lowering requirements so that bodies of accounting technicians are able to be granted a certain kind of membership in IFAC. Furthermore, the IES are standards that set the education requirements for *professional accountants*, not for accounting technicians. Setting standards for accounting technicians is not within the mandate of the IAESB under its current terms of reference. There is also a danger that the level of the requirements in the standards would be lowered to be appropriate for accounting technicians rather than for professional accountants, which may thereby reduce the level of the requirements to a level that is below that appropriate for professional accountants. For this reason, we believe that the reference to accounting technicians and the example relating to it ought to be deleted.

Furthermore, it is apparent that the reference to accounting technicians appears to have been one factor in eliminating the requirement that candidates for entry have general education *at least equivalent to that* required for admission to a recognized university degree program *or its equivalent*. If the reference to ac-

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counting technicians is deleted, the deletion of this requirement needs reconsideration. We note that in most developed jurisdictions, admission requirements to other than the technical or scientific (medicine, engineering, computer science, pharmaceutical sciences, science, etc.) university degree programs *or their equivalent* is generally open for some kinds of mature students with vocational credentials and several years' practical experience: such requirements then in effect become *equivalent* to formal general education required for admission to a degree program *or its equivalent*. For this reason, it is unclear to us why this requirement is no longer applicable. We are convinced that this requirement remains appropriate to permit candidates a reasonable chance of successful completion of professional accountancy education.

We hope that our views will be helpful to the IAESB. If you have any questions relating to our comments in this letter, we would be pleased to be of further assistance.

Yours truly,



Manfred Hamannt
Executive Director



Wolfgang P. Böhm
Director International Affairs

APPENDIX 1: Responses to Questions Posed in the Draft

1. *Is the requirement in Paragraph 7 clear, particularly the concept of “a reasonable chance of successfully completing” balanced with “no putting in place excessive barriers to entry”? If not, what changes would you suggest?*

We believe the requirement in paragraph 7 to be clear and principles-based, particularly the way the concept of “a reasonable chance of successfully completing” is balanced with “no putting in place excessive barriers to entry”. However, based on our response to Question 5 on the objective in the standard, we do not believe the requirement to be appropriate.

On the basis of our explanation for the objective that we propose, we suggest the following requirement:

“IFAC member bodies shall establish requirements for entry to professional accountancy education such that all and only individuals seeking entry that have a reasonable chance of successfully completing that education are permitted entry.”

As noted in our response to Question 5, the requirement must cover both the risk of incorrect rejection (that is, incorrectly rejecting candidates for entry who have a reasonable chance of success) and the risk of incorrect acceptance (that is, incorrectly accepting candidates who do not have a reasonable chance of success).

2. *Do you envisage any difficulties in complying with the requirements of IES 1? If so, how would you propose addressing these?*

The requirements as currently conceived are expressed broadly enough to not cause any difficulty in complying with them. Our proposals to change the requirements would not change this.

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3. *What is the impact in implementing the requirements of IES 1 to your organization?*

We (that is the German professional accountancy bodies – the WPK and the IDW) will likely need to develop and make public an express rationale for the entry requirements due to the requirement in paragraph 8. We may also need to consider whether information about the professional accountancy education is sufficiently transparent and public, and if not, may need to seek to make the information so. Otherwise, we do not expect any further impacts on our organizations.

4. *Are the Explanatory Materials sufficiently clear and comprehensive? If not, what changes do you suggest?*

Other than some minor matters and the matter noted in our response to Question 6, which we address in our comments by paragraph in Appendix 2 to our comment letter, we believe that the explanatory materials are sufficiently clear and comprehensive. However, conforming amendments would need to be made for the changes to the objective and requirements that we propose.

5. *Is the objective to be achieved by a member body, stated in the proposed revised IES 1, appropriate?*

We do not believe the objective as stated in the proposed draft to be appropriate because 1. the objective should be directed at member bodies, which it is not, and 2. it is not exactly clear what the objective underlying the entry requirements is supposed to be. In relation to the latter, the IAESB needs to recognize that entry requirements are an imperfect indicator of the likelihood of successful completion of a program: if they were perfect, one wouldn't need any assessment within the program. Hence, almost all sets of entry requirements per se always result in some candidates that would have been successful in completing the program being rejected for entry into the program and some candidates that will not be successful in completing the program being accepted for entry into the program. Is the objective to minimize the misallocation of resources in the economy due to unsuccessful completion, to minimize the opportunity cost to the economy of not having individuals enter the program that would have been successful, to be "fair" to candidates, to have the economic optimal number of candidates (from the public interest perspective) successfully complete the program, or are there other

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objectives? What are “proportionate” entry requirements in this context (i.e., do we change the entry requirements to be proportionate to the different levels of competence of each candidate seeking entry) – that is, proportionate to what?

In analysing this issue, we need to recognize that entry requirements that are too low would not affect the quality of professional accountants that are qualified under a particular program as long as the program itself, including its assessment, reliably permits only candidates to succeed that have the required competencies.

If the IAESB seeks to minimize the misallocation of resources in the economy due to having candidates enter programs that fail to complete those programs, then the entry requirements ought to be set to minimize the absolute number of such failures (please note: in this case and hereafter, we are referring to the “flow-through” failures, or rates, as the case may be, given the number of attempts permitted to complete the program, not the initial attempt alone). However, such stringent entry requirements would also involve the countervailing tendency to greatly increase the absolute number of candidates rejected for entry to the program that would have successfully completed the program, which involves the opportunity cost to the economy of not having these individuals enter the profession (and the risk of having far too few members of the profession – indeed, one can reduce the number of failures to zero by not permitting any candidates at all to enter the program!). Conversely, the IAESB could seek to maximize the absolute number of successful candidates by setting very low entry requirements (or even dispensing with them entirely), but this would involve the noted greater misallocation of resources due to a great increase in the absolute number of candidates not rejected for entry into the program that then fail to successfully complete the program.

On the other hand, the IAESB could seek to maximize the *proportion* of successful candidates (or minimize the proportion of unsuccessful candidates) – that is, maximize the pass rates (or minimize the failure rates), which would involve setting fairly stringent entry requirements, but not as stringent as when seeking to minimize the absolute number of failures. Because entry requirements are imperfect indicators of future successful completion of a program, this is not the same as minimizing the absolute number of failures. In this case, the absolute number of failures would be greater, but the misallocation of resources remaining due to those failures would be offset somewhat by the reduction in the opportunity cost due to the reduction in the

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number of rejections for entry that would have been successful. However this still does not mean that the result would be the economic optimal number of successful candidates, from a public interest perspective, entering the profession. We will address this problem further below.

Another possible objective is to be “fair” to potential candidates. This begs the question as to what “fair” means in this context. Is it “fair” to permit candidates to expend time and resources to attempt to successfully complete a program even though they have little chance of success? Or is it unfair to candidates to bar their entry to the program even though they have a small chance of success (as stated above: entry requirements are not perfect indicators of success), since it is a candidate’s decision as to whether to expend the time and resources given a small chance of success? In this case, isn’t “fairness” provided through transparency so that candidates can make informed decisions, rather than paternalistically seeking to bar candidates who believe that they can succeed even though the risk is high that they might not?

It seems to us that what really matters in relation to entry requirements to the profession is the public interest. The public ought to have an interest in an economic optimal number of successful candidates, from a long-term public interest perspective (i.e., not only in the interests of the profession or just the interests of those directly using the services of the profession, but also consideration of quality and of the long run, rather than the short run, is important), entering the profession. On the other hand, any set of entry requirements that rejects a significant number of candidates with a reasonable chance of success, even if more than an optimal number of candidates were to successfully complete the program, would likely be regarded as a violation of anti-competition laws in many jurisdictions.

Consequently, there are two countervailing risks: the risk that entry requirements that are too low will cause a misallocation of resources due to too many candidates being accepted that then fail to complete the program vs. the risk that entry requirements are too stringent so that less than the optimal number of candidates would complete the program (as noted above, the obverse risk that entry requirements are not stringent enough so that a significant number of candidates without adequate competencies would succeed in completing the program is insignificant as long as program assessment is reliable) or will run afoul of anti-competition law by not accepting into the program a significant proportion of candidates that would have successfully completed the program. In this context, an appropriate number of pro-

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Professional accountants successfully completing professional accountancy education would be the number that balances the long term costs and benefits to the public of these risks. This suggests a requirement that all those candidates with a reasonable chance of success are permitted entry and those without such a chance are not would be appropriate, to cover both the risk of incorrect rejection (that is, incorrectly rejecting candidates for entry who have a reasonable chance of success) and the risk of incorrect acceptance (that is, incorrectly accepting candidates who do not have a reasonable chance of success). This is why we need to have the requirement state that ALL candidates that have a reasonable chance of success are permitted entry AND that ONLY those candidates that have a reasonable chance of success are permitted entry.

However, in terms of the objective, this implies that barriers to entry into the profession (including barriers to entry into professional programs) ought to be designed so that entry requirements to programs result in the appropriate number of professional accountants entering the profession such that the long-term overall public interest is served.

Hence, we believe that the objective should be written as follows:

“The objective of the member body is to

- (a) establish entry requirements to professional accountancy education to facilitate, from a long-term overall public interest perspective, an appropriate number of professional accountants successfully completing professional accountancy education, and
- (b) be sufficiently transparent about professional accountancy education to enable individuals to make informed decisions about whether to seek to commence professional accountancy education.”

The explanatory material to the objective would need to explain the nature of the costs and benefits of the risks to the public interest that would need to be balanced (see above) to achieve the appropriate number of professional accountants successfully completing professional accountancy education.

Our responses to the other questions posed in the Explanatory Memorandum are based on this objective.

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6. *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?*

On the whole, we believe that the criteria identified by the IAESB for determining whether a requirement should be specified have been applied appropriately and consistently, such that the resulting requirements promote consistency in implementation by member bodies. However, consistency of application needs to be seen in the context in which a member body operates: that is, for example, what a reasonable chance of success might be in one jurisdiction may not be so in another. This context-dependence of the requirements needs greater emphasis in the explanatory material.

7. *Are there any terms within the proposed IES 1 which require further clarification? If so, please explain the nature of the deficiencies.*

We note that the exposure draft proposes to introduce new definitions for the terms “professional accounting education” and “initial professional development”.

The two definitions do not articulate with one another (i.e., what is the relationship between IPD and professional accounting education?) and with the meaning of an entry-level professional accountancy qualification.

In relation to professional accounting education, we would like to point out that the education relates to “accountancy”, not the narrow “accounting”, which relates to financial reporting. Therefore the term should be “professional accountancy education”. In addition, CPD involves imparting professional accountancy education. In this sense, IPD is only a part of professional accountancy education. For these reasons, we suggest changing the definition of professional accountancy education to read:

“Professional accountancy education is education and training that builds on general education, and imparts (a) professional knowledge, (b) professional skills and (c) professional values, ethics and attitudes. Professional accountancy education is imparted either as part of IPD or as part of CPD.”

In relation to initial professional development, the definition should build on the definition of professional accountancy education. Furthermore, the definition should relate to its relationship to the awarding of a professional ac-

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countancy qualification. For these reasons, we believe that the definition of IPD should read:

“Professional accountancy education through which aspiring professional accountants seek to obtain the competence, needed to perform the role of a professional accountant, that is a prerequisite to being granted a professional accountancy qualification.”

These changes to the definitions would be consistent with the definition of “candidate” that we had proposed in our comment letters to IES 4 and 6.

8. *Translations – Recognizing that many respondents intend to translate the final IESs for adoption in their own environments, the IAESB welcomes comment on potential translation issues noted in reviewing the proposed IES.*

We have no comments on this issue at the present time.

9. *Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the IESs, the IAESB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed IES 1 in a developing nation environment.*

We have no comments on this issue because our organization does not reside in a developing nation and our practitioners generally do not practice in developing nations.

10. *Effective Date – Recognizing that proposed IES 1 is a revision of extant IES 1, the IAESB believes that an appropriate effective date for the standard would be 12-15 months after approval of the final revised standard. The IAESB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final IES 1.*

We are of the view that the IESs need to be seen as a package and that therefore all of the IESs need to articulate with one another. To this effect, we note that the IAASB did not issue its suite of clarified ISAs until all of them had been completed in final form after a consistency check had been carried out at the very end of the clarity process. Consequently, we would not support issuing any of the IES separately, but only as a package at the

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same time after such a consistency check has been performed. We therefore disagree with the assertion in the Explanatory Memorandum that individual standards be released as soon as approved (i.e., without such a consistency check). This means that the effective date would need to be some time after the approval of all of the revised or redrafted standards subject to such a consistency check.

We would also like to point out that education standards affect a lengthy education pipeline in the various jurisdictions that can range to a minimum of some seven or eight years for those jurisdictions requiring an university degree (at least three or four years), a period of practical experience of at least three years, and the completion of final examinations. This means that changes to education standards cannot be implemented to affect students that have already entered the education pipeline to become a professional accountant. The effective date for education standards (with the possible exception of the IES 7 for CPD) therefore needs to clarify how the effective date is to be applied in the context of an education pipeline of several years' length.

Once the meaning of the effective date in relation to the education pipeline issue has been resolved, we expect a 12 to 15 month effective date after the approval of all of the IESs to provide adequate time for the implementation of such standards for those jurisdictions not needing to change legislation. For those jurisdictions needing to change legislation, one or two more years may be necessary, but this is resolvable through the "best endeavours" clause in the SMOs.

APPENDIX 2:

Detailed Comments By Paragraph

1. A standard does not prescribe principles, but requirements. Therefore the word “principles” should be replaced with “requirements”.
3. Our review of the draft does not indicate that it explains the “principle of allowing flexible access to professional accounting education”: A1 indicates that entry points may vary by jurisdiction, content, or level, but this does not mean that any set of entry points in a particular jurisdiction is flexible. Where does the draft explain “entry suitability”?
4. Differences in economic environment also may cause entry requirements to vary by jurisdiction.
5. We refer to our response in Appendix 1 to Question 10.
6. We refer to our response in Appendix 1 to Question 5.
7. We refer to our response in Appendix 1 to Question 1.
8. The requirement to “explain the rationale” is ambiguous. It does not address where or how. Presumably, the intention is to have IFAC member bodies to provide a justification of their entry requirements that is publicly available. For this reason, the requirement should read:

“IFAC member bodies shall make an explanation of the rationale for their specified entry requirements publicly available.”
9. The reference to “relevant information” is ambiguous. In line with our response in Appendix 1 to Question 5, we suggest that the requirement read:

“IFAC member bodies shall make information about the nature, extent, academic level, cost, duration, assessment methods, quality control and history of successful completion by different types of candidates and entry points publicly available such that individuals are able to make informed decisions about whether to seek to commence professional accountancy education.”

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The following comments on the explanatory material do not deal with conforming amendments resulting from the changes we have proposed to the introduction, objective, and requirements.

- A1. The recitation of the definition of professional accountancy education is superfluous and could be deleted. The reference to “flexibility” also appears superfluous.
- A3. The word “which” should be replaced with “that”, and the word “after” replaced with “when”. Is the statement in the second sentence consistent with the purpose of IES in the Preface to IES?
- A4. The word “people” should be replaced with “individuals” and the word “minimize” replaced with “reduce”, since, as noted in our response in Appendix 1 to Question 5, minimizing that risk would mean not permitting any candidates entry into a program! The reference to “are likely to complete it successfully” should be replaced with “have a reasonable chance of completing the education successfully” to be consistent with the rest of the draft.
- A5. The word “this” at the beginning of the second sentence is ambiguous: does it refer to the contribution to efficient and effective career decisions or to informing entrants? The reference to “varying entry points” in (a) could use more explanation.
- A7. The words “will be able to be” should be replaced with “are”. The words “overly” and “trivial” are superfluous and can be deleted.
- A8. We refer to the comments in the body of our comment letter in relation to accounting technicians and university entrance. Rather than referring to just “auditors”, reference could be made to “professional accountants”.
- A10. Reference should be made to “university degree or equivalent education”, rather than to just a “university degree”.
- A11. Reference should be made to the time required for the education.